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PAPER - 10

COST AND MANAGEMENT ACCOUNTING & FINANCIAL MANAGEMENT

DIRECTORATE OF STUDIES

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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BIT QUESTIONS

COST AND MANAGEMENT ACCOUNTING

(I) Choose the most appropriate one from given four alternatives.

1) Type of accounting which measures, reports and analyse non-financial and financial information to help in decision making is called:
(A) Financial Accounting
(B) Management Accounting
(C) Cost Accounting
(D) Green Accounting

2) Which one of the following is not considered as a method of Transfer Pricing?
(A) Negotiated Transfer Pricing
(B) Market Price Based Transfer Pricing
(C) Fixed Cost Based Transfer Pricing
(D) Opportunity Cost Based Transfer Pricing

3) In cost accounting, purpose of variance analysis is to:
(A) understand reasons for variances.
(B) take remedial measures.
(C) improve future performance.
(D) All of the above

4) Absorption Costing is also known as:
(A) Total Costing
(B) Committed Costing
(C) Target Costing
(D) Discretionary Costing

5) Which of the following is not correct with regard to Margin of Safety (MOS)?
(A) MOS = Profit PV Ratio
(B) MOS = Total Sales – Sales at BEP
(C) MOS = × 100 Total Sales - Sales at BEP Total Sales
(D) MOS = PV Ratio × Sales – Fixed Cost

6) Which one of the following is not to be considered for preparing a production budget?
(A) The production plan of the organization
(B) The Sales Budget
(C) Research and Development Budget
(D) Availability of Raw Materials

7) The breakeven point is the point at which,
(A) There is no profit, no loss
(B) Contribution margin is equal to total fixed cost
(C) Total fixed cost is equal to total revenue
(D) All of the above.

8) The P/V ratio of a product is 0.4 and the selling price is Rs. 40 per unit. The marginal cost of the product would be,
(A) Rs. 8
(B) Rs. 24
(C) Rs. 20
(D) Rs. 25

9) **If standard hours are 400 @ Rs. 1 per hour and actual hours are 380 @ Rs. 1.25 per hour, the labour rate variance is:**
   (A) Rs. 20 (Favourable)
   (B) Rs. 25 (Favourable)
   (C) Rs. 100 (Adverse)
   (D) Rs. 95 (Adverse)

10) **The time taken for initial unit of a product is 100 hours. At 80% learning rate what is the total time for 4 units.**
   (A) 100 hours
   (B) 80 hours
   (C) 160 hours
   (D) 256 hours

11) **Sales Rs. 4,00,000; Variable Cost Rs. 3,00,000; Fixed Cost Rs. 75,000; Investments Rs. 1,50,000 and desired 20% on investments. What is residual income?**
   (A) Rs. 25,000
   (B) Rs. 30,000
   (C) Rs. 20,000
   (D) Rs. (5,000)

12) **Sales in January month Rs. 3,00,000; Credit Sales are 80%; Credit period is 2 months. Amount collected in the month of March is**
   (A) Rs. 50,000
   (B) Rs. 2,40,000
   (C) Rs. 40,000
   (D) None of the above

13) **Planning and control are done by**
   (A) top management
   (B) lowest level of management
   (C) all levels of management
   (D) None of the above

14) **The use of management accounting is**
   (A) Compulsory
   (B) Optional
   (C) Mandatory as per the law
   (D) None of the above

15) **The budgets are classified on the basis of**
   (A) Time
   (B) Function
   (C) Flexibility
   (D) All of the above

16) **Which of the following departments is most likely responsible for a price variance in direct materials?**
   (A) Warehousing
   (B) Receiving
   (C) Purchasing
   (D) Production

17) **Idle time variance is always:**
   (A) Favourable
   (B) Adverse

(C) Favourable (or) Adverse
(D) None of these

18) In marginal costing, stock is valued at _________
(A) Fixed Cost
(B) Variable Cost
(C) Inventory
(D) sales

19) In two consecutive periods, sales and profit were Rs. 1,60,000 and Rs. 8,000 respectively in the first period and Rs. 1,80,000 and Rs. 14,000 respectively during the second period. If there is no change in fixed cost between the two periods, the PV ratio must be:
(A) 20%
(B) 25%
(C) 30%
(D) 40%

20) Budgeted sales for the next year is 5,00,000 units. Desired ending finished goods inventory is 1,50,000 units and equivalent units in ending WIP inventory is 60,000 units. The opening finished goods inventory for the next year is 80,000 units, with 50,000 equivalent units in beginning WIP inventory. How many equivalent units should be produced?
(A) 5,80,000
(B) 5,50,000
(C) 5,00,000
(D) 5,75,000

21) Akash Ltd. is preparing its cash budget for the period. Sales are expected to be Rs. 1,00,000 in April, 2016; Rs. 2,00,000 in May 2016 Rs. 3,00,000 in June 2016 and Rs. 1,00,000 in July 2016. Half of all sales are cash sales and the other half are on credit.
Experience indicates that 70% of the credit sales will be collected in the month following the sale, 20% the month after that and, 10% in the third month after the sale.
The budgeted collection for the month of July, 2016 is:
(A) Rs. 1,30,000
(B) Rs. 1,80,000
(C) Rs. 2,60,000
(D) Rs. 3,60,000

22) During the month of March, 560 kg of material was purchased at a total cost of Rs. 15,904. The stock of material increased by 15 kg. it is the company's policy to value the stocks at standard purchase price. If the material price variance was Rs. 224 (A), the standard price per kg. of material is :
(A) Rs. 28.40
(B) Rs. 28.80
(C) Rs. 28.00
(D) Rs. 29.20

23) Cost Price is not fixed in case of:
(A) Cost plus contracts
(B) Escalation clause
(C) De escalation clause
(D) All of the above

24) Continuous stock taking is a part of:
(A) ABC analysis

(B) Annual stock taking
(C) Perpetual Inventory
(D) None of these

25) In Reconciliation Statements expenses shown only in financial accounts are:
(A) Added to financial profit
(B) Deducted from financial profit
(C) Ignored
(D) Added to costing profit

