Sl.No	Question	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Correct Answer	Answer Code
1	Capital budgeting is the process –	Which help to make master bud get of the organization	. By which the firm decides how much capital to invest in business	By which the firm decides which long-term investments to make	Undertaken analyse how make available various finance to the business	By which the firm decides which long-term investments to make	3
2	The values of the future net incomes discounted by the cost of capital are called –	Average capital cost	Discounted capital cost	Net capital cost	Net present value	Net present value	4
3	The decision to accept or reject a capital budgeting project depends on	An analysis of the cash flows generated by the project	Cost of capital that is invested in business /project	Both (A) and (B)	Neither (A) nor (B)	Both (A) and (B)	3
4	Internal Rate of Return (IRR) criterion for project acceptance under theoretically infinite funds is Accept all projects which have –	IRR equal to the cost of capital	IRR greater than the cost of capital	IRR less than the cost of capital	None of the above	IRR greater than the cost of capital	2
5	Is a project whose cashflows are not affected by the accept /reject decision for other projects.	Mutually exclusive project	Independent project	Low Cost project	Risk free project	Independent project	2
6	Which of following statements is incorrect regarding a normal project?	If the NPV of a project is greater than 0, then its PI will exceed 1.	If the IRR of a project is 8%, its NPV, using a discount rate, K_0 greater than 8%, will be less than 0	If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows	If the IRR of a project is greater than the discount rate, K, then its PI will be greater than 1	If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows	3
7	Ranking projects according to their ability to repay quickly may be useful to fir mε	When experiencing liquidity constraints	When careful control over cash is required	To indicate the prospective investors specifying when their funds are likely to be repaid	All of the above	All of the above	4
8	Capital budgeting decisions are analysed with help of weighted average and for this purpose –	Component cost is used	Common stock value is used	Cost of capital is used	Asset valuation is used	Cost of capital is used	3
9	What is the difference between economic profit and accounting profit?	Economic profit creates a charge for all providers of capital while accounting profit use only charge for debt.	Economic profit covers the profit over the life of the firm while accounting profit or y covers the most recent accounting period	Accounting profit is based on current accepted accounting rules while economic profit is based on cash flows	All of the above are correct	Economic profit creates a charge for all providers of capital while accounting profit use only charge for debt.	1
10	Which of the following is de merit of payback period?	It is difficult to calculate as well as understand it as compared to accounting rate of return method	This method regards the initial investment involved	It fails to take into account the timing of returns and the cost of capital.	None of the above	It fails to take into account the timing of returns and the cost of capital.	3
11	Which of the following relate to finance lease as opposed to operating leases? 1. At the inception of the lease the present value of the minimum lease payments a mounts to at least substantially all of the fair value of the leased asset. 2. Ownership of the asset remains with the lessor for the entire lease period. 3. Asset acquired under finance lease is shown as asset in the balance sheet of lessee. Select the correct answer from the options given below:	2 only	1 and 3 only	1 and 2 only	2 and 3 only	1 and 3 only	2

12	ABL Ltd. is considering either leasing an asset or borrowing buy it, and is attempting to analyse the options by calculating the NPV of each. When comparing the two AB Ltd. is uncertain whether they should include interest payments in their option to 'borrow and buy' as it is a future incremental cash flow associated with that option. They are a so uncertain which discount rate to use the NPV calculation for the lease option. How should AB Ltd treat the interest payments and what discount rate should they use?Include interest? Discount Rate	Yes, After tax cost of the loan if they borrowed buy	Yes, AB Ltd.'s WACC	No, After tax cost of the loan if they borrowed buy	No, AB Ltd.'s WACC	No, After tax cost of the loan if they borrowed buy	3
13	Consider following two statements: 1. Risk analysis gives management better information about the possible outcomes that may occur so that management can use their judgement and experience to accept an investment or reject it. 2. In relation to capital budgeting sensitivity analysis deals with the consideration of sensitivity of the NPV to different variables contributing to the NPV. Select correct answer from the options given below:	Both Statements are false	Statement 1 is true while Statement 2 is false	Statement 2 is true while Statement 1 is false	Both Statements are true	Both Statements are true	4
14	Which of the following is advantage of sensitivity analysis?	It compels the decision maker to identify the variables which affect the cash flow forecasts. This helps him in understanding the investment project in totality.	It indicates the critical variables for which additional information may be obtained. The decision maker can consider actions which may help in strengthening the" weak spots" in the project.	It helps to expose inappropriate forecasts and thus guides the decision maker to concentrate on relevant variables	All of the above	All of the above	4
15	Which of the following is correct formula to calculate coefficient of variation?	Standard deviation ÷ Expected NPV	Standard deviation X Expected NPV	Correlation X SD ÷ Expected NP	None of the above	Standard deviation ÷ Expected NPV	1
16	Select odd one	Certainty Equivalent Approach	Expected Net Present Value	Simulation	ARR	ARR	4
17	A project requires initial investment of Rs.2,00,000 and estimated to generate cash flow after tax of Rs.1,00,000,Rs.80,000,Rs.40,000 Rs.20,000,& 10,000 in next 5 years. What is the payback period of the project?	3 years and 4 months	2 years and 6 months	4 years and 2 months	2 years and 8 months	2 years and 6 months	2
18	Y Ltd is considering a project which requires initial investment of Rs.6,75,000. Cost of capital is 10% Estimated cash flow after tax are as follows: Year 1 Year 2 1,50,000 Year 3 6,60,000 Year 4 4,20,000 Year 5 4,20,000 What is projects discounted payback period?	3 years & 7.58 months	4 years & 4.12 months	3 years & 2.32 months	4 years & 8.11 months	3 years & 2.32 months	3
19	Rakesh Ltd. is considering invest in one of four projects for which an analyst has calculated 'payback period reciprocal' as 25% 40% 50% & 75% respectively for Project P, Q, R,& S. Which project will be selected on 'payback period method of capital budgeting?	Project R	Project P	Project S	Project Q	Project S	3

