

SUB- Strategic Financial Management

Q.I . Multiple Choice Questions

Unit 1

1.----- has given theory of irrelevance.

- a) Walter
- b) Gordon
- c) MM
- d) Pecker

Ans. c) MM

2. Dividend is payable to -----.

- a) Shareholder
- b) Stakeholder
- c) Manager
- d) Employee

Ans. a) Shareholder

3. Dividend which is declared before declaration of final dividend is called as-----.

- a) Final dividend
- b) Interims dividend
- c) Temporary dividend.
- d) Permanent dividend

Ans. b) Interims dividend

4.----- Dividend policy does not affect the market value of the company.

- a) Walter
- b) MM
- c) Gordon
- d) Pecker

Ans. b) MM

5. XBRL stands for----- Business Reporting Language.

- a) Extra
- b) Extensible
- c) Excursive

d) Exclusive

Ans. b) Extensible

6.Dividend is paid in-----

a) Cash

b) Kind

c) Shares

d)Right issue

Ans. a) Cash

7.If a firm has $k_e < r$, the Walter,s model suggests for _____.

a)0% Payout

b)100% Payout

c)50% Payout

d)25% Payout

Ans. a) 0% Payout

8.Company does not pay regular dividend to the shareholders is called -----

a) Regular dividend policy

b) Stable dividend policy

c) No dividend

d) Irregular dividend

Ans. d) irregular dividend

9.Relevance theory of dividend is supported by-----.

a) Walter

b) MM

c) Gordon

d) Pecker

Ans. a) Walter

10.----- dividends is by far the most common of the dividend types used.

a) Cash dividend

b) Stock dividend

c) Scrip dividend

d) Liquidating dividend

Ans. a) cash dividend

11.Ultimate objective of Financial Manager is -----

a) Wealth Maximization

- b) Profit Maximization
- c) Survival
- d) Increasing Market Share

Ans. a) Wealth Maximization

12. Relationship between dividend per share and earning per share is known as -----
- a) Dividend payout
 - b) Dividend yield
 - c) Dividend pre share
 - d) EPS

Ans. a) Dividend payout

13. XBRL can do -----
- a) Calculation & Verification
 - b) Solution to marketing problem
 - c) Investigation
 - d) Solution to HR problems

Ans. a) Calculation & Verification

14. Dividend irrelevance argument of MM Model is based on _____.
- a) Issue of debentures
 - b) Issue of bonus shares
 - c) Arbitrage
 - d) Hedging

Ans. c) Arbitrage

15. Decision making is the main function of -----
- a) Management
 - b) Junior Executive
 - c) Senior Executive
 - d) None of the above

Ans. a) Management

16. Ploughing back of profit means _____
- a) Declaration of dividend
 - b) Retaining profits
 - c) Re-investing profits
 - d) Building Reserve

Ans. b) Retaining profits

17. Constant payout ratio means _____
- a) Stable dividend policy
 - b) Irregular dividend policy

- c) Long term dividend policy
- d) Temporary dividend policy

Ans. a) Stable dividend policy

18. The policy in which less dividend is paid is _____

- a) Liberal dividend policy
- b) Conservative dividend policy
- c) Stable dividend policy
- d) Fluctuating dividend policy

Ans. b) Conservative dividend policy

19.If EPS of the firm is Rs.10 and retention is 0%; the dividend payout would be_____

- a)10
- b)0
- c)5
- d)4

Ans: a) 10

20.XBRL is used for _____ reporting standard.

- a) Business
- b) Personal
- c)Individual
- d)Trust

Ans: a) Business

21. _____are the reporting area specific hierarchical dictionaries used by the XBRL community.

- a) Electronic
- b) Formulas
- c)Taxonomies
- d)Tables

Ans: c) Taxonomies

22.XBRL allows the creation, publication and exchange of entire _____ statements.

- a) Unethical Information
- b) Business Secrets
- c) Bank details
- d) Financial

Ans: d) Financial

23.XBRL software can _____ the data.

