428

QUESTION PAPER BOOKLET CODE : **A**

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PART—I

1. Which of the following is *true* regarding financial decisions of a firm ?

   (A) Investment Decisions are dependent on Financing Decisions.

   (B) Financing Decisions are dependent on Dividend Decisions.

   (C) Dividend Decisions are dependent on Investment Decisions.

   (D) All the three decisions are inter-related.

2. What will be the maturity value of a sum of ₹ 18,000 invested today at the rate of 5% p.a. for 10 years ?

   (A) ₹ 29,360

   (B) ₹ 28,320

   (C) ₹ 29,320

   (D) ₹ 35,220

3. The competing objectives of financial management have been :

   (A) Profit Maximization and Wealth Maximization

   (B) Profit Maximization and Economic Value Maximization

   (C) Economic Value Maximization and Wealth Maximization

   (D) EPS Maximization and Economic Value Maximization

4. Which of the following is an example of systematic risk in stocks ?

   (A) Company strike

   (B) Industrial recession

   (C) Unexpected entry of a new competitor in the market

   (D) Bankruptcy of a major supplier

5. Treasury Bills are issued by :

   (A) Public limited companies.

   (B) Blue chip companies.

   (C) Banks and selected all-India Financial Institutions only.

   (D) Central government.

6. Given that the effective rate of interest is 9.31% p.a., what is the nominal rate of interest p.a., if compounding is carried out quarterly ?

   (A) 9.25%

   (B) 8.5%

   (C) 9%

   (D) 9.20%

7. Decisions related to the mix of debt and equity in the balance sheet best relates to which of the following ?

(A) Capital budget

(B) Capital structure

(C) Capital expenditure

(D) Operating leverage

8. Which of the following are not applicable in the case of Payback period calculation of investment appraisal ?

(A) It is simple in concept and application.

(B) It favours only those projects that generate substantial inflows in the earlier years.

(C) The cut-off period is chosen arbitrarily.

(D) It considers the time value of money.

9. The Security Market Line shows the relationship between :

(A) Expected rate of return and beta

(B) Expected rate of return and diversifiable risk

(C) Required rate of return and unsystematic risk

(D) Realized rate of return and beta

10. The cost of retained earnings is equal to :

(A) Dividend pay-out ratio

(B) Rate of return expected on the Equity Share

(C) Risk-free rate of return

(D) Dividend yield ratio

11. Decision rules based on Benefit Cost Ratio (BCR) and Net Benefit Cost Ratio (NBCR) criteria implies :

(A) If BCR < 1, accept the project

(B) If NBCR < 0, accept the project

(C) If NBCR > 0, reject the project

(D) If BCR < 1, reject the project

12. An equity share with beta greater than unity would be called :

(A) A defensive stock, because it is expected to decrease more than the market increase

(B) An aggressive stock, because it is expected to increase more than the market increase

(C) A defensive stock, because it is expected to increase more than the market decrease

(D) An aggressive stock, because it is expected to decrease more than the market increase

13. An interest rate that has been annualized using compound interest is termed as :

(A) Annual interest rate.

(B) Discounted interest rate.

(C) Effective annual interest rate.

(D) Simple interest rate.

14. The risk aversion of investors can be measured by :

(A) Risk-free rate of return.

(B) Market rate of return.

(C) Variance of the return from a security.

(D) The difference between the market rate of return and the risk-free rate of return.

15. If a firm declared 25% dividend on share of Face Value of ₹ 10, its growth rate is 5%, and if the rate of capitalization is 12%, its expected price would be ₹ ..... .

(A) 31.25

(B) 33.50

(C) 36.00

(D) 37.50

16. Capital Budgeting Decisions are part and parcel of :

(A) Financing and Investing Decisions

(B) Investing and Dividend Decisions

(C) Financing and Dividend Decisions

(D) Only Investing Decisions.

17. Diversification can eliminate risk, if the securities of a portfolio are :

(A) perfectly positively correlated

(B) perfectly negatively correlated

(C) weakly positively correlated

(D) weakly negatively correlated

18. ..... is the present value of an asset, if the annual cash inflow is ₹ 1,000 per year for next 5 years and the discount rate is 15%.