20	A Machine requires initial investment of Rs.40,000 and expected to generate cash flow of Rs.8,400 Rs.14,300 &Rs.32,800 in next 3 years Applicable tax rate is 30% and WACC of the company is 12% The company will select machine because –	It has positive NPV of Rs.2,522	Its profitability index is 1.653 which is more than 1.	Its IRR is between 14% to 15% which is more than WACC of the company.	All of the above	Its IRR is between 14% to 15% which is more than WACC of the company.	3
21	Preferred dividend is divided by preferred stock price multiply by (1- flotation cost) is used to calculate –	Transaction cost of preferred stock	Financing of preferred stock	Weighted cost of capital	Component cost of preferred stock	Component cost of preferred stock	4
22	**Statement I:**Cost of retained earnings is the opportunity cost of dividends forgone by shareholders **Statement II:**The opportunity cost of reserve & surplus may be considered as their cost which is equivalent to the income that would otherwise earn by pad ng these funds in alternative investment.Select the correct answer from the options given below:	Statement I is false but Statement II is true	Both Statement I and Statement II are false	Statement II is false but Statement I is true	Both Statement I and Statement II are true	Both Statement I and Statement II are true	4
23	How you will calculate expected dividend i.e. dividend at the end of year one?	. $D_1 = [D_0 (1 +g)]$	$D_1 = [D_0 (1-t)]$	$D_1= [D_0 X(1-g]$	$D_1=[D_0+(1-g] (1- t)$	$D_1 = [D_0 (1 +g)]$	1
24	In weighted average cost of capital, rising interest rate leads to	Increase in cost of debt	Increase the capital structure	Decrease In cost of debt	Decrease the capital structure	Increase in cost of debt	1
25	______is the cost which has already been incurred for financing a particular project.	Future Cost	Historical Cost	Implicit Cost	Opportunity Cost	Historical Cost	2
26	In weighted average cost of capital, capital components arefunds that are usually offered by.	Stock market	Investors	Capitalist	Exchange Index	Investors	2
27	Overall cost of capital is called as -	Composite cost of capital	Combined cost of capital both	(A) and (B)	Neither (A) nor (B)	(A) and (B)	3
28	Premium which is considered difference of expected return on common stock and current yield on treasury bonds is called-	Past risk premium	Expected premium	Current risk premium	Beta premium	Current risk premium	3
29	Which of the follow in figure is relevant while calculating cost of dimple preference shares?	Hot aunty on cost	Discount	EPS	Net proceeds	EPS	3
30	Select which of the following statement is correct? I) Capital budget decision largely depends on the cost of capital of each source II) Capital structure is the mix or proportion of the different kinds of short term securities (III) Cost of capital helps to evaluate the financial performance of the firm (IV) As per MM approach, the cost of equity(Ke) is equal to capitalization rate of pure equity stream minus a premium for business risk. Select the correct answer from the options given below:	(I) and (II)	(I), (II) and (IV	(II) and (IV)	(I) and (III)	(I) and (III)	4
31	While calculating WACC on market value basis which of the following is not considered-	After tax cost of debt.	Reserve and surplus	Weight of each fund in capital structure	Cost of term loan	Reserve and surplus	2
32	CAPM describes the____________between risk and return of securities.	Linear relationship	Hypothetical relationship	No relationship	Diagonal relationship	Linear relationship	1
33	Chetna Fashion is expected to pay an annual dividend of 0.80 a share next year. The market price of the stock is Rs.22.40 and the growth rate is 5%. What is the firms cost of equity?	7.58 per cent	7.91 per cent	8.24 per cent	8.57 per cent	8.57 per cent	4

34	Sweet Treats common stock is currently priced at Rs.19.06 a share The company just paid Rs.1.15 per share as its annual dividend. The dividends have been increasing by 2.5% annually and are expected to continue doing the same. What is this form is cost of equity?	8.68%	8 86%	6.18%	6.03%	8.68%	1
35	Ramola Ltd. report its NOPAT Rs.25,00,000. Its capital employed and economic value added is Rs.60,00,000&Rs.19,00,000 respectively. Whatis overall cost of capital of R And A Ltd.	10.90%	11%	10%	9.80%	10%	3
36	Mr. Investor, purchases an equity share of growing company, ATT Ltd for Rs.210 He expects that the ATT Ltd. to pay dividend of Rs.10.5 Rs.11.025 & 11.575 in year 1, 2 & 3 respectively.He expects to sell shares at the end of year 3 at 243. 10 Determine the growth rate of dividend	4%	5%	6%	7%	5%	2
37	Mr. Lucky, purchases an equity share of growing company, XYY Ltd for Rs.525 He expects that the XYY Ltd to pay dividend of Rs.26.25, Rs.27.83 & Rs.29.50 in year 1, 2 & 3 respectively. He expect to sell shares at the end of year 3 at Rs.607.75. What is the required rate of return of Mr. Lucky on his equity investment?	11.50%	10.50%	10.05%	11.05%	11.05%	4
38	Mumbai Ltd expected to pay dividend at Rs.2 for the next year. As The company is a market leader with good future dividend is like to grow by 5% every year. The equity shares are now treaded at Rs.80 per share in the stock exchange. Tax rate applicable to the company is 50%. The capital structure of the company also contains debt on which interest is payable @ 14% The capital structure has ratio of Equity & Debt 80.20 WACC = ?	9.40%	7.40%	9.84%	7.98%	7.40%	2
39	National Ltd has 12,000 equity shares of 100 each. Sale price is equity share Rs.115 per share, flotation cost 5 per share. Expected dividend growth rate is 5% and expected dividend at the end of the financial year is Rs.11 per share What is the cost of equity shares of National Ltd?	0.1133	0.1278	0.1475	0.15	0.15	4
40	Raman Ltd. has 10% Preference Share Capital of Rs.450000 Face value is Rs.10. Issue price of preference share is Rs.100 per share, flotation cost Rs.2 per share. What is the cost of preference shares to Raman Ltd?	10.20%	9.10%	12 50%	11.22%	10.20%	1
41	Raja Ltd has 8% Debentures (Face value Rs.2,500) of Rs.9,00,000 which are redeemable at 5% premium sold at 98%. 3% flotation costs with maturity of 20 years. Corporate Tax rate is 35%. The company paid debenture interest of Rs.60,000 out of total interest payable of Rs.72,000. After tax cost of debt is –	7%	7.70%	5.70%	6.70%	5.70%	3