26) Operating costing is applicable to:
(A) Hospitals
(B) Cinemas
(C) Transport undertaking
(D) All the above

27) Flexible budget requires a careful study of:
(A) Fixed, semi-fixed and variable expenses
(B) Past and current expenses
(C) Overheads, selling and administrative expenses
(D) None of the above

28) Which of the following items is not excluded while preparing a cost sheet?
(A) Goodwill written off
(B) Provision for taxation
(C) Property tax on factory building
(D) Interest paid

29) The most important element of cost is:
(A) Material
(B) Labour
(C) Overheads
(D) All the above

30) Depreciation is an example of:
(A) Fixed cost
(B) Variable cost
(C) Semi variable cost
(D) None of the above

31) Joint cost is suitable for:
(A) Infrastructure industry
(B) Ornament industry
(C) Oil industry
(D) Fertilizer industry

32) Which statement best describes the role of the management accountant?
(A) Management accountants prepare the financial statements for an organization.
(B) Management accountants facilitate the decision making process within an organization.
(C) Management accountants make the principal decisions within an organization.
(D) Management accountants are basically information collectors.

33) In a factory when production is increased within the relevant range then:
(A) Variable costs will vary on a per unit basis
(B) Variable costs will vary in total

(C) Fixed costs will vary in total
(D) Fixed and variable costs stay the same in total

34) The main objective of budgetary control is:
(A) to define the goal of the firm
(B) to coordinate different departments
(C) to plan to achieve its goals
(D) all of the above

35) Method of pricing, when two separate pricing methods are used to price transfer of products from one subunit to another, is called:
(A) dual pricing
(B) functional pricing
(C) congruent pricing
(D) optimal pricing

36) When are overhead variances recorded in a standard costing system?
(A) when the goods are transferred out of work-in-progress.
(B) when the factory overhead is applied to work-in-progress.
(C) when the cost of goods sold is recorded
(D) when the direct labour is recorded

37) Management Accounting is an integral part of management concerned with_______ information.
(A) identifying, presenting and interpreting
(B) identifying and presenting
(C) identifying
(D) None of the above

38) Management Accounting is related with _____________.
(A) formulating strategy
(B) planning and controlling activities
(C) optimizing the use of resources
(D) All of the above

39) Despite the development of Management Accounting as an effective discipline to improve the managerial performance, it has some limitations. Which of the following is a limitation of management accounting?
(A) Psychological Resistance
(B) Physiological Resistance
(C) Both of the above
(D) None of the above

40) The primary objective of Management Accounting is to _______________.
(A) maximize profits
(B) minimize losses
(C) maximize profits or minimize losses
(D) All of the above

41) Management accounting is concerned with data collection from _____________.
(A) internal sources
(B) external sources
(C) internal and external sources
(D) internal or external sources

42) Management Accounting is concerned with accounting information, which is useful to the management — This definition is given by _____________.
(A) Robert N. Anthony
(B) Brown and Howard
(C) CIMA
(D) The Institute of Chartered Accountants of England and Wales

43) Marginal costs is taken as equal to
(A) Prime Cost plus all variable overheads
(B) Prime Cost minus all variable overheads
(C) Variable overheads
(D) None of the above

44) Marginal costing is also known as
(A) Direct costing
(B) Variable costing
(C) Both A and B
(D) None of the above

45) Which of the following costs is relevant in decision-making?
(A) committed costs
(B) accounting costs
(C) historical costs
(D) cash costs

46) An opportunity cost is the cost of
(A) lost business
(B) unplanned new business
(C) obtaining new business opportunities
(D) the next best alternative course of action

47) In a product mix decision, which is the most important factor to consider in order to try to maximize profit?
(A) contribution per unit of a scarce resource used to make the product
(B) contribution per unit of the product
(C) variable cost per unit of the product
(D) product unit selling price

48) Which of the following costs incurred by a commercial airline can be classified as variable?
(A) Interest costs on leasing of aircraft
(B) Pilots' salaries
(C) Depreciation of aircraft
(D) None of these three costs can be classified as variable

49) The basic decision rule on acceptance of special contracts is:
(A) Accept the special contract if additional fixed costs can be covered by contribution from other products
(B) Accept the special contract if the additional revenue from the contract exceeds the fixed costs of manufacture
(C) Accept the special contract if it produces a positive contribution to fixed costs
(D) Accept the special contract if it produces a positive contribution to variable costs

50) If budgets are prepared of a business concern for a certain period taking each and every function separately such budgets are called ________.
(A) Separate Budgets

(B) Functional Budgets
(C) Both of them
(D) None of the above

51) Which of the following is not an example of functional budget?
(A) Production budget
(B) Cost of production budget
(C) Materials budget
(D) None of the above

52) Which of the following is an essential of a budget?
(A) It is prepared for a definite future period
(B) It is a statement prepared prior to a defined period of time
(C) The Budget is monetary and I or quantitative statement of policy
(D) All of the above

53) When preparing a production budget, the quantity to be produced equals
(A) sales quantity + opening inventory of finished goods + closing inventory of finished goods
(B) sales quantity – opening inventory of finished goods + closing inventory of finished goods
(C) sales quantity – opening inventory of finished goods – closing inventory of finished goods
(D) sales quantity + opening inventory of finished goods – closing inventory of finished goods

54) In comparing a fixed budget with a flexible budget, what is the reason for the difference between the profit figures in the two budgets?
(A) Different levels of activity
(B) Different levels of spending
(C) Different levels of efficiency
(D) The difference between actual and budgeted performance

55) When budget allowances are set without the involvement of the budget owner, the budgeting process can be described as:
(A) top down budgeting
(B) negotiated budgeting
(C) zero based budgeting
(D) participative budgeting

56) For which of the following would zero based budgeting be most suitable?
(A) Building construction
(B) Mining company operations
(C) Transport company operations
(D) Government department activities