(A) ₹ 2,500

(B) ₹ 3,500

(C) ₹ 3,352

(D) ₹ 2,481

19. An investor purchases an 8% bond having a face value of ₹ 1,000 and maturity of 5 years for ₹ 900. A year later he sells it for ₹ 960 in the market. The holding period gain of the investor is :

(A) 8.88%

(B) 14.00%

(C) 14.58%

(D) 15.55%

20. The effective rate of interest for a sum of money compounded quarterly is 12.55%. What is its nominal yield ?

(A) 12.05%

(B) 12.25%

(C) 12.15%

(D) 12%

21. The price of a share is ₹ 100 today. It grows to ₹ 125 at the end of the 1st year, ₹ 187.5 at the end of the 2nd year and ₹ 243.75 at the end of the 3rd year. What is the average rate of return ?

(A) 35.5%

(B) 35%

(C) 34.5%

(D) 34%

22. What is the present value of an annuity of ₹ 15,000 starting immediately ($t = 0$) and paying another 5 annual instalments ? Assume a discounting rate of 12%.

(A) ₹ 85,460

(B) ₹ 82,500

(C) ₹ 75,120

(D) ₹ 88,120

23. Which of the following does *not* contribute to systematic risk ?

(A) Change in the interest rates.

(B) Change in the level of government spending.

(C) Emergence of a new competitor.

(D) Change in the industrial policy.

24. Varun Ltd. is issuing 1 Lakh 12% Irredeemable preference shares of the face value of ₹ 100 each. If the floatation cost is ₹ 2 per share, what is the cost of these Preference Shares ?

(A) 12.00%

(B) 12.14%

(C) 12.24%

(D) 12.34%

25. If an investment of ₹ 3,00,000 pays ₹ 25,000 p.a. in perpetuity, what is the Net Present Value, if the interest rate is 9% ?

(A) ₹ –22222

(B) ₹ +22222

(C) ₹ +24736

(D) ₹ +27250

26. Which approach in capital structure argues that the overall capitalization rate and the cost of debt remains constant for all degrees of leverage, as the same is offset by an increase in the equity capitalization rate ?

(A) NI Approach

(B) NOI Approach

(C) Walter's Approach

(D) Gordon's Approach

27. An arrangement where a bank allows a borrower to overdraw up to a certain limit for working capital financing is known as :

(A) Bridge Loan

(B) Cash Credit

(C) Term Loan

(D) Leverage Buy Out

28. Funds represented by cheques which have been issued, but which have not been debited from bank is technically referred to as :

(A) Indenture

(B) Forward Cover

(C) Float

(D) Proxy

29. The Net Working Capital (NWC) of a firm is ₹ 14 Lakhs. It purchased ₹ 30 Lakhs worth of raw materials on credit, issued 7% debentures for ₹ 20 Lakhs, and purchased a machine for ₹ 18 Lakhs for cash. The new NWC of the firm will be :

(A) ₹ 12 Lakhs

(B) ₹ 16 Lakhs

(C) ₹ 15 Lakhs

(D) ₹ 10 Lakhs

30. A firm has a Degree of Operating Leverage (DOL) of 5 and Degree of Financial Leverage (DFL) of 4. The interest burden is ₹ 300 Lakhs, variable cost as a % to sales is 75%, and the effective tax rate is 45%. Its fixed cost is :

(A) ₹ 1600 Lakhs

(B) ₹ 1450 Lakhs

(C) ₹ 1500 Lakhs

(D) ₹ 1700 Lakhs

31. ABC analysis is useful for :

(A) analyzing inventory based on their usage and movement

(B) reduction of total investment in material

(C) determining the optimal level of safety stock

(D) analyzing inventory based on their availability

32. Consider the following factors — Gross operating cycle – 80 days; Net operating cycle – 55 days; Raw material holding period – 40 days, Conversion period – 2 days; Finished goods holding period – 20 days; Average collection period will be :

(A) 87 days

(B) 37 days

(C) 18 days

(D) 62 days

33. MNC expects its sales to increase by 10% from the current year level of ₹ 5 million. With a Net Profit Margin of 8% and a pay-out ratio of 30%, what financing for the next year will be available from internal sources ?