42	Equity shares of Anuradha Ltd are quoted in stock exchange at Rs.325 per share. New issue be priced at 312.5 and flotation cost will be 12.5 per share During 5 years dividend on equity shares have steadily grown from Rs.26.5 to Rs.35.48. Dividend at the end of current year is expected at Rs.37.5 per share. It has retained earnings of Rs.30,00,000 Corporate taxis 35% and shareholders are in tax slab of 20%. Ignore dividend tax. Calculate cost of equity and cost of retained earnings?	K_e = 18.50%, K_r = 14.80%	K_e = 18.00%,K_r = 14.40%	K_e = 17.54%,K_r = 14.03%	K_e = 18.94% K_r = 15.15%	K_e = 18.50%, K_r = 14.80%	1
43	The term Leverage in general refers to a -	Relationship between fixed cost and profit	Relationship between sales and fixed cost	Relationship betweent wo inter -related variables.	Relationship between two unrelated variables.	Relationship between two inter -related variables.	3
44	In financial analysis Leverage represents the influence of one _____ over some other related___	Non- financial variable, financial variable	Financial variable, financial variable	Financial variable, non-financial variable	Variable relating to revenue financial variable	Financial variable, financial variable	2
45	Which of the following is not commonly used measure of leverage in financial analysis?	Operating Leverage	Financial Leverage	Combined Leverage	Matrix Leverage	Matrix Leverage	4
46	______is the ratio of net operating income before fixed charges to net operating income after fixed charges.	Financial Leverage	Operating Leverage	Combined Leverage	Fiscal Leverage	Operating Leverage	2
47	Operating leverage indicates the tendency of operating profits (EBIT) to vary disproportionately with	Profit	fixed cost	Sales	EPS	Sales	3
48	Degree of________ is the ratio of the percentage increase in earring per share (EPS) to the percentage increase in earnings before interest and taxes (EBIT).	Operating Leverage	Combined Leverage	Working Capital Leverage	Financial Leverage	Financial Leverage	4
49	There is no operating leverage if there is no	Profit	Sales	Fixed cost	EPS	Fixed cost	3
50	EBIT is usually the same thing as	Funds provided by operations	Earnings before taxes	Net income	Operating profit	Operating profit	4
51	Which of the following formula as represents the correct calculation of the degree of financial leverage?	[NI + T +I]/ [NI - I – PD/ 1 - T)]	EBIT/[EBIT- I – PD/1 - T)]	EBIT/[NI - I – PD/1 - T)]	=ll of the above are correct methods to calculate the degree of financial leverage (DFL).	= EBIT/[EBIT- I – PD/1 - T)]	2
52	The maximum amount of debt (and other fixed-charge financing)that a firm can adequately service is referred to as the______	Debt capacity	Debt-service burden	Adequacy capacity	Fixed charge burden	Debt capacity	1
53	High financial leverageis not good as it indicates thelarge content of –	Fixed cost	Fixed interest charges	Variable cost charges	Contribution	Fixed interest charges	2
54	The cash required during aspecific period to meet interest expenses and principal payments is referred to as the:	Debt capacity	Debt-service burden	Adequacy capacity	Fixed- charge burden	Debt-service burden	2
55	Earnings to equity shareholders (EPS) will fluctuate violently if –	financial leverage is very high	Operating leverage is very high	Working capital leverage is very high	Operating leverage is very low	financial leverage is very high	1
56	if the Return on Investment (ROI) exceeds the rate of interest on debt, it is ________ financial leverage.	Unfavourable	Adverse	A favourable	Negative	A favourable	3
57	Which one of the following is correct? (I) Liquidly ratios measure's long term solvency of a concern (II) Inventory is a part of liquidity assets (III) Financial leverage is related to business risk (IV) The amount of gross assets is equal to net capital employed Select the correct answer from the options given below:	(I), (II) and (IV)	(I), (III) and (IV)	(I), (II) (III) and (IV)	None of the above	None of the above	4

58	High operating leverage combined with high financial leverage will constitute-	Favourable situation	Positive situation	Less risky situation	Risky situation	Risky situation	4
59	Read the following statement (I)With the increase in fixed cost operating leverage diminishes. (II) Net working Capital is the excess of current assets over current liabilities (III) Greater the size of the business unit larger will be the requirement of working capital. (IV) Working Capital is also known as circulating capital. Which of the above statement is correct?	(I), (II) and (III)	(II) (III) and(IV)	(III), (IV) and (I)	(I) (II) and (IV)	(II) (III) and(IV)	2
60	Which of the following can be treated as ideal situation?	High operating cost and low financial leverage	Low Operating Leverage and high financial leverage	Operating & financial leverage both should be low	Operating & financial leverage both should be high	Operating & financial leverage both should be low	3
61	Contribution = Rs.4,00 000 EBI T = Rs.3,00,000 10% Debenture = Rs.6,00,000 Combined Leverage =?	1.63	1.66	1.68	1.62	1.66	2
62	Operating leverage =2 Combined Leverage = 3.5 EBIT = Rs.2,80,000 Interest = Rs.40,000 Tax rate = 50% Capital structure of the company consists of equity shares and preference shares. Amount of Preference Dividend =?	Rs.39,967	Rs.39,970	Rs.39,000	Rs.40,000	Rs.40,000	4
63	EBIT = Rs.4,00,000 Fixed cost = Rs.6,00,000 Interest = Rs.80,000 Combined Leverage =?	Sufficient data is not given	3.12	3.215	3.125	3.125	4
64	EBIT = Rs.40,000 Variable cost = Rs.2,40,000 Sales = Rs.4,00,000 Operating leverage =?	3.5	4.125	4	3.125	4	3
65	Contribution = Rs.7,00,000 Fixed cost = Rs.2,00,000 Interest = Rs.3,00,000 Financial leverage =?	2	1.5	2.5	1	2.5	3
66	Contribution of a firm is Rs.4000. Fixed Cost: Situation A Rs.1,000 Situation B Rs.2,000 Situation C Rs.3,000 Compute the operating leverage for the three situations	1.33; 1.18; 1.82	1.33; 2.36; 2.86	2.86; 2.00; 3.64	1.33; 2.00; 4.00	1.33; 2.00; 4.00	4
67	Following data is available for Z Ltd - Variable cost (% of sales) 50% ,Interest expense Rs.1,00,000 ,DOL 2:1 ,DFL 2:1 ,Corporate tax rate 30% ,Sales =?	Rs.4,00,000	Rs.6,00,000	Rs.8,00,000	Rs.9,00,000	Rs.8,00,000	3
68	Total assets of Honey Well Ltd. are Rs.6,00,000 Total assets turnover ratio is 25 times. The fixed operating costs are Rs 2,00,000 and variable operating cost ratio is 40% Income tax rate is 30% Calculate operating financial and combined leverage?	1.2857; 1.0355; 1.3314	1.0355; 1.2857; 1.3314	1.3314; 1.0355; 1.2857	1.2857; 1.3314; 1.2857	1.2857; 1.0355; 1.3314	1
69	Total assets of Q ltd. are Rs.6,00,000 Total assets turnover ratio is 25 times.The fixed operating costs are Rs.2,00,000 and variable operating cost ratio is 40% Income tax rate is 30% No. of equity shares are 18,000 Determinate helikely level of EBIT if EPS is Rs.6.	Rs.1,54,286	Rs.1,78,286	Rs.1,54,682	Rs.1,78,862	Rs.1,78,286	2