57) Which among the below is the reason behind Material Price Variance:
(A) Change in basis purchase price of material.
(B) Uneconomical size of purchase order.
(C) Payment of excess or less freight.
(D) All of the above

58) In a factory Standard rate per hour Rs. 4, Standard time per unit of output – 20 hours, Units produced - 500, Actual hours worked - 12,000. Compute Labour Efficiency Variance.
(A) Rs. 6000 (Favourable)

(B) Rs. 8000 (Adverse)
(C) Rs. 9,600 (Favourable)
(D) Rs. 8000 (Favourable)

59) MSE Manufacturing gives you the following details.
Standard Price per kg of Material Rs. 2, Actual Material used 2,000 kg,
Actual cost of Material Rs. 3,000. Actual output 2,100 kg.
Compute Material Price Variance.
(A) Rs. 1050 (Favourable)
(B) Rs. 1142 (Favourable)
(C) Rs. 1000 (Favourable)
(D) None of the above

60) Which of the following factors does not affect Learning Curve
(A) Method of production
(B) Labour strike
(C) Shut down
(D) Efficiency rate

61) Which of the following is not a reason to use the concept of Learning Curve?
(A) Labour efficiency
(B) Introducing new technology
(C) Value chain effect
(D) Standardization, specialization, and methods improvements

62) Learning curve theory is not applicable to
(A) Direct labour
(B) Material
(C) Spoilage and defective works
(D) Overhead

63) Decision-marking concerns with:
(A) Past
(B) Future
(C) Past and Future both
(D) None of the above

64) A large Margin of Safety indicates
(A) Over-Capitalization
(B) The soundness of business
(C) Over Production
(D) None of the above

65) Revision of budgets is
(A) Unnecessary
(B) Cannot determine
(C) Necessary
(D) Inadequate data

66) Which of the following operating measures would a manager would like to see decreasing over time?
(A) Merchandise Inventory Turn-over
(B) Total quality cost
(C) % of on-time deliveries
(D) Finished Goods Inventory Turn-over

67) Another name for the 'Learning Curve' is
(A) Exponential Curve
(B) Growth Curve
(C) Production Curve
(D) Experience Curve

68) The well known basic function of management is
(A) Motivating
(B) Leadership
(C) Decision making
(D) Communicating

69) Contribution margin is equal to
(A) Sales - Fixed Cost - Profit
(B) Profit + Variable Cost
(C) Fixed Cost - Loss
(D) None of the above

70) In a system whereby all activities are revaluated each time a budget is formulated and starts with the assumption that requirement of funds does not exist is called
(A) Performance Budgeting
(B) Programme Budgeting
(C) Flexible Budgeting
(D) Zero- based Budgeting

71) The management's time is saved by reporting only the deviations from the predetermined standards is called
(A) Management by objectives
(B) Budgetary Control
(C) Standard Costing
(D) Management by Exception

72) Marginal Costing is also known as
(A) Direct Costing
(B) Absorption Costing
(C) Variable Cost
(D) Variable Costing

73) Another name for 'Contribution' is
(A) Marginal Income
(B) Gross Profit
(C) Net Income
(D) None of the above

74) Management Accounting
(A) accumulates, summarises and analyses the available data.
(B) is primarily concerned with the requirements of the management.
(C) makes Corporate Planning and Strategy effective.
(D) All of the above

75) XYZ Ltd. makes a special gadget for the car it manufactures. The machine for the gadget works to full capacity and incurs Rs. 15 Lakhs and Rs. 40 Lakhs respectively as Variable and Fixed Costs. If all the gadgets were purchased from an outside supplier, the machine could be used to produce other items, which would earn a total contribution of Rs. 25 Lakhs. What is the maximum price that XYZ Ltd. should be

willing to pay to the outside supplier for the gadgets, assuming there is no change in Fixed Costs?
(A) Rs. 40 Lakhs
(B) Rs. 65 Lakhs
(C) Rs. 25 Lakhs
(D) Rs. 15 Lakhs

76) When a manager is concerned with monitoring total cost, total revenue and net profit conditioned upon the level of productivity, an accountant should normally recommend

	Flexible Budgeting	Standard costing
(A)	Yes	Yes
(B)	Yes	No
(C)	No	Yes
(D)	No	No

77) The difference between hours paid and hours worked is known as
(A) Labour rate variance
(B) Labour efficiency variance
(C) Idle time variance
(D) Net efficiency variance

78) The difference in total cost that results from two alternative courses of action is called
(A) Relevant Cost
(B) Opportunity Cost
(C) Differential Cost
(D) Marginal Cost

79) A budget that gives a summary of all the functional budgets and projected Profit and Loss A/c is known as
(A) Master budget
(B) Flexible budget
(C) Performance budget
(D) Discretionary budget

80) When there are no opening or closing stocks, profit under marginal costing will be
(A) Greater than in absorption costing
(B) Less than in absorption costing
(C) Equal to absorption costing
(D) Greater, Lower or Equal depending on certain factors

81) Break Even Point can be reduced by
(A) Increasing selling price per unit
(B) Reducing the variable costs
(C) Reducing fixed costs
(D) All of the above

82) One of the following is not within the scope of Management Accounting
(A) Formulation of policies
(B) Classification and collection of costs
(C) Planning and co-ordinating the activities of the enterprise
(D) Decision making on alternative courses of action

83) AB company budgets for fixed overhead of Rs. 24,000 and Production of 4800 units. Actual Production is 4200 units. If fixed overhead cost increased is Rs. 22,000, the Fixed overhead volume variance will be
(A) Rs. 1,000 (Adv.)
(B) Rs. 2,000 (Fav.)
(C) Rs. 3,000 (Adv.)
(D) Rs. 3,000 (Fav.)