- a) Add
- b) Delete
- c) Validate
- d) Invalidate

Ans: c) Validate

24.Walter's Model suggest of 100% DP Ratio when _____.

- a) $K_e = r$
- b) $K_e < r$
- c) $K_e > r$
- d) $K_e = 0$

Ans. c) $K_e > r$

25.“Bird in hand” argument is given by _____

- a) Walter's Model
- b) Gordon's Model
- c) MM Model
- d) Residual theory

Ans. b) Gordon's Model

26. _____ stresses on investors preference for current dividend than higher future capital gains.

- a) Walter's Model
- b) Gordon's Model
- c) MM Model
- d) Residual theory

Ans. b) Gordon's Model

27 MM Model of dividend irrelevance uses arbitrage between_____

- a) Dividend and bonus
- b) Dividend and capital issue
- c) Profit and investment
- d) Income and expenses

Ans. b) Dividend and capital issue

28 Gordon's Model of dividend relevance is same as_____.

- a) No-growth model of equity valuation
- b) Constant growth model of equity valuation
- c) Price-earning ratio
- d) Inverse of price earning ratio

Ans. b) Constant growth model of equity valuation

29_____represents passive dividend policy.

- a) Dividend is paid as % of EPS
- b) Dividend is paid as a constant amount
- c) Dividend is paid after retaining profit for reinvestment
- d) Dividend is paid on net profit after tax

Ans. c) Dividend is paid after retaining profit for reinvestment

30. XBRL India is formed as one of the following_____

- a) Registered Company
- b) Government Corporation
- c) Trust
- d) Partnership with XBRL, International

Ans. d) Partnership with XBRL, International

31. Earning per share remains constant is the assumption of_____ model.

- a) Walter's Model
- b) Gordon's Model
- c) MM Model
- d) Residual theory

Ans. c) MM Model

Unit II

32.Capital budgeting is related to _____.

- a) Long Term assets
- b) Short term assets
- c)Fixed assets
- d) None of the above

Ans. a) Long Term assets

33.-----is the act of placing restrictions on the amount of new investments or projects undertaken by a company.

- a) Capital rationing
- b) Capital budgeting
- c) Cost of capital
- d) Leverage

Ans. a) capital rationing

34-----is the planning process used to determine whether an organisations long term investment.

- a) Capital rationing
- b) Capital budgeting
- c) Cost of capital
- d) Leverage

Ans. b) Capital budgeting

35.-----is a schematic representation of several decisions followed by different chances of the occurrence.

- a) Decision tree
- b) Sensitivity analysis
- c) Probability technique
- d) Capital rationing

Ans. a) Decision tree

36.Decision involves purchase of Fixed Assets are also termed as -----

- a) Capital rationing
- b) Capital budgeting
- c) Cost of capital
- d) Capital Restructuring

Ans. b) Capital budgeting

37.Under standard deviation method dispersion of cash flow indicates-----

- a) The degree of risk
- b) The degree of certainty
- c) The degree of uncertainty
- d) No risk

Ans. a) The degree of risk

38.Decision tree is -----

- a) Tree with branches
- b) Pictorial representation in a tree form
- c) Tree with leaves
- d) Tree

Ans. b) Pictorial representation in a tree form

39. NPV technique is based on -----

- a) Discounting procedure
- b) Compounding procedure
- c) Averaging procedure
- d) Normal procedure

Ans. a) Discounting procedure

40. If the risk-free interest is 15% and risk premium is 10% the RADR would be _____

- a) 15%
- b) 25%
- c) 5%
- d) 10%

Ans. b) 25%

41. Probability gives accurate results it is _____

- a) Subjective
- b) Objective
- c) Adjective
- d) Normal

Ans. a) Subjective

42. _____ methods focus the maximization of wealth of shareholders.