70	ABC Ltd has an average selling price of Rs.10 per unit. Its variable unit costs are Rs.7 and fixed costs amount to Rs.1,70,000 It finances all its assets by equity funds. It pays 30%tax on its income PQR Ltd is identical to ABC Id except in respect of the pattern of financing The Latter finances its assets 50% by equity and 50% by debt, the interest on which amounts to Rs.20,000. Which of the following statement is correct?	Both companies have similar business risk.	PQR Ltd has high financial risk as compared to ABC Ltd	PQR Ltd has high business risk & financial risk as compared to ABC Ltd.	All of the above	All of the above	4
71	Bing Ltd supplies following data operating leverage 2.5; financial leverage 3; EPS Rs.30 market price per share Rs.225; and capital 20,000 shares. It is proposed to raise a loan of Rs.50,00,000 @18%for expansion After expansion sales will increase by 25% and fixed cost by Rs.3,00 000. Work out the market price per share after expansion @ 50%	25.56	52.56	56.25	65.52	56.25	3
72	A firm has a DOL of 3.5 at Squirt.What does this tell us about the firm?	If sales rise by 3.5% at the firm then EBIT will rise by 1%	If EBIT rises by 3.5% at the firm then EPS will rise by 1%	If EBIT rises by 1% at the firm then EPS will rise by 3.5%	If sales rise by 1% at the firm then EBIT will rise by 3.5%	If sales rise by 1% at the firm then EBIT will rise by 3.5%	4
73	A firm has a DFL of 3.5. What does this tell us about the firm?	If sales rise by 3.5% then EBIT will rise by 1%	If EBIT rises by 3.5% then EPS will rise by 1%	If EBITrises by 1% then EPS will rise by 3.5%	If Sales rise by 1% at the firm then EBIT will rise by 3.5%	If EBIT rises by 1% then EPS will rise by 3.5%	3
74	Calculate the degree of financial leverage (DFL) for a firm whenits EBIT is Rs.20,00,000. The firm has Rs.30,00,000 in debt that costs 10% annually. The firm also has a 9% Rs.10,00,000 preferred stock issue outstanding The firmpays 40% in taxes.	0.78	0.8	1.24	1.29	0.78	1
75	Working capital is also known as	Operation capital	Operating capital	Current assets capital	Capital relating to main projects of the company	Operating capital	2
76	A positive working capital means that	The company is able to pay-off its long-term liabilities	The company is able to select profitable projects	The company is unable to meet its short-term liabilities	The company is able to pay-off its short-term liabilities	The company is able to pay-off its short-term liabilities	4
77	Working capital = ______	Core current assets *less* current liabilities	Core current assets *less* core current liabilities	Liquid assets *less* current liabilities	Current assets less current liabilities	Current assets less current liabilities	4
78	Other things remaining constant, if the debtors increases as compared to last year it means –	Company has poor credit policy	Company has positive working capital	Company has negative working capital	Company has no working capital	Company has positive working capital	2
79	Which of the following will be considered while calculating working capital?(1) Short Term Advances (2) Stock of WIP (3) Short Term Investments (4) Perpetual inventory policy Select the correct answer from the options given below.	(2) &(3)	(1) & (3)	(1), (2) &(3)	All of the above except (4)	All of the above except (4)	4
80	Contingencies are –	Added to gross working capital	Deducted from gross working capital	Contingencies are not considered in financial management; it is considered in accounts only	None of the above	Added to gross working capital	1
81	For reducing and controlling working capital requirement which of the following step is required to be taken –	Increase in manufacturing cycle	Increase of credit period allowed by creditor to the extent that do not affect the production	Increasein credit period given to customers	All of the above	Increase of credit period allowed by creditor to the extent that do not affect the production	2
82	Working capital is a highly effective barometer of a company's_________efficiency and effectiveness.	Operational and servicing	Long Term	Operational and financial	Positive and negative	Operational and financial	3

83	Statement I:Maintaining adequate working capital is not just important the short-term. Sufficient liquidity must be maintained in order to ensure the survival of the business in the long-term as well.Statement II:Even a profitable business may fail if it does not have adequate cash flow to meet its liabilities as they fall due. Select the correct answer from the options given below.	Statement I is correct while Statement II is incorrect.	Statement II is correct while Statement I is incorrect.	Both Statement I and Statement II are correct.	Both Statement I and Statement II are incorrect	Both Statement I and Statement II are correct.	3
84	While calculating working capital based on cash cost –	Depreciation is ignored	Non-cash items are not considered	Debtors are calculated on the basis of cost of goods sold and not on sale price	All of the above	All of the above	4
85	A negative working capital means that -	The company has no current assets at all	The company currently is unable to meet its short-term liabilities	The company has negative earnings before interest and tax	The company currently is able to meet its short-term liabilities	The company currently is unable to meet its short-term liabilities	2
86	Which of the following analyses the accounts receivable, inventory and accounts payable cycles interns of number of days?	Operation cycle	Current asset cycle	Operating cycle	Business cycle	Operating cycle	3
87	Which of the following method is not used for calculating working capital cycle?	Percentage of sales method	Regression analysis method	Operating cycle approach	Trial and error method	Trial and error method	4
88	Which of the follow on is correct formula to calculate WIP Conversion Period?	Annual Cost of Production x 365Days / Average Stock of WIP	Average Stock of WIP x 365days / Annual Cost of Sales	Average Stock of WIP x 365 days / Annual Cost of Production	Annual Cost of Sales x 365 / Average Stock of WIP	Average Stock of WIP x 365 days / Annual Cost of Production	3
89	Initial Working Capital –	Supplies the funds necessary to meet the current working expenses.	Is used to raise the volume of production by improvement or extension of machinery.	Is required at the time of the commencement of business.	Represents the amount utilized at the time of contingencies.	Is required at the time of the commencement of business.	3
90	Which of the following is determinant of working capital? (1) Nature and size of business (2) Manufacturing cycle (3) Credit policy (4) Production policy. Select the correct answer from the options given below.	(1) only	(1) and (2) only	(1), (2) and (3) only	(1), (2), (3) and (4)	(1), (2), (3) and (4)	4
91	Maximum permissible bank finance as per first method of Tandon Committee normsRs.57,41,813 while current liabilities are reported at Rs.32,50,000 Current assets = ?	Rs.1,09,05,750	Rs.81,79,313	Rs.1,09,07,550	Rs.1,05,09,750	Rs.1,09,05,750	1
92	Current assets of Z Ltd are Rs.3,70,000 which includes stock Rs.1,00,000 and prepaid expenses Rs.70,000. Its current liabilities are Rs.1,60,000 which includes provision for tax Rs.60,000. Liquid Ratio =?	1.25	1.52	1.22	0.95	1.25	1
93	Following Information is provided by the DPS Ltd for the year end ng 31st March 2019. Raw material storage period 55 days WIP conversion period 18 days Finished goods storageperiod 22 days Debt collectionperiod 45days Creditor's payment period 60 days Annual operating cost including depreciationof Rs.2,10,000 was Rs.2,10,000. [1 Year= 360 days] You are required to calculate working capital on cash cost basis	Rs.4,20,000	Rs.4,66,667	Rs.7,35,000	Rs.8,16,667	Rs.4,20,000	1