(A) ₹ 4,40,000

(B) ₹ 3,08,000

(C) ₹ 0.4 million

(D) ₹ 0.404 million

34. If a company acquired a helicopter for its top management for a certain period on a fixed payment, which of the following will be *true* regarding leverage ?

(A) DOL will increase

(B) DFL will increase

(C) DOL will decrease

(D) DCL will remain unchanged

35. Which of the following is *not* a valid assumption of MM approach to capital structure ?

(A) Securities are infinitely divisible

(B) Lack of free flow of information

(C) Transactions costs are zero

(D) No taxation

36. Which of the following will *not* have an impact on a firm's treasury position ?

(A) Dividend payment

(B) Tax payment

(C) Buying fixed assets

(D) Issuing bonus shares

37. A firm has a DOL of 6 at a certain production level. If Sales of the firm rise by 1%, it implies that :

(A) EBIT will also rise by 1%

(B) EBIT will rise by 1/6%

(C) EBIT will rise by 6%

(D) Change in EBIT is undecided

38. Determination of "safety stock" requires a trade-off between :

(A) Carrying costs and stock-out cost

(B) Ordering cost and carrying cost

(C) Ordering cost and stock-out cost

(D) Lead time and order point

39. Which of the following is *not* a valid assumption of EOQ model ?

(A) Demand forecast is available

(B) Inventory can be replenished immediately

(C) Cost per order is variable

(D) Carrying cost is a fixed percentage

40. Which of the following investment decisions is required to be taken for a stock, if its intrinsic value is greater than its market value ?

(A) Sell

(B) Hold

(C) Buy

(D) Indifferent

41. Monthly demand for a raw material is 150 units. Ordering cost per order is ₹ 8 and annual carrying cost per unit is ₹ 2. Economic Order Quantity (EOQ) under the above circumstances will be :

(A) 90

(B) 120

(C) 150

(D) 180

42. Earnings per share (EPS) is equal to :

(A) Profit after tax/no. of shares in authorized capital

(B) Profit after tax/no. of shares in issued capital

(C) Profit after tax/net worth

(D) Profit before tax/net worth

43. Interest coverage ratio of 6 indicates :

(A) Sales are 6 times of interest.

(B) Profit after tax is 6 times of interest.

(C) EBIT is 6 times of interest.

(D) Interest is 6 times profit after tax.

44. Debtors turnover ratio reflects :

(A) Collection period

(B) Debtors in relation to credit sales

(C) Debtors in relation to total sales

(D) Aging of the debtors

45. Consider the following data and compute the total sales amount :

(*i*) Closing balance of receivables : ₹ 30 lakhs

(*ii*) Opening balance of receivables : ₹ 20 lakhs

(*iii*) Average collection period : 25 days

(*iv*) Credit sales are 73% of sales (assume 365 days in a year)

(A) ₹ 365 lakhs

(B) ₹ 500 lakhs

(C) ₹ 550 lakhs

(D) ₹ 730 lakhs

46. If the expected dividend is less than the actual dividend paid, the rational expectation approach suggests that the :

(A) Share price will increase.

(B) Share prices will go down.

(C) Value of the firm will go up.

(D) Both (A) and (C) above.

47. The EOQ for a firm is 7200 units. The minimum order size stipulated by the supplier is 9000 units for utilizing a cash discount on the purchase price. The annual usage of the material in units is 80,000 and the cost per order is ₹ 100. If the company decides to utilize cash discount, savings in the total ordering cost will be :

(A) ₹ 400

(B) ₹ 500

(C) ₹ 600

(D) ₹ 700

48. Walter model can be applied only to those companies which :

(A) Earn high profits.

(B) Make investment by resorting to high level of debts.

(C) Make investments without borrowing or raising external equity.

(D) Do not make any investment.