Answer Key:

(1) (b) Management Accounting
(2) (c) Fixed Cost Based Transfer Pricing
(3) (d) All of the above
(4) (a) Total Costing
(5) (d) MOS = PV Ratio × Sales – Fixed Cost
(6) (c) Research and Development Budget
(7) (a) There is no profit, no loss
(8) (b) Rs. 24
(9) (d) Rs. 95 (Adverse)
(10) (d) 256 hours
(11) (d) Rs. (5,000)
(12) (b) Rs. 2,40,000
(13) (a) top management
(14) (b) Optional
(15) (d) All of the above
(16) (c) Purchasing
(17) (b) Adverse
(18) (b) Variable Cost
(19) (c) 30%
(20) (a) 5,80,000
(21) (b) Rs. 1,80,000
(22) (c) Rs. 28.00
(23) (a) Cost plus contracts
(24) (c) Perpetual Inventory
(25) (a) Added to financial profit
(26) (d) All the above
(27) (a) Fixed, semi-fixed and variable expenses
(28) (c) Property tax on factory building
(29) (a) Material
(30) (a) Fixed cost
(31) (c) Oil industry
(32) (b) Management accountants facilitate the decision making process within an organization
(33) (b) Variable costs will vary in total
(34) (d) to coordinate different departments
(35) (a) dual pricing
(36) (b) when the factory overhead is applied to work-in-progress
(37) (a) identifying, presenting and interpreting
(38) (d) All of the above
(39) (a) Psychological Resistance
(40) (d) All of the above
(41) (c) internal and external sources
(42) (a) Robert N. Anthony
(43) (a) Prime Cost plus all variable overheads
(44) (c) Both A and B
(45) (a) committed costs

(46)(a) lost business
(47)(a) contribution per unit of a scarce resource used to make the product
(48)(d) None of these three costs can be classified as variable
(49)(c) Accept the special contract if it produces a positive contribution to fixed costs
(50)(b) Functional Budgets
(51)(d) None of the above
(52)(d) All of the above
(53)(b) sales quantity – opening inventory of finished goods + closing inventory of finished goods
(54)(a) Different levels of activity
(55)(a) top down budgeting
(56)(d) Government department activities
(57)(d) All of the above
(58)(b) Rs. 8000 (Adverse)
(59)(c) Rs. 1000 (Favourable)
(60)(c) Shut down
(61)(b) Introducing new technology
(62)(d) Overhead
(63)(b) Future
(64)(b) The soundness of business
(65)(c) Necessary
(66)(b) Total quality cost
(67)(d) Experience Curve
(68)(c) Decision making
(69)(c) Fixed Cost - Loss
(70)(d) Zero- based Budgeting
(71)(d) Management by Exception
(72)(d) Variable Costing
(73)(a) Marginal Income
(74)(d) All of the above
(75)(a) Rs. 40 Lakhs
(76)(a) Yes Yes
(77)(c) Idle time variance
(78)(c) Differential Cost
(79)(a) Master budget
(80) (c) Equal to absorption costing
(81) (d) All of the above
(82) (b) Classification and collection of costs
(83) (c) Rs. 3,000 (Adv.)

(II) Match the following in Column I with the appropriate in Column II

1. Match the following:

	Column I		Column II
1.	Learning Curve	A	Negotiated Pricing
2.	Zero Based Budgeting	B	Human Phenomenon
3.	Transfer Price	C	Fixed Costs are charged to cost of production
4.	Absorption Costing	D	Discretionary cost

2. Match the following:

	Column I		Column II
1.	Inter-firm Comparison	A	Decision Making
2.	Margin of Safety	B	Difference between Standard and Actual cost
3.	Variance Analysis	C	Profit / PV Ratio
4.	Differential Costing	D	Technique for evaluating performance

3. Match the following:

	Column I		Column II
1.	Transfer Pricing	A	Opportunity Cost
2.	Budgetary Control	B	Divisional Profits
3.	Learning Curve	C	An Executive Function
4.	Relevant Cost	D	A mathematical or Statistical Technique

4. Match the following:

	Column I		Column II
1.	The method which is followed for evaluation of equivalent production when prices are fluctuating.	A	Fixed Cost / P/V ratio
2.	In hospital the cost unit is	B	(Standard Yield for actual Mix minus Actual yield) x Standard Yield price
3.	Break even point (in value)	C	Average Price method
4.	Direct material yield variance	D	Fixed, Variable and Semi Variable Costs
5.	A flexible budget takes into the account	E	Per bed

5. Match the following:

	Column I		Column II
1.	P/V Ratio	A	Decision Package
2.	Direct Labour Efficiency	B	Equivalent Production
3.	Zero Based Budgeting	C	Total Contribution / Total Sales Value x 100
4.	Contract Costing	D	Work Certified
5.	Process Costing	E	(Standard hour for actual production minus Actual hours) x Standard Rate

6. Match the following:

	Column I		Column II
1.	Transfer Price	A	Goal Congruence
2.	Zero Based Budgeting	B	Responsibility Accounting
3.	Performance budgeting	C	Performance Measurement
4.	Throughput Accounting	D	Notional Profit
5.	Profit Earned on a Contract Account	E	Not on the basis of trends

7. Match the following:

	Column I		Column II
1.	Work Certified	A	Process Costing
2.	Margin of Safety	B	Budgetary Control
3.	Efficiency Variance	C	Contract Costing
4.	Equivalent Production	D	CVP Analysis
5.	Zero Based Budgeting	E	Labour Cost Variance

8. Match the following:

	Column I		Column II
1.	Cost Driver	A	Contract Costing
2.	Bottleneck Hours	B	Financial Soundness of Business
3.	Budgetary Control	C	Throughput Accounting
4.	Retention Money	D	Management by Exception
5.	Margin of Safety	E	ABC Costing

9. Match the following:

	Column I		Column II
1.	Relevant Cost	A	Cost Control
2.	Standard Costing	B	Decision taking
3.	Flexible Budget	C	Future costs affected by decisions taken
4.	Differential Cost Analysis	D	Profitability rate
5.	Angle of Incidence	E	Budgetary Control