94	KT Ltd opening stock was Rs.2,50,000 and closing stock was Rs.3,75,000. Sales during the year was Rs.13,00,000 and gross profit ratio was 25% on sales Average accounts payable are Rs.80,000 Creditors Turnover Ratio =?	13.75	14.33	13.33	14.44	13.75	1
95	Raw material conversion period is 36 days. Raw material consumed and cost of goods sold in the year is Rs.1,80,000 and Rs.2,16 000 respectively. How much raw material stock will appear in working capital statement? Note:1 Year =360 days	Rs.18000	Rs.20,000	Rs. 21,600	Rs.19,800	Rs.18000	1
96	Creditors payment period=60 days Material consumed= Rs.1,20,000 Material purchased in cash = Rs.10,000 Material purchased on credit = Rs.90, 000 Creditors that will appear in balance sheet and working capital statement =? Note:1 Year =360 days	Rs.16,667	Rs.15,000	Rs.20,000	Rs.36,667	Rs.15,000	2
97	Opening and closing balance of creditors are Rs.2,00,000 & Rs.240,000 respectively. Raw material purchased on credit was Rs.11,00,000. Creditors payment period for the purpose of working capital statement will be (1 Year = 360 days)	72 days	32 days	65 days	78 days	72 days	1
98	N Lt d gives the following information Current Ratio 2.8 Total Assets Rs.60,00,000 Fixed assets Rs.32,00,000 Current liabilities =?	Rs.28,00,000	Rs.10,00,000	Rs.18,00,000	Rs.12,00,000	Rs.10,00,000	2
99	N Ltd. gives the following information. Liquid ratio 1.6 Current Assets Rs.28,00,000 Current liabilities Rs.10,00,000 Stock =?	28,00,000	10,00,000	18,00,000	12,00,000	12,00,000	4
100	S Ltd gives the following information Net working capital Rs.2,80,000 Current ratio 2.4 Liquid ratio 1.6 Current Assets =?	Rs.2,00,000	Rs.2,80,000	Rs.4,80,000	Rs.3,60,000	Rs.4,80,000	3
101	The long-term lending rate to a Indian Company is 7% before taxes, and its cost of equity is 18%. The expected rate of inflation in the India is 4% and 9% in Italy. The tax rate in both countries is 40%, and the leverage ratio is 25%. Find the WACC the company would use to evaluate pure expansion projects in the India.	14.55%	5.55%	28.50%	15.00%	14.55%	1
102	The long-term lending rate to a Indian company is 7% before taxes, and its cost of equity is 18%. The expected rate of inflation in the India is 4% and 9% in Italy. The tax rate in both countries is 40%, and the leverage ratio is 25%. Find the WACC the company would use to evaluate pure expansion projects in Italy.	4.81%	12.40%	19.60%	23.70%	19.60%	3

103	You want to construct a portfolio with a 20 percent expected return. The portfolio is to consist of some combination of Security A and Security B, which have the following: Security A, expected return 15%, standard deviation 10%, beta 0.82; Security B expected return 28%, standard deviation 20%, and beta 1.75. What percentage of your portfolio should consist of Security A and what percentage should consist of Security B?	A = 38.46%; B = 61.54%	A = 28.15%; B = 71.85%	A = 61.54%; B = 38.46%	A = 71.85%; B = 28.15%	A = 61.54%; B = 38.46%	3
104	The stock of Jonny Traders is expected to return 13% annually with a standard deviation of 8%. The stock of Gayatri Steel Mills is expected to return 17% annually with a standard deviation of 14%. The correlation between the returns from the two securities has been estimated to be +0.3. The beta of the Jonny' stock is 0.9, and the beta of the Gayatri stock is 1.2. The risk-free rate of return is expected to be 8%, and the expected return on the market portfolio is 15%. The current dividend for Jonny is Rs.4. The current dividend for Gayatri is Rs.6. What is the expected return from a portfolio containing the two securities if 40% of your wealth is invested in Jonny and 60% is invested in Gayatri?	14.30%	15.40%	16.70%	15.00%	15.40%	2
105	The stock of Jonny Traders is expected to return 13% annually with a standard deviation of 8%. The stock of Gayatri Steel Mills is expected to return 17% annually with a standard deviation of 14%. The correlation between the returns from the two securities has been estimated to be +0.3. The beta of the Jonny' stock is 0.9, and the beta of the Gayatri stock is 1.2. The risk-free rate of return is expected to be 8%, and the expected return on the market portfolio is 15%. The current dividend for Jones is Rs.4. The current dividend for Gayatri is Rs.6. If 40% of your wealth is invested in Jonny and 60% is invested in Gayatri, what is the expected standard deviation of the portfolio of the two stocks?	9.85%	8.36%	15.40%	12.00%	9.85%	1
106	Suppose that a portfolio consists of Siddharth stock in the amount of Rs.20,000 and a beta of 0.70, Asia Airlines stock in the amount of Rs.40,000 and a beta of 1.30, and Ford stock in the amount of Rs.40,000 and a beta of 1.10. The risk-free rate (rf) is 5% and the market risk premium (rm - rf) is 8.8% Determine the beta for the portfolio.	0.98	1.1	1.23	0.87	1.1	2