49. Cash Management Model has been propounded by :

(A) Lintner

(B) Walter

(C) Baumol

(D) Gordon

50. The Weighted Average Cost of Capital computations :

(A) Assign more weight to Equity.

(B) Assign more weight to Debentures.

(C) Excludes Retained Earnings.

(D) Assigns weights based on Market Value or Book Value.

51. The liability side of Shivanee Ltd.'s Balance Sheet shows Equity capital ₹ 25 Lakhs and Retained Earnings ₹ 50 Lakhs. Face value of its share is ₹ 100 each and market value is ₹ 300 each. If the investors expect a Rate of Return of 18%, and if the cost of floatation of issuing fresh Equity is 5%, what is the Cost of Retained Earnings ?

(A) 17.50%

(B) 18.00%

(C) 9.00%

(D) 8.75%

52. The Capital Structure of Neel Ltd. is as under :

Equity + Reserves & Surplus	₹ 200 Lakhs
10% Preference Shares	₹ 50 Lakhs
12% Term Loans	₹ 150 Lakhs

What should be the approx. Earnings Before Interest and Taxes (EBIT) so that Earnings Per Share (EPS) is 0 (Nil) ? Assume Tax Rate 35%.

(A) ₹ 23.00 Lakhs

(B) ₹ 24.75 Lakhs

(C) ₹ 25.69 Lakhs

(D) ₹ 29.30 Lakhs

53. ABC Limited books of accounts show profit from operation (EBDIT) at ₹ 500 Lakhs, it paid 12% on a debt of ₹ 1,000 Lakhs, Depreciation is ₹ 100 Lakhs and Tax 35%. Profit after Tax will be :

(A) ₹ 184 Lakhs

(B) ₹ 182 Lakhs

(C) ₹ 178 Lakhs

(D) ₹ 180 Lakhs

54. As you increase the number of stocks in a portfolio, the systematic risk is likely to :

(A) remain constant

(B) increase at a decreasing rate

(C) decrease at a decreasing rate

(D) decrease at an increasing rate

55. Current ratio is 4 : 1. Net Working Capital is ₹ 30,000. Find the amount of Liquid assets if value of stock is ₹ 8,000.

(A) ₹ 10,000

(B) ₹ 40,000

(C) ₹ 32,000

(D) ₹ 2,000

56. A sum of ₹ 50,000 is invested @ 12% p.a. for 6 years. What will be the present value of its maturity value, assuming a required rate of return of 10% ?

(A) ₹ 86,000

(B) ₹ 98.700

(C) ₹ 55,667

(D) ₹ 56,504

57. The cost of capital of a firm is 12% and its expected Earning Per Share at the end of the year is ₹ 20. Its existing payout ratio is 25%. The company is planning to increase its payout ratio to 50%. What will be the effect of this change on the market price of equity shares (MPS) of the company as per Gordon's model, if the reinvestment rate of the company is 15% ?

(A) It will increase by ₹ 444

(B) It will decrease by ₹ 444

(C) It will increase by ₹ 222

(D) It will decrease by ₹ 222

58. Mr. A is planning to buy a security and is in a dilemma regarding price to be paid. For this he is relying on the required rate of return on the security. Help him out to calculate the aforesaid rate (%), if you are informed that security's standard deviation is 6%, correlation coefficient of the security with the market is 0.6, and market standard deviation is 5%. You may assume that return from risk-free security in the market is 8% and return on market portfolio is 12%.

(A) 10.68%

(B) 10.88%

(C) 10.58%

(D) 10.78%

59. Firm A is considering a project A. The project involves cash outlay of ₹ 50,000 ($t = 0$), working capital outlay of ₹ 20,000 ($t = 2$), and is expected to generate Cash Flow After Tax (CFAT) of ₹ 12,000 per annum for 5 years excluding working capital release back and terminal value of 20%. What would be your advice to the company using Net Present Value approach, if its cost of capital is 10% ?

(A) Accept the project.

(B) Either Accept or Reject it as NPV is zero.

(C) Reject the project.

(D) Information incomplete.

60. Economic Order Quantity (EOQ) determines :

(A) The order size that minimize the total inventory cost.