10. Match the following:

	Column I		Column II
1.	Uniform Costing	A	Design of the Product
2.	Value Engineering	B	Measures divisional performance
3.	Variance Analysis	C	Contract Costing
4.	Escalation Clause	D	Management by Exception
5.	Residual Income	E	Technique to assist inter-firm comparison

11. Match the following:

	Column I		Column II
1.	Research and Development cost	A	CAS 2
2.	Depreciation on computer purchased for office	B	Forms part of selling expenses
3.	Abnormal loss is transferred to	C	Costing Profit and Loss Account
4.	In electricity companies, the cost unit is	D	Kilowatt

5.	The summary of all functional budgets	E	CAS 18
6.	Cost of free samples of product distributed	F	Forms part of office and administration expenses
7.	In contract costing, cost unit is	G	Per contract
8.	Capacity determination	H	Not shown in the cost sheet but debited to profit and loss account.
9.	Scrap value of abnormal loss of finished output	I	Not shown in the cost sheet but credited to profit and loss account.
10.	Cash discount allowed	J	Master budget

12. Match the following:

	Column I		Column II
1.	Market Based Price	A	Break – Even Analysis
2.	Decision Unit	B	Differential Cost
3.	Margin of Safety	C	Transfer Pricing
4.	Difference between costs of two alternatives	D	Zero Based Budgeting

13. Match the following:

	Column I		Column II
1.	Management Accounting	A	Suitable information to internal and external users
2.	Fiduciary Accounting	B	Suitable information to operation management
3.	Financial Accounting	C	Suitable information to internal users
4.	Cost Accounting	D	Suitable information to third parties

14. Match the following:

	Column I		Column II
1.	General Administrative overhead	A	Contribution
2.	Marginal costing	B	Relevant Cost
3.	Make or buy decision	C	Excess over Break Even Sales
4.	Margin of Safety	D	Unavoidable Fixed Cost

15. Match the following:

	Column I		Column II
1.	Principal Budget Factor	A	'Rationalisation'
2.	Incremental Budgeting	B	Summary Budget
3.	ZBB	C	Sales Demand
4.	The Master Budget	D	Encourages Slack

16. Match the following:

	Column I		Column II
1.	Distinctive feature of Learning curve	A	On the principle of exception
2.	Standard costing works	B	is designed to fix responsibilities on executives, through the preparation of budgets.

3.	Budgetary Control system	C	is that notional value at which goods and services are transferred between divisions in a decentralized organization.
4.	Transfer Price	D	Persons engaged in repetitive task will improve his performance over time.

17. Match the following:

	Column I		Column II
1.	Learning Curve	A	Theodare P. Wright
2.	Transfer Price	B	Cumulative Average Time
3.	Experience Curve	C	Notional Value
4.	Factors affecting the cost of Airlines	D	Boston Consulting Group

18. Match the following:

	Column I		Column II
1.	Budgetary Control System	A	Are useful for budget and performance evaluation.
2.	Standard Costs	B	Helps in profit planning and analysis
3.	Marginal Costing	C	Aims at adherence to planning costs
4.	Cost Control	D	The introduction and implementation of the system may be expensive

19. Match the following:

	Column I		Column II
1.	Absorption Costing	A	Is concerned with accounting information which is useful to Management.
2.	Management Accounting	B	At which total revenue is equal to total cost.
3.	Break Even Point	C	Is frequently used in conjunction with establishing bid price for contract.
4.	Learning Curve	D	Both fixed and variable costs are considered for inventory valuation.

Answer Key:

Ans: 1

i) B
ii) D
iii) A
iv) C

Ans: 2

(i) D
(ii) C
(iii) B
(iv) A

Ans: 3

(i) B
(ii) C
(iii) D
(iv) A

Ans: 4

(i) C
(ii) E
(iii) A
(iv) B
(v) D

Ans: 5

(i) C
(ii) E
(iii) A
(iv) D
(v) B

Ans: 6

(i) A
(ii) E
(iii) B
(iv) C
(v) D

Ans: 7

(i) C
(ii) D
(iii) E
(iv) A
(v) B

Ans: 8

(i) E
(ii) C
(iii) D
(iv) A
(v) B

Ans: 9

(i) C
(ii) A
(iii) B
(iv) E
(v) D

Ans: 10

(i) E
(ii) A
(iii) D
(iv) C
(v) B

Ans: 11

(i) E
(ii) F
(iii) C
(iv) D
(v) J
(vi) B
(vii) G
(viii) A
(ix) I
(x) H

Ans: 12

(i) C
(ii) D
(iii) A
(iv) B

Ans: 13

(i) C
(ii) D
(iii) A
(iv) B

Ans: 14

(i) D
(ii) A
(iii) B
(iv) C

Ans: 15

(i) C
(ii) D
(iii) A
(iv) B

Ans: 16

(i) D
(ii) A
(iii) B
(iv) C

Ans: 17

(i) B
(ii) C
(iii) D
(iv) A

Ans: 18

(i) D
(ii) A
(iii) B
(iv) C

Ans: 19

(i) D
(ii) A
(iii) B
(iv) C

(III) State whether the following are 'True' or 'False':

