Business Finance

Unit 1

Multiple Choice Questions

1. Which of the following does not come under the major finance decisions?

a. Investing
b. Financing
c. Borrowing
d. Dividend

2. The primary goal of financial management is:

a. Profit maximization
b. Wealth maximization
c. Revenue maximization
d. Value of the firm maximization

3. __________________ are firms that provide services and products that customers may not be able to get efficiently by themselves in the financial market.

a. Financial intermediaries
b. FIIs
c. Banks
d. Stock broking

4. _______ is the main goal of financial management.

a. profit maximization.
b. fund transfer.
c. maximum returns
d. wealth maximization

5. The main objective of financial management of an enterprise is to _________.

a. maximize the business expenses
b. maximize the profit
c. maintain bill and payments
d. maximise the production costs

6. The process of investing money as well as reinvesting the interest earned thereon is called:

a. Compounding
b. Discounting
c. Simple Interest
d. None of the above

7. The process of __________, used for calculating the present value of money, is simply the inverse of compounding.

a. Compounding
b. Discounting
c. Simple Interest
d. None of the above

8. Which of these does not highlight the drawbacks of profit maximization?

a. It is vague
b. It ignores the time value of money
c. It ignores risk
d. All the above

9. According to the rule of 72, the doubling period under compounding is obtained by dividing 72 by the_______________?

a. Discounting rate
b. Inflation
c. Interest rate
d. None of the above

10. The general formula for the future value of a single cash flow after *n* years when compounding is done *m* times a year is?

a. $FVn = PV\ [1 + {}^{r}/_{m}]^{mn}$
b. $FVn = PV\ [1 + rm]m/n$
c. $FVn = PV\ [1 - rm]mn$
d. $FVn = PV\ [1 + rm]mn$

11. Which table would you use to find out the present value of constant stream of cash inflow for *n* years when the value of discounting rate is given?

a. Present value of a lump sum
b. Present value of an Annuity
c. Future value of a lump sum
d. Future value of an Annuity

12. In 3 years you are to receive Rs. 5,000. If the interest rate were to suddenly increase, the present value of that future amount to you would

a. fall.
b. rise.
c. remain unchanged.
d. cannot be determined without more information

13. Financial leverage can be measured in ___________________.

a. Stock term
b. Flow term
c. Both a and b
d. None

14. ____________ is a specific risk factor.?

a. Market risk
b. Inflation risk
c. Interest rate risk
d. Financial risk

15. The term "capital structure" refers to:

a. long-term debt, preferred stock, and common stock equity.
b. current assets and current liabilities.
c. total assets minus liabilities.
d. shareholders' equity.

16. A critical assumption of the net operating income (NOI) approach to valuation is:

a. that debt and equity levels remain unchanged.
b. that dividends increase at a constant rate.
c. that K_0 remains constant regardless of changes in leverage.
d. that interest expense and taxes are included in the calculation.

17. Which of the following is not used in Capital Budgeting?

a. Time Value of Money
b. Sensitivity Analysis
c. Net Assets Method
d. Cash Flows

18. Current assets are also referred to as

a. Working capital
b. Investment

c. Inventory
d. Livestock

19. _____ refers to the amount invested in various components of current assets.

a. Temporary working capital
b. Net working capital
c. Gross working capital
d. Permanent working capital

20. Working capital management is primarily concerned with the management and financing of:

a. cash and inventory.
b. current assets and current liabilities.
c. current assets.
d. receivables and payables

21. Which one is not a component of working capital?

a. Accounts Receivable
b. Inventory
c. Cash
d. Building

22. _________ maximization objectives fail to recognize quality of benefits i.e. risk factor.

a. Value
b. Wealth
c. Profit
d. Both A & B

23. _________ Maximization objective ignores timing of benefit i.e. time value of money.

a. Profit
b. Wealth
c. Value
d. Both A & B

24. Financial management process deals with _______

a. investments
b. financing decisions
c. profit maximization
d. more assets

25. Which one is a factor that influence working capital?

a. Nature of business
b. Volume of sales
c. Seasonality
d. All of these

26. Which one is not a source of financing working capital?

a. Trade Credit
b. Working Capital Loans
c. Letter of Credit
d. Equity Capital

27. The funds that are required for the day to day or regular functions are called as..

a. Equity Capital
b. Current Assets
c. Working Capital
d. Fixed Assets

28. What is the primary purpose for the valuation of shares?

a. To advance a loan against the security of shares
b. For purchase of shares by employees where they can retain these shares till the period of their employment

c. To purchase a block of shares to acquire control in the company
d. All of the above

29. In the formula of amount of immediate annuity '*i*' means

a. Rate of interest per rupee per period
b. Rate of investment per rupee per period
c. Rate of interest
d. None of the above

30. The today's value of tomorrow's money discounted at a particular interest rate is called

a. Future Value of Annuity
b. Present Value of Annuity
c. Past Value of Annuity
d. Future-Past Value of Annuity

31. The tomorrow's value of today's money compounded at a particular rate of interest is called

a. Future Value of Annuity
b. Present Value of Annuity
c. Past Value of Annuity
d. Future-Past Value of Annuity

32. If payment of an annuity is made at the beginning of each period then the annuity is called

a. Annuity Due
b. Annuity Done
c. Annuity Paid
d. Immediate Annuity

33. The process of loan repayment by instalment payments is classified as

a. amortizing a loan
b. depreciation a loan
c. appreciation of loan
d. appreciation of investment

34. The amount of money today which is equal to series of payments in future

a. nominal value of annuity
b. sinking value of annuity
c. present value of annuity
d. future value of annuity

35. Rental payment for apartment is an example of?

a. Annuity due
b. Perpetuity
c. Ordinary annuity
d. None of the above

36. _______ is the series of constant cash flows (CCF) over limited period of time?

a. Perpetuity
b. Annuity
c. Present value
d. Future value

37. Payment of car loan is an example of?

a. Annuity due
b. Perpetuity
c. Ordinary annuity
d. None of the above

38. Suppose you wish to set aside Rs. 2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to?

a. Rs. 22,456
b. Rs. 35,098
c. Rs. 28,324
d. Rs. 20,324

39. In ordinary annuity payments or receipts occur at?

a. Beginning of each period
b. End of each period
c. Mid of each period
d. Quarterly bases

40. The interest rate used in the present value calculation is often referred to as?

a. Discount rate
b. Inflation rate
c. Nominal rate
d. None of the above

41. Which of the following is not true regarding an annuity due?

a. It is a series of equal cash flows
b. It is also known as deferred annuity
c. Cash flows occur for a specific time period
d. Payments are made at the start of each period

42. Which one of the following is the procedure of finding out the Present Value (PV)?

a. Discounting
b. Compounding
c. Time value of money
d. All of above