- a) Profitability Index
- b) Payback period
- c) Internal rate of return
- d) Accounting rate of return

Ans. a) Profitability Index

43. In case of Mutually Exclusive proposals _____

- a) Only the best project is selected
- b) All project with positive NPV is selected

- c) Even negative NPV project may be selected
- d) At least two proposals are selected

Ans: a) Only the best project is selected

44. Profitability Index of a project is the ratio of present value of inflows to _____.

- (a) Initial cost
- (b) PV of Outflows
- (c) Total cash inflows
- (d) Total Outflows

Ans: b) PV of Outflows

45. _____ Is the rate of return that a project generates.

- a) ARR
- b) NPV
- c) PI
- d) IRR

Ans: d) IRR

46. Profitability index method is an extension of _____.

- (a) Net Present value
- (b) Internal rate of return
- (c) Payback period
- (d) Accounting rate of return

Ans: a) Net Present value

47. _____ method state the return from a project in percentage form.

- (a) Terminal value method
- (b) Discounted payback period
- (c) Internal rate of return
- (d) Net Present value

Ans: c) Internal rate of return

48 The Project is not acceptable in case of _____.

- (a) $NPV < 0$
- (b) $NPV > 0$

(c) $\text{Cost} < \text{Total Inflow}$

(d) $\text{IRR} > \text{Hurdle rate}$

Ans: a) $\text{NPV} < 0$

49 In IRR Method, the cash inflows from the project are assumed to be reinvested at rate equal to _____

(a) IRR

(b) Risk-free rate

(c) Cost of Capital

(d) Rate of Interest

Ans: a) IRR

50. If IRR of a project is equal to opportunity cost of capital than_____.

(a) Project should be repeated

(b) NPV will be zero

(c) Project has no cash flows

(d) NPV will be positive

Ans: b) NPV will be zero

51. _____ is likely to increase the NPV of a Project.

(a) Increase in cost of capital

(b) Decrease in Working capital

(c) Spreading cash flows over a longer period

(d) Decreasing the net revenues.

Ans: b) Decrease in Working capital

52. Accounting Rate of Return is based on_____.

(a) Average expected profit

(b) Average past profit

(c) Average cash profit

(d) Life of the Project

Ans: a) Average expected profit

53. _____ variable is not known as Internal rate of return.

a) Initial cash flow

b) Discount rates

- c) Terminal Inflows
- d) Life of the project

Ans. b) Discount rates

54. Payback period technique is based on _____

- a) All cash flows
- b) Only higher cash flows
- c) Earlier cash flows
- d) Selected cash flows

Ans. c) Earlier cash flows

55. _____ is not applicable to IRR

- a) Considers all cash flows
- b) Based on time value of money
- c) Common for all projects
- d) Stated in % return

Ans. c) Common for all projects

56. Co-efficient of variation indicates that _____ the co-efficient, the riskier is the project.

- a) Higher
- b) Lower
- c) Medium
- d) Zero

Ans. a) Higher

57. _____ ensures that less number of projects are selected by imposing capital restrictions.

- a) Capital rationing
- b) Capital budgeting
- c) Cost of capital
- d) Leverage

Ans. a) Capital rationing

58. An estimation of the present value of cash for high risk investments is known as _____.

- a) Sensitivity analysis

- b) Co – efficient of variation
- c) Risk adjusted discounting rate
- d) Probability Technique

Ans. c) Risk adjusted discounting rate

59. The Technique used to determine how independent variable values will impact a particular dependent variable under a given set of assumptions is defined as

- a) Sensitivity analysis
- b) Co – efficient of variation
- c) Risk adjusted discounting rate
- d) Probability Technique

Ans. a) Sensitivity analysis

60. _____ defined as the standard deviation of the probability distribution divided by its expected value.

- a) Sensitivity analysis
- b) Co – efficient of variation
- c) Risk adjusted discounting rate
- d) Probability Technique

Ans. b) Co – efficient of variation

61. _____ in which uncertain cash flows are converted into certain cash flows by multiplying with probability of occurrence such cash flows.