1. Standard Costs are arrived on the basis of costs incurred in the past.
2. Experience Curve effects are reinforced when two or more products share a common resource.
3. Preparation of a Master Budget precedes preparation of Functional Budgets.
4. Other variables remaining constant, a hike in selling price per unit will lower the Break Even Point.
5. Uniform costing is a method of costing.
6. A variance may be either favourable or adverse.
7. Marginal cost equals to prime cost plus variable overheads.
8. Variable Cost is also known as Indirect Cost.
9. It is optional for a company to have financial accounting.
10. There is no difference between standard costing and budgeting.
11. Contribution is the difference between the selling price and the variable cost.
12. Constraint on various resources is also known a key factor or limiting factor.
13. Multiple costing is suitable for banking industry.
14. Cost ledger control account makes the cost ledger self balancing.
15. Production cost includes only direct costs related to the production.
16. CAS 9 is for direct expenses as issued by the Cost Accounting Standards Board (CASB) of the Institute of Cost Accountants of India.
17. ABC analysis is based on the principle of management by exception.
18. Slow moving materials have a high turnover ratio.
19. Cost of indirect material is apportioned to various departments.
20. Departments that assist producing Department indirectly, are called service departments.
21. Waste and scrap of material have small realisation value.
22. Bin card are not the part of accounting records.
23. The profit calculated under absorption costing and marginal costing is always equal.
24. A flexible budget takes into account only fixed costs.
25. At breakeven point, margin of safety is nil.
26. An increase in production means an increase in overall productivity.
27. Management Accounting is a traditional approach to accounting
28. The information in the management accounting system is used for three different purposes.
29. Management accounting helps in decision making only, not in strategic decision making.
30. The scope of Management Accounting is broader than the scope of Cost Accounting.
31. As the reports generated by management accounting are not used by any external party, the business enterprises don't need to take care of GAAP.
32. Management accounting records are kept for public.
33. In marginal costing, managerial decisions are guided by profit.
34. In Absorption Costing, closing stock is valued at full cost.
35. In marginal costing, fixed costs are treated as period cost.
36. Marginal costing is a technique of cost control.
37. When quantity (kg) of material is the limiting factor, products are ranked based on contribution per unit.
38. When sales value (Rs.) is the limiting factor, products are ranked based on Profit Volume ratio.
39. Fixed costs are always unavoidable.
40. A budget is not a quantitative statement.
41. The principal budget factor is the factor which limits the activities of an organisation.
42. The flexible budget also called as Sliding Scale Budget.
43. The budget is imposed by lower management.
44. The sales budget is an example of functional budget.

45. **Responsibility accounting is also called profitability accounting and activity accounting.**
46. **Learning curve passes through three stages.**
47. **Learning curve suggests great opportunities for cost reduction.**
48. **Application of learning curve concept pre-requisites uninterrupted flow of work.**
49. **Learning curve effects make the value chain inefficient.**
50. **The more experience a firm has in producing a particular product, the higher is its costs.**
51. **Management Accounting is largely based on estimates and as such total accuracy is not ensured under Management Accountancy.**
52. **The main objective of Budgetary control is to co-ordinate the different departments.**
53. **Standard Costing are applicable in Banking Industry.**
54. **Learning Curve is a Cost Reduction technique.**
55. **Standard Costing may not be suitable for small concerns.**
56. **Production Budget is prepared before Sales Budget.**
57. **Budgets are always prepared for one year.**
58. **Marginal Costing is useful for long term planning.**
59. **Profit Planning and Control is not a part of Budgetary Control Mechanism.**
60. **Standard Costs are based on technical assessments.**
61. **PV Chart exhibits the relationship between profit and overhead volume.**
62. **A Sequential profit graph is prepared when multiple products are produced.**
63. **Management Accounting is largely based on accuracy than estimates.**
64. **Zero-Base budgeting is more suitably applicable to Discretionary Cost areas.**
65. **The PV ratio increases when the fixed cost of a firm decreases.**

Answer Key:

1. False
2. False
3. False
4. True
5. False
6. True
7. False
8. False
9. False
10. False
11. True
12. False
13. False
14. True
15. False
16. False
17. True
18. False
19. False
20. True
21. False
22. True
23. False
24. False
25. True
26. False
27. False
28. True
29. False

30. True
31. True
32. False
33. False
34. True
35. True
36. False
37. False
38. True
39. False
40. False
41. True
42. True
43. False
44. True
45. True
46. True
47. True
48. True
49. False
50. False
51. True
52. False
53. False
54. False
55. True
56. False
57. False
58. False
59. False
60. True
61. False
62. True
63. False
64. True
65. False

FINANCIAL MANAGEMENT

(I) Choose the most appropriate one from given four alternatives

1) Which of the following is the main objective of financial management?
(A) Revenue Maximisation
(B) Profit Maximisation
(C) Wealth Maximisation
(D) Cost Minimisation

2) Which one of the following activities is outside the purview of financing decision in financial management?
(A) Identification of the source of funds
(B) Measurement of the cost of funds
(C) Deciding on the time of raising the funds
(D) Deciding on the utilization of the funds

3) A firm has a capital of Rs. 10 lakhs, sales of Rs. 5 lakhs, gross profit of Rs. 2 lakhs and expenses of Rs. 1 lakh. The Net Profit Ratio is:
(A) 50%
(B) 40%
(C) 20%
(D) 10%

4) Which of the following forms of equity financing is especially designed for funding High Risk & High Reward projects?
(A) ADR
(B) GDR
(C) FCCB
(D) Venture Capital

5) A process through which loans and other receivables are underwritten and sold in a form of asset is known as:
(A) Factoring
(B) Forfeiting
(C) Securitisation
(D) Bill Discounting

6) In Net Profit Ratio, the denominator is:
(A) Credit Sales
(B) Net Sales
(C) Cost of Sales
(D) Cost of Goods Sold

7) Current Assets Rs. 20,00,000; Current Liabilities Rs. 10,00,000 and Stock Rs. 2,00,000, then what is liquid ratio?
(A) 2 times
(B) 1.8 times
(C) 1.4 times
(D) None of these

8) Annual credit sales Rs. 4,00,000; Average collection period 45 days (assume 360 days in a year). What is Average debtors?
(A) Rs. 60,000

(B) Rs. 74,000
(C) Rs. 50,000
(D) Rs. 4,00,000

9) Investment in a project is Rs. 200 lakhs and Net Present Value is Rs. 50 lakhs. Then the amount of inflows is :
(A) Rs. 150 lakhs
(B) Rs. 200 lakhs
(C) Rs. 100 lakhs
(D) Rs. 250 lakhs

10) PAT of a company Rs. 100 lakhs and number of equity shares of Rs. 10 each with a capital of Rs. 50 lakhs, then EPS is:
(A) Rs. 2
(B) Rs. 1
(C) Rs. 10
(D) None of these