(B) The order size where ordering cost is the lowest.

(C) The order size where the carrying cost is minimum.

(D) The order size which will earn discounts on purchase.

PART—II

61. A corporate strategy can be defined as :

(A) A list of actions about operational planning and statement of organisation structure and control system

(B) A statement of how to compete, direction of growth and method of assessing environment

(C) Abatement of organisation's activities and allocation of resources

(D) A course of action or choice of alternatives, specifying the resources required to achieve certain stated objectives

62. A Strategic Business Unit (SBU) is defined as a division of an organisation :

(A) that help in the marketing operations.

(B) that enable managers to have better control over the resources.

(C) that help in the choice of technology.

(D) that help in the allocation of scarce resources.

63. Total Quality Management was initially applied in :

(A) South Korea

(B) Japan

(C) United Kingdom

(D) United State of America

64. How often should strategic management activities be performed ?

(A) Annually

(B) Quarterly

(C) Monthly

(D) Continuously

65. What is six-sigma risk/return level ?

(A) High-Low

(B) Medium-High

(C) Low-Low

(D) High-High

66. Which "S" is *not* part of McKinseys 7-S Framework ?

(A) Shared value

(B) System

(C) Staff

(D) Synergy

67. Under the BCG growth-share matrix, low share, high-growth businesses or products are called :

(A) Stars

(B) Cash cows

(C) Question marks

(D) Dogs

68. Ansoff's matrix is useful for :

(A) joining a business's marketing strategy with general strategic direction

(B) establishing an editorial calendar for staff to follow

(C) understanding buyer personas and buyer behaviours

(D) hiring new staff and training them on marketing tactics

69. Which category of benchmarking involves multi-site comparison of process and performance ?

(A) Internal

(B) Generic

(C) Competitive

(D) Functional

70. Which of the following answers to the question :

'Where does the organisation aspire to be in the future ?'

(A) Mission Statement

(B) Vision Statement

(C) Objectives

(D) Core Values

71. Which of the following is a force in the Porter's five forces model of industry attractiveness ?

(A) Bargaining power of suppliers

(B) Competitive market

(C) Low cost for customers

(D) Opportunity for substitutes

72. The principles of the business process re-engineering (BPR) approach do *not* include :

(A) Rethinking business processes cross-functionally to organise work around natural information flows.

(B) Striving for improvements in performance by radical rethinking and redesigning the process.

(C) Checking that all internal customers act as their own suppliers to identify problems

(D) Scrapping any process line over two years old and starting again from scratch

73. What does Cash Cow symbolize in BCG matrix ?

(A) Volatility

(B) Unattractive Investment

(C) Profitability

(D) Cash Drain

74. What are focus strategies ?

(A) When a company focuses on supplying differential products which appeal to different market segments

(B) Where a company chooses to concentrate on only one market segment or a limited range of segments

(C) Where a company focuses on achieving lower costs than its rivals so as to compete across a broad range of market segments

(D) When a company conducts market research through focus groups to determine how their strategy should be shaped

75. The BCG matrix is based on :

(A) Industry attractiveness and business strength

(B) Industry growth rate and business strength

(C) Industry attractiveness and relative market share

(D) Industry growth and market share

76. Which of these are characteristics of matrix structure ?

(A) Decentralisation and co-ordination

(B) Centralisation and control

(C) Centralisation and co-ordination

(D) Decentralisation and control

77. Which is the term used in Ansoff's matrix for increasing market share with existing products in existing markets ?

(A) Market Development

(B) Market Penetration

(C) Product Development

(D) Diversification

78. Successful differentiation strategy allows the company to :

(A) gain buyer loyalty to its brands

(B) charge too high a price premium

(C) depend only on intrinsic product attributes

(D) have product quality that exceeds buyers' needs

79. What are enduring statements of purpose that distinguish one business from other similar firms ?

(A) Policies

(B) Mission statements

(C) Objectives

(D) Rules

80. Typically profits are highest in which stage of industry life-cycle ?

(A) Introduction

(B) Growth

(C) Maturity

(D) Decline

81. Blue Ocean Strategy is concerned with :

(A) Moving into new markets with new products

(B) Creating new market places where there is no competition

(C) Developments of products and markets in order to ensure survival

(D) Making the product unique in terms of attributes

82. The product-market matrix comprising strategies of penetration, market development, product development and diversification was first formulated by :