- a) Sensitivity analysis
- b) Co – efficient of variation
- c) Risk adjusted discounting rate
- d) Certainty equivalent

Ans. d) Certainty equivalent

Unit III

62. ----- type of merger involves, two companies lose their identity & new company comes into existences.

- a) Amalgamation
- b) Absorption
- c) Take over
- d) Merger

Ans. a) Amalgamation

63.EVA concept is postulated by-----

- a) Stewart
- b) Stern
- c) Terry
- d) Stern Stewart & Co.

Ans. d) Stern Stewart & Co.

64. ----- ratio for valuing a company that measure its current share price relative to its per share earning.

- a) EPS
- b) P/E ratio
- c) Dividend yield
- d) All of the above

Ans. b) P/E ratio

65.EVA measures-----

- a) Productivity
- b) Profitability
- c) Trading
- d)Efficiency

Ans. a) Productivity

66.-----type of merger involves fusion of a small company with a large company.

- a) Amalgamation
- b) Absorption
- c)Take over
- d) Acquisition

Ans. b) Absorption

67. EVA is a Corporate surplus which is shared by-----

- a) Employees & Management
- b) Employees &Shareholders
- c) Shareholders only
- d) Employees, Management & Shareholders

Ans. d) Employees, Management & Shareholders

68. Net profit for calculation of EVA is -----

- a) NPAT
- b) NPBT
- c) NOPAT
- d) NOP

Ans. c) NOPAT

69. MVA is considered as-----

- a) Internal Measure of Performance
- b) External Measure of Performance
- c) Effective Measure of Performance
- d) Internal activity of business

Ans. b) External Measure of Performance

70. Under agency theory, the main concern is to develop rules to -----

- a) Maximise conflict of interest
- b) Minimise conflict of interest
- c) Motivate employees
- d) Co-operate employees

Ans. b) Minimise conflict of interest

71. The assumption of agency theory is -----

- a) Shareholders are the agents
- b) Managers are the agents
- c) Employees are the agents
- d) Stakeholders are the agents

Ans. b) Managers are the agents

72. Managers are self-motivated is the assumption of ----- theory.

- a) Agency theory
- b) Shareholder theory
- c) Stewardship theory
- d) Stakeholder theory

Ans. c) Stewardship theory

73. Maximisation of total wealth of stakeholders is the assumption of ----- theory.

- a) Agency theory
- b) Shareholder theory
- c) Stewardship theory
- d) Stakeholder theory

Ans. d) Stakeholder theory

74. In Amalgamation, all the assets & liabilities of the transferor company are pooled into the books of transferee company at -----

- a) Market Value
- b) Book Value
- c) Fair Value
- d) Realizable Value

Ans. a) Market Value

75. _____ is a broad driven policy prescription.

- a) Corporate Governance
- b) Corporate Restructuring
- c) Social responsibility
- d) Ethics

Ans: a) Corporate Governance

76. A firm can acquire target firm by _____

- a) Purchasing assets of target
- b) Purchasing shares of target
- c) Purchasing assets or shares
- d) Purchasing liabilities

Ans. b) Purchasing shares of target

77. Merger of two companies under BIFR supervision is known as _____.

- a) Reverse merger
- b) Negotiated merger
- c) Offer for sale
- d) Arranged merger

Ans. d) Arranged merger

78. _____ is not a usual method of calculation of share swap ratio.

- a) Profit before tax
- b) Cash flow statement
- c) Common size statement
- d) Profit after tax

Ans. a) Profit before tax

79. _____ is a case of spin off.

