Financial Accounting and Management

Multiple Choice Questions

001. ______is the lifeblood of a business.
   a) Finance Manager
   b) Finance
   c) Financial Management
   d) Corporate Financial Management

002. "Shareholder wealth" in a firm is represented by___
   a) The number of people employed in the firm.
   b) The book value of the firm's assets less the book value of its liabilities.
   c) The amount of salary paid to its employees.
   d) The market price per share of the firm's common stock.

003. The long-run objective of financial management is to___
   a) Maximize earnings per share.
   b) Maximize the value of the firm's common stock.
   c) Maximize return on investment.
   d) Maximize market share.

004. Financial Management is concerned with___
   a) Investment Decisions
   b) Finance Decisions
   c) Dividend Decisions
   d) All of these

005. The focal point of financial management in a firm is____
   a) The number and types of products or services provided by the firm.
   b) The minimization of the amount of taxes paid by the firm.
   c) The creation of value for shareholders.
   d) The profits earned by the firm.

006. A business organization can obtain funds from –
   a) Issue of preference or equity share capital
   b) Issue of debentures
   c) Loan from banks and financial institution
   d) All of these

007. The decision function of financial management can be broken down into decisions.
   a) Financing and investment
   b) Investment, financing & asset management
   c) Financing and dividend
   d) Capital budgeting, cash management & credit management

008. Financial management is –
   a) Science
   b) Art
   c) Both
   d) None

009. Which of the following is not a function of a finance manager?
   a) Investor relations
   b) Credit & collections
   c) Investments
   d) Appointment of financial personnel

010. Investment decisions are concerned with –
   a) Efficient allocation of funds to specific assets
   b) Determining the proper amount of funds to be employed in the firm.
   c) Determining the composition of liabilities
   d) Short-run projects

011. ______ensures that the firm utilizes its available resources most efficiently under conditions of competitive markets.
   a) Wealth Maximization
   b) Profit Maximization
   c) Value Maximization
   d) Relation Maximization

012. _____consistent with the object of maximizing the owner's economic welfare.
   a) Profit Maximization
   b) Wealth Maximization

c) Relation Maximization
d) All of these

013. Profit maximization –

a) Cannot be the sole objective of a company
b) Is at best a limited objective.
c) Has to be attempted with a realization of risks involved
d) All of these

014. Under inflationary conditions, the value of money expressed in terms of its purchasing power over goods and services

a) Incline
b) Declines
c) Increases
d) Remains constant

015. ______means the organization can no longer meet its financial obligations with its lender or lenders as debts become due.

a) Financial certainty
b) Financial insolvency
c) Financial risk
d) Identified risk

016. Financial management is broadly concerned with___

a) Raising of funds
b) Creating value to the assets of the business enterprise
c) Efficient allocation of funds
d) All of these

017. Financial Management can be judged by the study of the nature of___

a) Corporate, social & benefit decisions.
b) Accounting, financing & dividend decisions.
c) Personnel, human cost & economic decisions
d) Investment, financing & dividend decisions.

018. Which of the following is/are a major aspect of the investment decision-making process?

a) Capital budgeting
b) Formulation of Functional Strategy
c) Strategic implementation
d) All of these

019. Investment decisions encompass___

a) Cost of capital
b) Capital budgeting
c) Management of liquidity and current assets
d) All of these

020. Optimal investment decisions need to be made taking into consideration such factors as___

a) Estimation of capital outlays and the future earnings of the proposed project focusing on the task of value engineering and market forecasting;
b) Availability of capital and considerations of cost of capital focusing attention on financial analysis
c) A set of standards by which to select a project for implementation and maximizing returns therefrom focusing attention on logic and arithmetic.
d) All of these

021. If the credit is extended by one trader to another for the purchase of goods and services it is called

a) Trade Credit
b) Loan
c) Debt
d) Asset

022. A business can generate funds internally by

a) Accelerating collection of receivables
b) ploughing back its profits
c) Disposing of surplus inventories
d) All of these