11) Degree of operating leverage is:
(A) EBIT / EBT
(B) Contribution / EBT
(C) Contribution / EBIT
(D) None of these

12) Cost of goods sold is Rs. 8000 and gross margin is Rs. 5000 then revenue will be
(A) Rs. 3,000
(B) Rs. 5,000
(C) Rs. 8,000
(D) Rs. 13,000

13) Present value of inflows Rs. 10 lakhs from a project and initial investment is Rs. 7.5 lakhs. The NPV is:
(A) Rs. 17.5 lakhs
(B) Rs. 7.5 lakhs
(C) Rs. 10 Lakhs
(D) Rs. 2.5 lakhs

14) Cash & Bank Rs. 20,000; Debtors Rs. 2,00,000; Stock Rs. 2,80,000 and Current Liabilities: Creditors Rs. 1,00,000; Bills Payable Rs. 50,000. Then the working capital is:
(A) Rs. 4,00,000
(B) Rs. 3,80,000
(C) Rs. 3,50,000
(D) Rs. 70,000

15) 1,00,000; 10% Debentures of Rs. 100 each of company, the interest payable for quarter is:
(A) Rs. 10,00,000
(B) Rs. 2,50,000
(C) Rs. 5,00,000
(D) None of these

16) Gross margin is added to cost of sold goods for calculating
(A) revenues
(B) selling price
(C) unit price
(D) bundle price

17) Cash Flow Statement is also known as
(A) Statement of Changes in Financial Position on Cash basis
(B) Statement accounting for variation in cash
(C) Both a and b
(D) None of the above

18) Degree of financial leverage of business indicates.
(A) Total risk
(B) Operating risk
(C) Financial risk
(D) None of these

19) Which of the following is not a characteristic of GDR?
(A) Is a negotiable instrument
(B) Carry voting rights
(C) Freely tradable in International Market
(D) Denominated in US Dollars

20) Which of the following is a feature of Factoring?
(A)Tool of short term borrowing
(B)Purchase of export bill only
(C)Used in Export business only
(D)Done without recourse to the client

21) Which of the following is a Profitability Ratio?
(A)Proprietary Ratio
(B) Debt –equity Ratio
(C)Price Earnings Ratio
(D)Fixed Asset Ratio

22) GP Margin=20%, GP= Rs. 54000, Sales=
(A) Rs. 300000
(B) Rs. 270000
(C) Rs. 280000
(D) Rs. 290000

23) EBIT= Rs. 1120000, PBT= Rs. 320000, Fixed Costs= Rs. 700000, Operating Leverage =
(A) 1.625
(B) 2.625
(C) 6.625
(D) 3.625

24) Which of the following is not a Source of Fund?
(A) Issue of Capital
(B) Issue of Debenture
(C) Decrease in working capital
(D) Increase in working capital

25) Determinants of credit policy relates to:
(A) Credit standards
(B) Credit terms
(C) Collection Procedures
(D) All of the above

26) The following is not a Discounted Cash Flow Technique:
(A) NPV

(B) PI
(C) Accounting of Average rate of return
(D) IRR

27) β (Beta) of a security measures its:
(A) Diversifiable risk
(B) Financial risk
(C) Market risk
(D) None of above

28) Following method is also known as 'Benefit Cost Ratio.'
(A) NPV
(B) IRR
(C) ARR
(D) PI

29) ROI (Return on Investment) can be decomposed into the following ratios:
(A) Overall Turnover Ratio and Current Ratio
(B) Net Profit Ratio and Fixed Assets Turnover
(C) Working Capital Turnover Ratio and Net Profit Ratio
(D) Net Profit Ratio and Overall Turnover Ratio

30) Which one of the following activities is outside the purview of dividend decision in financial management?
(A) Identification of the profit after taxes
(B) Measurement of the cost of funds
(C) Deciding on the pay-out ratio
(D) Considering issue of bonus shares to equity shareholders

31) Which of the following does not help to increase Current Ratio?
(A) Issue of Debentures to buy Stock
(B) Issue of Debentures to pay Creditors
(C) Sale of Investment to pay Creditors
(D) Avail Bank Overdraft to buy Machine

32) Which of the following statements is correct?
(A) A higher Receivable Turnover is not desirable.
(B) Interest Coverage Ratio depends upon Tax Rate.
(C) Increase in Net Profit Ratio means increase in Sales
(D) Lower Debt Equity Ratio means lower Financial Risk

33) "Shareholders Wealth" in a firm is reflected 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

34) The excess of Current Assets over Current Liabilities is called:
(A) Net Current Assets
(B) Net Working Capital
(C) Working Capital
(D) All of the above

35) Profit Maximization is the main objective of business because:
(A) Profit acts as a measure of efficiency and
(B) It serves as a protection against risk

(C) Both
(D) none

36) Stock holder's wealth = ___________
(A) No. of shares owned x Current stock price per share
(B) No. of shares owned x Current stock price per share
(C) No. of shares owned x Current stock price per share
(D) none

37) Working Capital Management refers to a Trade-off between ____________and Profitability.
(A) Liquidity
(B) Risk
(C) Both of the above
(D) None of the above

38) Which one of the following is a medium term source?
(A) Public Deposits
(B) Lease Financing
(C) Euro Debt Issue
(D) All of the above

39) The lease period in such a contract is less than the useful life of asset. Here we are talking about _______.
(A) Operating or Service Lease
(B) Service Lease
(C) Financial Lease
(D) None of the above

40) Which one is the Benefit(s) of Factoring?
(A) Better Cash Flows
(B) Better Assets Management
(C) Better Working Capital Management
(D) All of the above

41) Find the present value of Rs. 1,000 receivable 6 years hence if the rate of discount is 10 percent.
(A) 564.5
(B) 554.5
(C) 574.5
(D) 600