- a) Assets sold in the market
- b) A division converted into a company
- c) Assets transferred to lenders
- d) Paying debts

Ans. b) A division converted into a company

80. Major disadvantages of merger are _____.

- a) Tax benefits
- b) Synergy
- c) Economies of scale
- d) Monopoly

Ans. d) Monopoly

81. Corporate restructuring should be mutually beneficial and result in _____ synergies of both the companies.

- a) Negative
- b) Positive
- c) Constant
- d) Different

Ans. b) Positive

82. Cadbury committee was set up by London stock exchange in _____.

- a) June 1991
- b) May 1991
- c) June 1992
- d) May 1992

Ans. b) May 1991

83. Merger of an Indian company with an company incorporated outside India is termed as _____ merger.

- a) Horizontal
- b) Vertical
- c) Cross border
- d) Congeneric

Ans. c) Cross border

84. _____ is a difference between the current market value of a firm and the capital contributed by its investors.

- a) MVA
- b) EVA
- c) EPS
- d) MPS

Ans. a) MVA

85. In liquidation valuation it is assumed that the company will be _____.

- a) Liquidated
- b) Continued
- c) Consolidated
- d) Amalgamation

Ans. a) Liquidated

86. While calculating EPS _____.

- a) Preference dividend is deducted from NPAT
- b) Preference dividend is added to NPAT
- c) Preference dividend is ignored
- d) Preference dividend is multiplied to NPAT

Ans. a) Preference dividend is deducted from NPAT

87. _____ provides details of compliance of corporate governance.

- a) Annual Report
- b) Balance sheet
- c) P& L A/C
- d) Trading A/C

Ans. a) Annual Report

88. The political theory is based on the assumption that _____.

- a) Government decides the allocation of control
- b) Partnership firm decides the allocation of control

- c) Public co. decides the allocation of control
- d) Private co. decides the allocation of control

Ans. a) Government decides the allocation of control

89. _____ is mandatory requirement of corporate governance.

- a) Independent Audit Committee
- b) Whistle Blower Policy
- c) Training of board members
- d) Chairman of the board

Ans. a) Independent Audit Committee

90. Amalgamation is governed by _____

- a) AS 14
- b) AS 3
- c) AS 21
- d) AS 32

Ans. a) AS 14

Unit IV

91. _____ Asset is one which does not disclose any problem and only normal risk attached to the business.

- a) Standard
- b) Substandard
- c) Doubtful assets
- d) Loss assets

Ans. a) Standard

92. _____ an asset which has been classified as NPA for period not exceeding 12 months.

- a) Standard
- b) Substandard
- c) Doubtful assets
- d) Loss assets

Ans. b) Substandard

93. In case of loss of asset provision should be made _____

- a) 100%
- b) 75%
- c) 50%
- d) 80%

Ans. a) 100%

94. NPA stands for _____

- a) Non Performing Assets
- b) Non privilege Assets

- c) Net Performing Assets
- d) None of the above

Ans. a) Non Performing Assets

95. Commercial papers are issued as per the guidelines issued by _____

- a) SEBI
- b) RBI
- c) Government
- d) Commercial Bank

Ans. b) RBI

96. Debentures is a _____ securities.

- a) Ownership
- b) Creditorship
- c) Government
- d) Co -ownership

Ans. b) Creditorship

97. _____ of the following is an item of Current Assets.

- a) Bank overdraft
- b) Receivables
- c) Outstanding Expenses
- d) Short term Loan

Ans. b) Receivables

98. Inventories are also termed as _____

- a) Stock
- b) Fixed Assets
- c) Current Assets
- d) Shares

Ans. a) Stock

99. _____ is a regulatory authority over the entire Capital Market in India.

- a) SEBI
- b) RBI
- c) Government
- d) Public Company

Ans. a) SEBI

100. Working capital source of finance is a _____

- a) Short term
- b) Medium term
- c) Long term
- d) Zero term

Ans. a) Short term

101. _____ of the following is an item of Current Liability.

- a) Bank overdraft
- b) Bank balance

- c) Cash balance
- d) Long term Loan

Ans. a) Bank overdraft

102. An ideal liquid ratio must be _____

- a) 1:1
- b) 2:1
- c) 1:2
- d) 1.33:1

Ans. a) 1:1

103. An ideal current ratio must be _____

- a) 1:1
- b) 2:1
- c) 1:2
- d) 1.33:1

Ans. b) 2:1

104. _____ shares are issued free of cost.