107	Suppose that a portfolio consists of Siddharth stock in the amount of Rs.20,000 and a beta of 0.70, Asia Airlines stock in the amount of Rs.40,000 and a beta of 1.30, and Ford stock in the amount of Rs.40,000 and a beta of 1.10. The risk-free rate (rf) is 5%, the market risk premium (rm - rf) is 8.8%, and the beta for the portfolio is 1.10. Determine how much Asia Air Lines stock one must sell and reinvest in Siddharth stock in order to reduce the beta of the portfolio to 1.00.	Rs.16667	Rs.23333	Rs.12000	Rs.15677	Rs.16667	1
108	Goyal Fabrics Pvt. Ltd. factors all of its receivables. The firm does Rs.150 million in business each year, and would have an ACP of 36.5 days if it collected its own receivables. The firm's gross margin is 35%. The factor operates without recourse and pays immediately upon taking over the accounts. It discounts by 10% the gross amount factored and pays Southern immediately. Because the factor doesn't collect from customers until they pay, it charges interest at 10% in the interim. Calculate the gross cost of factoring to Goyal Fabrics if all receivables are collectible. What interest rate is implied by the arrangement?	11%	66.00%	110.00%	120.00%	110.00%	3
109	Goyal Fabrics Pvt. Ltd. factors all of its receivables. The firm does Rs.150 million in business each year, and would have an ACP of 36.5 days if it collected its own receivables. The firm's gross margin is 35%. The factor operates without recourse and pays immediately upon taking over the accounts. It discounts by 10% the gross amount factored and pays Southern immediately. Because the factor doesn't collect from customers until they pay, it charges interest at 10% in the interim.Suppose Goyal is considering giving up the factoring arrangement and handling its own collections. The firm is trying to decide whether to do it if bad debt losses are expected to average 3% of gross sales and running a collections department will cost about Rs.1.5 million per year. What is the implied interest rate in the factoring arrangement if the bad debt losses and costs of collections are taken into account?	110%	65.00%	70.67%	36.50%	70.67%	3

110	Great Gallon Oil Company is considering establishing a lockbox system with a bank to process its payments from 10 states. This would reduce the average mailing time for customer payments from the 10 states from 3 to 1.5 days, and reduce check processing/clearing time from 6 to 2.5 days. Annual collections from the region are Rs.180 million and the total number of annual payments received is 4.8 million. The bank will process the payments for an annual fee of Rs.75,000 plus Rs.0.05 per payment. This system will reduce payment-processing costs at the home office by Rs.50,000/year. Determine the amount of funds released by this arrangement.	Rs.180000000	Rs.2465755	Rs.493151	Rs.3600000	Rs.2465755	2
111	Lotus Pvt. Ltd.., a highly profitable maker of customized chariots, is planning to introduce a new model shortly. The firm must purchase equipment immediately at a cost of Rs.900,000. Freight and installation costs for this equipment will be Rs.100,000. The equipment will be depreciated as a 7-year class asset under MACRS. During the first year, Locus will have incremental operating expenses of Rs.300,000 that are attributable to this project. Lotus expects to be able to sell 1,000 chariots during year 2 at an average price of Rs.800 each and to incur operating expenses of Rs.300,000. Also, Locus expects its net working capital investment will increase by Rs.50,000 during year 2. (Assume all operating costs and revenues are incurred at the end of each year.) The marginal tax rate for Locus is 40 %. What is the required net investment, and what are the year 1 and year 2 net cash flows?	NI Rs.900,000; Year 1, Rs.150,000; Year 2, Rs.244,900	NI Rs.1,000,000; Year 1, Rs.142,900; Year 2, Rs.244,900	NI Rs.1,000,000; Year 1, -Rs.122,840; Year 2, Rs.244,900	NI Rs.1,000,000; Year 1, -Rs.122,840; Year 2, Rs.347,960	NI Rs.1,000,000; Year 1, -Rs.122,840; Year 2, Rs.347,960	4
112	Jefferson Products Pvt. Ltd.., is considering purchasing a new automatic press brake, which costs Rs.300,000 including installation and shipping. The machine is expected to generate net cash inflows of Rs.80,000 per year for 10 years. At the end of 10 years, the book value of the machine will be Rs.0, and it is anticipated that the machine will be sold for Rs.100,000. If the press brake project is undertaken, Jefferson will have to increase its net working capital by Rs.75,000. When the project is terminated in 10 years, there no longer will be a need for this incremental working capital, and it can be liquidated and made available to Jefferson for other uses. Jefferson requires a 12 % annual return on this type of project and its marginal tax rate is 40 %. Calculate the press brake's net present value. Is the project acceptable? What is the project's internal rate of return?	NPV Rs.215,000; accept; 17.92%	NPV Rs.120,470; accept; 18.71%	NPV -Rs.155,310; reject; 18.75%	NPV Rs.175,470; accept; 18.92%	NPV Rs.120,470; accept; 18.71%	2