023. Short term funds are those which are required for a period not exceeding

a) 1 year
b) 6 months
c) 9 months
d) 5 years

024. What is a source of internal financing or self-financing?

a) Trade Credit
b) Factoring
c) Retained Earnings
d) Lease Financing

025. Which one of the following is included in the category of Owner‘s Funds

a) Debentures
b) Loans from Banks
c) Equity Shares
d) Public Deposits

026. Funds required for purchasing current assets is an example of

a) Fixed capital requirement
b) Ploughing back of profits
c) Working capital requirement
d) Lease financing

027. Public deposits are the deposits that are raised directly from

a) The public
b) The directors
c) The auditors
d) The owners

028. Equity shareholders are called

a) Owners of the company
b) Partners of the company
c) Executives of the company
d) Guardian of the company

029. Internal sources of capital are those that are

a) Generated within the business
b) Generated through outsiders such as suppliers
c) Generated through loans from commercial banks
d) Generated through issue of shares

030. What is Capital Structure?

a) A balance between the assets and liabilities of the firm
b) A balance between the revenue and expenditure of the firm
c) A distribution of equity and debt that structures the finances of the company.
d) All of these

031. What are the components of capital structure?

a) Debts and Equity
b) Debts, Preferred stock and Equity
c) Debts, revenue and equity
d) All of these

032. Which of these is a theory of capital structure?

a) Net Income
b) Modigliani-Miller Theorem
c) Net Operating Income
d) All of these

033. What is the cost of capital?

a) Cost of the company funds
b) Cumulative calculation of the capital structure
c) Cost of capital investment in the company
d) Cost of the products or services of the company

034. Capital Structure is mentioned in the company’s

a) Trading account
b) Profit and Loss Account
c) Balance sheet
d) Profit and loss appropriate account

035. Which of the following is irrelevant for optimal capital structure?

a) Flexibility
b) Solvency
c) Liquidity
d) Control

036. The term "capital structure" means:

a) Long-term debt, preferred stock, and equity shares
b) Current assets and current liabilities
c) Net working capital
d) Shareholder’s equity

037. The traditional approach towards the valuation of a firm assumes:

a) That the overall capitalization rate changes in financial leverage.
b) That there is an optimum capital structure.
c) That the total risk is not changed with the changes in the capital structure.
d) That the markets are perfect.

038. Which of the following is not considered which preparing cash budget?

a) Accrual Principle,
b) Difference in Capital, and Revenue items,
c) Conservation Principle,
d) All of these.

039. Capital Budgeting is a part of:

a) Investment Decision,
b) Working Capital Management,
c) Marketing Management,
d) Capital Structure.

040. Capital Budgeting deals with:

a) Long-term Decisions,
b) Short-term Decisions,
c) Both (a) and (b),
d) Neither (a) nor (b).

041. Capital Budgeting Decisions are:

a) Reversible,
b) Irreversible,
c) Unimportant,
d) All of these.

042. Cost of Capital refers to:

a) Flotation Cost,
b) Dividend,
c) Required Rate of Return,
d) None of these.

043. Which of the following sources of funds has an Implicit Cost of Capital?

a) Equity Share Capital,
b) Preference Share Capital,
c) Debentures,
d) Retained earnings.

044. Cost of Capital for Government securities is also known as:

a) Risk-free Rate of Interest,
b) Maximum Rate of Return,
c) Rate of Interest on Fixed Deposits,
d) None of these.

045. Firm's Cost of Capital is the average cost of:

a) All sources,
b) All borrowings,
c) Share capital,
d) Share Bonds & Debentures.

046. Minimum Rate of Return that a firm must earn in order to satisfy its investors, is also known as:

a) Average Return on Investment,
b) Weighted Average Cost of Capital,
c) Net Profit Ratio,
d) Average Cost of borrowing.

047. The term capital structure denotes:

a) Total of Liability side of Balance Sheet,
b) Equity Funds, Preference Capital and Long-term Debt,
c) Total Shareholders Equity,
d) Types of Capital Issued by a Company.

048. Cost of issuing new shares to the public is known as:

a) Cost of Equity,
b) Cost of Capital,
c) Flotation Cost,
d) Marginal Cost of Capital.

049. In case of Net Income Approach, the Cost of equity is:

a) Constant,
b) Increasing,
c) Decreasing,
d) None of these.

050. In the Traditional Approach, which one of the following remains constant?

a) Cost of Equity,
b) Cost of Debt,
c) WACC,
d) None of these.