(A) Ansoff

(B) Drucker

(C) Porter

(D) Prahlad

83. Which of the following market structures would be commonly identified with FMCG products ?

(A) Monopoly

(B) Monopolistic competition

(C) Oligopoly

(D) Perfect competition

84. Directional Policy Matrix is same as :

(A) the BCG Model

(B) the 9-cell GE Matrix

(C) the Life-cycle Portfolio analysis

(D) the 3 × 3 competitive positioning matrix

85. Outsourcing is the :

(A) Spinning off of a value-creating activity to create a new firm

(B) Selling of a value-creating activity to other firms

(C) Purchase of a value-creating activity from an external supplier

(D) Use of computers to obtain value-creating data from the Internet

86. The existence of price-wars in the airline industry in India indicates that :

(A) Customers are relatively weak because of the high switching costs created by frequent flyer programs

(B) The industry is moving towards differentiation of services

(C) The competitive rivalry in the industry is severe

(D) The economic segment of the external environment has shifted, but the airline strategies have not changed

87. What type of organisational structure do most small businesses follow ?

(A) Divisional Structure

(B) Functional Structure

(C) Hour Glass Structure

(D) Matrix Structure

88. Which section of the SWOT Matrix involves matching internal strengths with external opportunities ?

(A) The WT cell

(B) The SW cell

(C) The SO cell

(D) The ST cell

89. What can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objectives ?

(A) Strategy Formulation

(B) Strategy Evaluation

(C) Strategy Implementation

(D) Strategic Management

90. The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the ..... stage of the industry life-cycle.

(A) Maturity

(B) Introduction

(C) Growth

(D) Decline

91. The most probable time to pursue a harvest strategy is in a situation of ..... .

(A) High growth

(B) Decline in the market life-cycle

(C) Strong competitive advantage

(D) Mergers and acquisitions

92. Vertical integration may be beneficial when :

(A) Lower transaction costs and improved co-ordination are vital and achievable

(B) Flexibility is reduced, providing a more stationary position in the competitive environment

(C) Various segregated specialisations will be combined

(D) The minimum efficient scales of two corporations are different

93. Conglomerate diversification is another name for which of the following ?

(A) Related diversification

(B) Unrelated diversification

(C) Portfolio diversification

(D) Acquisition diversification

94. When two organizations combine to increase their strengths and financial gains, it is called :

(A) Hostile takeover

(B) Liquidation

(C) Merger

(D) Acquisition

95. Financial objectives involve all of the following, *except* :

(A) growth in revenues.

(B) larger market share.

(C) higher dividends.

(D) greater return on investment.

96. Which of these basic questions should a vision statement answer ?

(A) What is our business ?

(B) Who are our competitors ?

(C) Where we are to go ?

(D) Why do we exist ?

97. A firm successfully implementing a differentiation strategy would *expect* :

(A) Customers to be sensitive to price increases

(B) To charge premium prices

(C) Customers to perceive the product as standard

(D) To automatically have high levels of power over suppliers

98. The concept of 'Core Competence' has been advocated by :

(A) Gary Hamel and Peter Drucker

(B) C.K. Prahlad and Gary Hamel

(C) C.K. Prahlad and Michael Porter

(D) C.K. Prahlad and Peter Drucker

99. Which of the following can be said to be the strategy followed in TOWS approach ?

(A) Defensive Strategy

(B) Offensive Strategy

(C) Attack Strategy

(D) Functional Strategy

100. Porter's Generic strategies include :

(A) Cost Differentiation, Product Focus, Leadership

(B) Price Leadership, Cost Focus, Product Differentiation

(C) Price Differentiation, Leadership, Cost Focus

(D) Cost Leadership, Differentiation and Focus

Space for Rough Work