113	Commercial Hydronics is considering replacing one of its larger control devices. A new unit sells for Rs.29,000 (delivered). An additional Rs.3,000 will be needed to install the device. The new device has an estimated 20-year service life. The estimated salvage value at the end of 20 years will be Rs.2,000. The new control device will be depreciated over 20 years on a straight-line basis to Rs.0. The existing control device (original cost = Rs.15,000) has been in use for 12 years, and it has been fully depreciated (that is, its book value equals zero). Its scrap value is estimated to be Rs.1,000. The existing device could be used indefinitely, assuming the firm is willing to pay for its very high maintenance costs. The firm's marginal tax rate is 40 %. The new control device requires lower maintenance costs and frees up personnel who normally would have to monitor the system. Estimated annual cash savings from the new device will be Rs.9,000. The firm's cost of capital is 12 %. Using this information, evaluate the relative merits of replacing the old control device using the net present value approach. Compute the annual depreciation and the net cash flows.	NI Rs.31,400; Depr. Rs.1,600; NCF Rs.6,040, Rs.7,240; NPV Rs.13,844	NI Rs.30,000; Depr. Rs.1,500; NCF Rs.6,500, Rs.7,500; NPV Rs.12,500	NI Rs.31,400; Depr. Rs.1,040; NCF Rs.5,040, Rs.6,500; NPV Rs.13,850	NI Rs.33,500; Depr. Rs.1,600; NCF Rs.6,400, Rs.7,200; NPV Rs.13,845	NI Rs.31,400; Depr. Rs.1,600; NCF Rs.6,040, Rs.7,240; NPV Rs.13,844	1
114	The L-S Mining Company is planning to open a new strip mine in western Pennsylvania. The net investment required to open the mine is Rs.10 million. Net cash flows are expected to be +Rs.20 million at the end of year 1 and +Rs.5 million at the end of year 2. At the end of year 3, L-S will have a net cash outflow of Rs.17 million to cover the cost of closing the mine and reclaiming the land. Calculate the net present value of the strip mine if the cost of capital is 5%, 10%, 15%, 30%, 71%, and 80%, and determine what is unique about this project. Should the project be accepted if L-S's cost of capital is 10%? Should it be accepted at 20%?	Accept at 10%; accept at 20%	Accept at 10%; reject at 20%	Reject at 10%; accept at 20%	Reject at 10%; reject at 20%	Reject at 10%; accept at 20%	3

115	Seco Dame Enterprises (SDE) acquired a robotic saw 6 years ago at a cost of Rs.10 million. The saw was depreciated under the old ACRS rules to its current book value of Rs.0. Actual salvage value today is estimated to be Rs.2 million. SDE's average tax rate is 30%, and its marginal tax rate is 40%. The weighted cost of capital for SDE is 15%. A new robotic saw will cost Rs.15 million. It will be depreciated under MACRS rules for a 7-year class asset. If SDE acquires the new saw, it estimates that its net working capital investment will decline, due to the reduced need to carry inventories of spare parts for this more reliable machine. As a result of this purchase, net working capital should decline from its current level of Rs.1 million to a new level of Rs.500,000. The new saw is expected to reduce operating costs (exclusive of depreciation) for SDE by Rs.800,000 per year over the asset's expected 10-year life. Also, the increased productivity of the new saw is expected to increase SDE's revenue by Rs.2 million per year. Salvage value at the end of 10 years is expected to be Rs.0. Calculate the net investment required to acquire the new saw, the annual net cash flows for this investment, and the NPV for this project.	NI Rs.12,500,000; NPV Rs.1,680,000	NI Rs.15,500,000; NPV Rs.1,290,000	NI Rs.13,500,000; NPV -Rs.1,680,000	NI Rs.13,300,000; NPV -Rs.1,229,149	NI Rs.13,300,000; NPV -Rs.1,229,149	4

116	Great Gallon Pvt. Ltd.. produces wine. The firm is considering expanding into the snack food business. This expansion will require an initial investment in new equipment of Rs.200,000. The equipment will be depreciated on a straight-line basis over a 10-year period to zero. At the end of the project the equipment is estimated to have a salvage value of Rs.50,000. The expansion will also require an increase in working capital for the firm of Rs.40,000. Revenues from the new venture are forecasted at Rs.200,000 per year for the first 5 years and Rs.210,000 per year for years 6 through 10. Operating costs exclusive of depreciation from the new venture are estimated at Rs.90,000 for the first 5 years and Rs.105,000 for years 6 through 10. It is assumed that at the end of year 10, the snack food equipment will be sold for its estimated salvage value. The firm's marginal tax rate is 40%. The required return for projects of average risk has been estimated at 15%. Compute the project's net present value, assuming that it is an average-risk investment. If management decides that all product line expansions have above-average risk and therefore should be evaluated at a 24% required rate of return, what will be the risk-adjusted net present value of the project?	Rs.143,619; Rs.240,000	Rs.143,619; Rs.37,689	Rs.141,000; Rs.71,000	Rs.141,619; Rs.39,689	Rs.143,619; Rs.37,689	2
117	The Buffalo Snow Shoe Company is considering manufacturing radial snow shoes, which are more durable and offer better traction. Buffalo estimates that the investment in manufacturing equipment will cost Rs.250,000 and will have a 10-year economic life. Buffalo will depreciate the equipment on a straight-line basis to a Rs.0 estimated salvage value over a 10-year period. The estimated selling price of each pair of shoes will be Rs.50. Buffalo anticipates that it can sell 5,000 pairs a year at this price. Unit production and selling costs (exclusive of depreciation) will be about Rs.25. The firm's marginal tax rate is 40%. A cost of capital of 12% is thought to be appropriate to analyze a project of this type. Buffalo has decided to perform a sensitivity analysis of the project before making a decision. Compute the expected net present value of this project. Buffalo's president does not believe that 5,000 pairs of the new snow shoes can be sold at a Rs.50 price. He estimates that a maximum of 3,000 pairs will be sold at this price. How does the change in the estimated sales volume influence the net present value of the project?	Rs.230250	Rs.250000	Rs.85000	285250	230250	1

118	Pacific Mills in considering the acquisition of new machinery that will cost Rs.750,000. It will have a 10-year service life and a salvage value of Rs.50,000. It also qualifies for a 10% ITC. The machine is expected to reduce material expense by Rs.125,000 annually for the first 5 years and Rs.75,000 the last 5 years. Assuming an 8% RRR, 40% marginal tax rate, and straight-line depreciation over 5 years (ignore the half-year convention), should the machine be purchased?	The machine should be purchased	The machine should not be purchased			The machine should be purchased	1
119	Bridgewell Industries is evaluating the option of purchasing a forklift truck costing Rs.60,000. If purchased, the truck will replace 4 workers, each with an average annual salary of Rs.15,000. However, an experienced forklift operator will have to be hired at a salary of Rs.20,000 per year. Fuel and maintenance expense is expected to be Rs.10,000 per year. At the end of its 5-year economic and depreciable life, the truck will have a salvage value of Rs.10,000. Bridgewell uses straight-line depreciation, assigns a 10% RRR for this type of investment, and has a marginal tax rate of 40%. (Assume that the truck does not qualify for an ITC and ignore the half-year convention for depreciation.) Should the forklift truck be purchased, given the above information? Should it be purchased if it could only replace 3 workers rather than 4?	Purchase the forklift.	Do not purchase the forklift.			Purchase the forklift.	1
120	Case Manufacturing has been purchasing 15,000 units of a component used in the assembly of its main product line at a price of Rs.24.00 per unit. Case is now considering the alternative of making the component itself rather than buying it. In order to produce the component, Case must purchase Rs.500,000 in additional equipment that qualifies for a 10% ITC and invest Rs.75,000 in additional working capital. The equipment has an economic life of 10 years, a depreciable life of 5 years, and a zero salvage value. It would be depreciated on a straight-line basis (ignore the half-year convention) to a zero book value. Variable costs of production are Rs.14.00 per unit. If the firm's marginal tax rate is 40% and the RRR is 14%, should Case continue to buy the component or produce the component itself?	Buy the component.	Produce the component.			Produce the component.	2
121	Smithson Hydraulics Pvt. ltd.. carries an inventory of valves that cost Rs.25 each. The firm's inventory carrying cost is approximately 18% of the value of the inventory. It costs Rs.38 to place, process, and receive an order. The firm uses 20,000 valves a year. How many orders will be placed each year if the EOQ is used?	34.4	45	36.3	40.5	34.4	1