051. That there is no corporate tax' is assumed by:

a) Net Income Approach,
b) Net Operating Income Approach,
c) Traditional Approach,
d) All of these.

052. Working capital is also known as___

a) Operating capital
b) Operation capital
c) Current assets capital
d) Capital relating to main projects of the company

053. Positive working capital means that __
a) The company is able to pay off its long-term liabilities.
b) The company is able to select profitable projects.
c) The company is unable to meet its short-term liabilities.
d) The company is able to pay off its short-term liabilities.

054. Working capital =
a) Core current assets less current liabilities
b) Core current assets less core current liabilities
c) Liquid assets less current liabilities
d) Current assets less current liabilities

055. Other things remaining constant, if the debtors increase as compared to last year it means –
a) Company has a poor credit policy
b) Company has a positive working capital
c) Company has a negative working capital
d) Company has no working capital

056. Negative working capital means that –
a) The company has no current assets at all
b) The company currently is unable to meet its short-term liabilities
c) The company has negative earnings before interest and tax
d) The company currently is able to meet its short-term liabilities

057. One of the important objective(s) of working capital management is/are –
a) To maintain the optimum levels of investment in current assets.
b) To reduce the levels of current liabilities
c) Improve the return on capital employed
d) All of these

058. Fluctuating Working Capital is also called as –
a) Reserve Margin Working Capital
b) Temporary Working Capital
c) Permanent Working Capital
d) Variable working capital

059. Operating cycle is also called as –
a) Working cycle
b) Business cycle
c) Current asset cycle
d) Working capital cycle

060. A conservative policy implies –
a) Greater liquidity and lower risk
b) Greater risk and lower liquidity
c) Negligible risk
d) No risk at all with low liquidity

061. Permanent Working Capital is also known as –
a) Fixed working capital
b) Temporary working capital
c) Long term funds
d) Gross margin working capital

062. Any amount over and above the permanent level of working capital is known as working capital.
a) Temporary
b) Fluctuating
c) Variable
d) All of these

063. Current assets are those assets –
a) Which can be sold by the companies.
b) Which are less important from a production angle.
c) Which are held by the companies to pay off current liabilities.
d) Which are converted into cash within a period of one year.

064. _____varies inversely with profitability.
a) Liquidity
b) Risk
c) Gross profit
d) None of these

065. ____refers to the difference between current asset and current liabilities.
a) Differential working capital
b) Net working capital
c) Operation working capital
d) None of these

066. Permanent working capital –
a) Varies with seasonal needs.
b) Includes fixed assets.
c) Is the number of current assets required to meet a firm's long-term minimum needs.
d) Includes accounts payable.

067. An aggressive policy indicates –
a) Higher liquidity and poor-risk
b) Higher risk and poor liquidity
c) Higher risk and higher liquidity
d) Lower risk with lower liquidity

068. The paucity of working capital may lead to a situation where –
a) The firm may not be able to its long term finance
b) The firm may not be able to meet its liabilities
c) The firm may not be able to achieve its sale target
d) The firm may take on some different projects with a low internal rate of return.

069. Which of the following would NOT lead to an increase in net cash flow?
a) Larger sales volume
b) Reduced materials costs
c) Lower depreciation charge
d) Higher selling price

070. The term cash includes
a) Cash and Bank Balances
b) All the Current Assets
c) All the Current Liabilities
d) None of these

071. Which one of the following events will reduce the cash balances of a business?
a) Dividend proposed pending share-holder approval
b) Purchase of stock on credit
c) Creditors paid amounts owed
d) Purchase of fixed assets on interest free credit

072. Which of the following is not method of preparation of cash budget?
a) Receipts & Payments Method
b) Adjusted Income Method
c) Adjusted Balance Sheet Method
d) Adjusted Revenue Method

073. Which of the following transactions would not create a cash flow?
a) A company purchased some of its own shares from a shareholder.
b) Amortization of a patent
c) Payment of a cash dividend.
d) Sale of equipment at book value.