- a) Equity
- b) Rights
- c) Bonus
- d) Preference

Ans. c) Bonus

105. A shareholder invests in a company's share mainly _____

- a) For capital appreciation
- b) To receive dividend
- c) To receive bonus share
- d) To receive Rights shares

Ans. a) For capital appreciation

106. _____ an asset which has remained NPA for period exceeding 12 months.

- a) standard
- b) substandard
- c) doubtful assets
- d) loss assets

Ans. c) doubtful assets

107. In case of doubtful asset secured portion (more than 1 year & upto 3 year in doubtful) provision should be made _____

- a) 100%
- b) 75%
- c) 50%
- d) 40%

Ans. d) 40%

108. In case of Sub-Standard asset (secured portion) provision should be made _____

- a) 10%

- b)20%
- c)25%
- d)15%

Ans. d) 15%

109. In case of Sub-Standard asset (unsecured portion) provision should be made _____

- a) 10%
- b)20%
- c)15%
- d)25%

Ans. d) 25%

110. Guidelines for issue of bonus shares are issued by _____

- a) SEBI
- b) RBI
- c) Income Tax act
- d) Company law

Ans. a) SEBI

111.Rebate on bills discounted is shown under _____

- a) Other liabilities & provision
- b) Current liabilities
- c) Contingent liabilities
- d)Current assets

Ans. a) Other liabilities & provision

112.Bills purchased & discounted is treated as NPV when they remain unpaid for more than _____

- a) 40 days
- b) 90 days
- c) 45 days
- d) 25 days

Ans. b) 90 days

113. Cash credit & overdraft is considered as NPV when they remain out of order for more than _____

- a) 30 days
- b) 90 days
- c) 45 days
- d) 15 days

Ans. b) 90 days

114. Public Deposits are accepted for maximum of _____

- a) 2 years
- b)3 years
- c) 5 years
- d)1 years

Ans. b) 3 years

115. Under _____ approach current asset are maintained just to meet the current liabilities without keeping any cushion for the variation capital needs.

- a) Conservative
- b) Aggressive
- c) Matching
- d) Normal

Ans. b) Aggressive

116. Banks in India are required to achieve _____% capital adequacy ratio.

- a) 6%
- b) 9%
- c) 10%
- d) 3%

Ans. b) 9%

117. Rebate on bills discounted refers to _____

- a) Discount for the unexpired term of the bill
- b) Concession on bills discounted
- c) Interest on bills discounted
- d) Bills discounted

Ans. a) Discount for the unexpired term of the bill

118. High tax rate demands _____ amount of working capital.

- a) More
- b) Less
- c) Zero
- d) Normal

Ans. a) More

119. An asset becomes non-performing when _____

- a) No income is received
- b) Loss is incurred
- c) No profit is received
- d) No gain

Ans. a) No income is received

120. The type of collateral kept for short term loan is _____

- a) Real estate
- b) Plant and machinery
- c) Stock of goods
- d) Equity share capital

Ans. c) Stock of goods

121. _____ is a liability of a bank.

- a) Treasury bills
- b) Commercial papers
- c) Certificate of deposits
- d) Junk bonds

Ans. c) Certificate of deposits

122. _____ involves the outright sale of receivables at a discount to a factor to obtain funds.

- a) Forfeiting
- b) Securitization
- c) Mutual funds
- d) Factoring

Ans. d) Factoring

123. Term Loan becomes NPA when interest/ principal remains over due for a period of more than _____

- a) 90 days
- b) 180 days
- c) 45 days
- d) 30 days

Ans. a) 90 days

124. Cash in hand carries _____ % risk.

- a) 100%
- b) 0%
- c) 50%
- d) 75%

Ans. b) 0%

125. Interest on debenture is _____

- a) paid out of income
- b) paid out of profit
- c) paid out of debenture
- d) paid out of assets

Ans. a) paid out of income