122	Smithson Hydraulics Pvt. ltd. carries an inventory of valves that cost Rs.25 each. The firm's inventory carrying cost is approximately 18% of the value of the inventory. It costs Rs.38 to place, process, and receive an order. The firm uses 20,000 valves a year. What are the valves' carrying and ordering costs if the EOQ is used?	Rs.860	Rs.1307	Rs.2614	Rs.1620	Rs.1307	2
123	New Sky Fairy Electronics is considering using wire transfers instead of depository transfer checks in moving funds from the six collection centers to its concentration bank. Wire transfers would reduce the elapsed time by 3 days. Depository transfer checks cost Rs.0.50 (including postage), and wire transfers cost Rs.10. Assume there are 250 working days per year. New Sky Fairy can earn 7 percent before taxes on any funds that are released through more efficient collection techniques. What is the net (pretax) benefit to New Sky Fairy of using wire transfers if annual sales are Rs.15 million?	(Rs.8630)	(Rs.5620)	Rs.14250	Rs.5620	(Rs.5620)	2
124	Creole Industries Pvt. Ltd. estimates that if it spent Rs.20,000 to hire another collection agent in its credit department, it could lower its bad-debt loss ratio from 4 to 3.5% and also reduce its average collection period from 50 to 45 days. (Assume that sales and inventory remain unchanged if the agent is hired.) Creole's annual credit sales are Rs.5 million and its variable cost ratio is 0.75. The firm's required pretax rate of return on receivables investment (that is, the opportunity cost) is 18%. What is the net effect on Creole's pretax profits of hiring the additional collection agent?	Rs.12329	Rs.25000	Rs.17329	Rs.68493	Rs.17329	3
125	The manager of the East Publishing Co. business textbook division is attempting to determine the optimal number of copies of the seventh edition of its financial management text to produce. Expected annual demand for the book is 50,000, and the manager does not want to produce more than a 3-year supply because textbooks are normally revised after the third year. Setup costs of getting the printing press and bindery ready for a production run of this textbook are Rs.2,500. Annual carrying costs are Rs.0.80 per copy (16% annual carrying charge ´ Rs.5.00 production cost per copy). What is the economic order quantity for this book?	Rs.17678	Rs.6250	Rs.15178	Rs.9000	Rs.17678	1

126	The manager of the East Publishing Co. business textbook division is attempting to determine the optimal number of copies of the seventh edition of its financial management text to produce. Expected annual demand for the book is 50,000, and the manager does not want to produce more than a 3-year supply because textbooks are normally revised after the third year. Setup costs of getting the printing press and bindery ready for a production run of this textbook are Rs.2,500. Annual carrying costs are Rs.0.80 per copy (16% annual carrying charge x Rs.5.00 production cost per copy). Determine the total annual inventory costs. Company has the following equity position. The stock is currently selling for Rs.3 per share.	Rs.7071	Rs.17678	Rs.20178	Rs.14142	Rs.14142	4
127	The manager of the East Publishing Co. business textbook division is attempting to determine the optimal number of copies of the seventh edition of its financial management text to produce. Expected annual demand for the book is 50,000, and the manager does not want to produce more than a 3-year supply because textbooks are normally revised after the third year. Setup costs of getting the printing press and bindery ready for a production run of this textbook are Rs.2,500. Annual carrying costs are Rs.0.80 per copy (16% annual carrying charge x Rs.5.00 production cost per copy). Determine the optimal ordering frequency.	129 days	102 days	54 days	33 days	129 days	1
128	Pyramid Products Company has a revolving credit agreement with its bank with which the company can borrow up to Rs.1 million at an annual interest rate of 9%. Pyramid is required to maintain a 10% compensating balance on any funds borrowed under the agreement and to pay a 0.5% commitment fee on the unused portion of the credit line. Assume that Pyramid has no funds in the account at the bank that can be used to meet the compensating balance requirement. Determine the annual financing cost of borrowing Rs.250,000 under the credit agreement. (Assume a 365-day borrowing period.)	15.32%	10.40%	11.67%	12.41%	11.67%	3

129	Pyramid Products Company has a revolving credit agreement with its bank with which the company can borrow up to Rs.1 million at an annual interest rate of 9%. Pyramid is required to maintain a 10% compensating balance on any funds borrowed under the agreement and to pay a 0.5% commitment fee on the unused portion of the credit line. Assume that Pyramid has no funds in the account at the bank that can be used to meet the compensating balance requirement. Determine the annual financing cost of borrowing Rs.500,000 under the credit agreement. (Assume a 365-day borrowing period.)	11.67%	14.22%	9.56%	10.56%	10.56%	4
130	Pyramid Products Company has a revolving credit agreement with its bank with which the company can borrow up to Rs.1 million at an annual interest rate of 9%. Pyramid is required to maintain a 10% compensating balance on any funds borrowed under the agreement and to pay a 0.5% commitment fee on the unused portion of the credit line. Assume that Pyramid has no funds in the account at the bank that can be used to meet the compensating balance requirement. Determine the annual financing cost of borrowing Rs.1,000,000 under the credit agreement. (Assume a 365-day borrowing period.)	11.67%	10.00%	12.56%	10.56%	10.00%	2