074. Which of the following is not an operating cash flow?
a) Collection of cash from receivables
b) Payment of income tax
c) Payment of cash for operating expenses
d) Purchase of equipment for cash

075. Which of the following would not lead to an increase in net cash flow?
a) Higher selling price
b) Reduced materials costs
c) Lower depreciation charge
d) Larger sales volume

076. Working capital will not change if there is:
a) Increase in current assets
b) Payment to the creditors
c) Decrease in current liabilities
d) Decrease in current assets

077. Safety stock + EOQ is equal to:
a) Average inventory
b) Normal maximum inventory
c) Absolute maximum inventory
d) Order point

078. If small orders are placed frequently (rather than placing large orders infrequently), then the total inventory cost
a) increases
b) reduces
c) either increases or reduces
d) is minimized

079. If orders are placed with size determined by the EOQ, then the reorder costs component is

a) equal to the holding cost component
b) greater than the holding cost component
c) less than the holding cost component
d) either greater than or less than the holding cost component

080. If EOQ is calculated, but an order is then placed which is smaller than this, will the variable cost:
a) increase
b) decrease
c) either increase or decrease
d) no change

081. Which costs can vary with order quantity
a) unit cost only
b) reorder cost only
c) holding cost only
d) all of these

082. If the unit cost rises, then optimal order quantity
a) increases
b) decreases
c) either increase or decrease
d) none of these

083. One of the important basic objective of Inventory management is
a) to calculate EOQ for all materials in the organization.
b) to go in person to the market and purchase the materials
c) to employ the available capital efficiently so as to yield maximum results
d) once materials are issued to the departments, personally check how they are used

084. The stock of materials kept in the stores in anticipation of future demand is known as
a) storage of materials
b) stock of materials
c) inventory
d) raw materials

085. We can reduce the materials cost by
a) using systematic inventory control techniques
b) ordering the material as and when the need arises
c) by ordering in bulk quantities
d) ordering the material at fixed interval irrespective of need

086. ABC analysis depends on the
a) Quality of materials
b) Cost of materials
c) Quantity of materials used
d) Annual consumption value of materials

087. 'A' class materials consumes
a) 10 % of the total annual inventory cost
b) 30% of the total annual inventory cost
c) 70 to 75% of the total inventory cost,
d) 90% of the total annual inventory cost

088. 'B' class of materials consumes ---------% of annual inventory cost
a) 60 to 70%
b) 20 to 25%
c) 90 to 95%
d) 5 to 8%

089. 'C' class materials consume _________ % of annual inventory cost.
a) 5 to 10 %
b) 20 to 30%
c) 40 to 50%
d) 70 to 80%

090. The rent for the stores where materials are stored falls under
a) inventory carrying cost
b) ordering cost
c) procurement cost
d) stocking cost

091. Insurance charges of materials cost fall under
a) ordering cost
b) inventory carrying cost
c) stockout cost
d) procurement cost

092. As the volume of inventory increases, the following cost will increase
a) Stockout cost
b) Ordering cost
c) Procuring cost
d) Inventory carrying cost

093. As the order quantity increases, which cost will reduce?
a) Ordering cost
b) Insurance cost

c) Inventory carrying cost
d) Stock out cost

094. Procurement cost may be clubbed with

a) Inventory carrying charges
b) Stock out cost
c) Loss due to deterioration
d) Ordering cos

095. The penalty for not having materials when needed is

a) Loss of materials cost
b) Loss of order cost
c) Shortage cost
d) General losses

096. Losses due to deterioration, theft and pilferage comes under

a) Inventory Carrying charges
b) Losses due to theft
c) Does not come under any cost
d) Consumption cost

097. Which of the following increases with the quantity ordered per order?

a) Carrying cost
b) Ordering cost
c) Purchase cost,
d) Demand

098. Risk of non-payment may due to –

a) Insolvency
b) Liquidity problems
c) Intention of cheating
d) All of these

099. The cash discount is given to customers for:

a) Early payments
b) Good business relations
c) Bulk purchase
d) Frequent purchases

100. The accounts receivable that cannot be collected because of their bankruptcy or another reason are termed as:

a) Collectible accounts
b) Bad customers
c) Doubtful accounts
d) Uncollectible accounts

101. Accounts receivable are reported in the balance sheet:

a) At face value
b) At a gross value
c) At a net realizable value
d) At net credit sales value

102. ___ is an arrangement to have debts collected by a third party entity for a fee.

a) Factoring
b) Aging
c) Forming
d) Crediting