42) The term _______means manipulation of accounts in a way so as to conceal vital facts and present the financial statements in a way to show a better position than what it actually is.
(A) window dressing
(B) creative accounting
(C) window accounting
(D) modified accounting

43) Collateralized borrowing and lending obligation (CBLO) is a discounted instrument available in electronic book entry for the maturity period ranging from _________.
(A) 1 day to 19 days
(B) 1 day to 15 days
(C) 1 day to 30 days
(D) None of the above

44) IPO refers to ___________; the first time a company comes to public to raise money.
(A) Immediate Public Offer
(B) Immediate Public Offering
(C) Initial Public Offer
(D) Initial Public Offering

45) SPO refers to ________, the second and subsequent time a company raises money from the public directly.
(A) Second Public Offering
(B) Subsequent Public Offering
(C) Subsequent Public Offer
(D) Seasonal Public Offering

46) Liquid Liability = Current Liability – Bank Overdraft – ___________
(A) Cash Credit
(B) Trade Credit
(C) Both of the above
(D) None of the above

47) Ratio analysis is the process of determining and interpreting numerical relationships based on _______.
(A) Financial values
(B) Financial statements
(C) Financial numerical information
(D) All of the above

48) Ratio analysis is based on __________ measure.
(A) relative
(B) absolute
(C) Both of the above
(D) None of the above

49) The persons interested in the analysis of financial statements can be grouped as _________.
(A) Owners or investors
(B) Creditors
(C) Financial executives
(D) All of the above

50) The term "Operating Profit" means profit before _________________.
(A) interest
(B) tax
(C) interest and tax
(D) interest or tax

51) Debt- equity Ratio is an example of _______________.
(A) Short term solvency Ratio
(B) Long term solvency Ratio
(C) Profitability Ratio
(D) None of the above

52) In Cash Flow Statement, Cash includes_______________.
(A) cash on hand
(B) demand deposits with banks
(C) cash on hand and demand deposits with banks
(D) cash on hand or demand deposits with banks

53) The treatment of interest and dividends received and paid depends upon the nature of the enterprise. For this purpose, the enterprises are classified as ____________.
(A) (i) Financial enterprises, and (ii) Operating enterprises
(B) (i) Financial enterprises, and (ii) Other enterprises
(C) (i) Financial enterprises, and (ii) Non-Financial enterprises
(D) (i) Trading enterprises, and (ii) Non - Trading enterprises

54) Cash Flow Statement is _____________ for Income Statement or Funds Flow Statement.
(A) not a substitute
(B) a substitute
(C) depends on situation
(D) None of the above

55) Funds Flow Statement reveals the change in ______________ between two Balance Sheet dates.
(A) Working capital
(B) Internal capital
(C) Share capital
(D) Both (A) & (C)

56) A firm following an aggressive working capital strategy would:
(A) Hold substantial amount of fixed assets
(B) Minimize the amount of short term borrowing
(C) Finance fluctuating assets with long term financing
(D) Minimize the amount of fund in very liquid assets

57) Which of the following would be consistent with a conservative approach to financing working capital?
(A) Financing short-term needs with short-term funds
(B) Financing short-term needs with long-term debt
(C) Financing seasonal needs with short-term funds
(D) Financing some long-term needs with short-term fund

58) To financial analysts, "net working capital" means the same thing as __________.
(A) total assets
(B) fixed assets
(C) current assets
(D) current assets minus current liabilities

59) Baumol's Model of Cash Management attempts to:
(A) Minimise the holding cost
(B) Minimization of transaction cost
(C) Minimization of total cost
(D) Minimization of cash balance

60) Which of the following is not considered by Miller-Orr Model?
(A) Variability in cash requirement
(B) Cost of transaction
(C) Holding cost
(D) Total annual requirement of cash

61) A firm is said to be financially unlevered firm if the firm has ……….
(A) only external equity in its capital structure
(B) only owner's equity in its capital structure
(C) both external equity and owner's equity in its capital structure
(D) only equity share capital in its capital structure

62) The term optimal capital structure' implies that combination of external equity and internal equity at which ....
(A) the overall cost of capital is minimised
(B) the overall cost of capital is maximised
(C) the market value of the firm is minimised
(D) the market value of firm is greater than the overall cost of capital

63) Net Income Approach to capital structure decision was proposed by ....
(A) J. E. Walter
(B) M.H. Miller and D.Orr
(C) E. Solomon
(D) D. Durand

64) There is a reciprocal relationship between ....
(A) DOL and DFL
(B) DOL and margin of safety ratio
(C) DFL and margin of safety ratio
(D) DOL and break-even-point

65) The genesis of financial risk lies in ....
(A) capital budgeting decision
(B) capital structure decision
(C) dividend decision
(D) liquidity decision

66) Financial break-even point is that level of EBIT at which ....
(A) EPS > 0
(B) EPS < 0
(C) EPS = 0
(D) EPS > 1

67) In mutually exclusive projects, projects which are selected for comparison must have
(A) positive net present value
(B) negative net present value
(C) zero net present value
(D) none of the above

68) In a single projects situation, results of internal rate of return and net present value lead to
(A) cash flow decision
(B) cost decision
(C) same decisions
(D) different decisions

69) The discount rate which forces net present values to become zero is classified as
(A) positive rate of return
(B) negative rate of return
(C) external rate of return
(D) internal rate of return

70) A point where profile of net present value crosses horizontal axis at plotted graph indicates project
(A) costs
(B) cash flows
(C) internal rate of return
(D) external rate of return

71) Payback period in which an expected cash flows are discounted with the help of project cost of capital is classified as
(A) discounted payback period
(B) discounted rate of return
(C) discounted cash flows
(D) discounted project cost

72) Number of years forecasted to recover an original investment is classified as
(A) payback period
(B) forecasted period
(C) original period
(D) investment period

73) In proper capital budgeting analysis, we evaluate incremental
(A) Accounting income
(B) Cash flow
(C) Earnings
(D) Operating profit

74) The term mutually exclusive investments mean:
(A) Choose only the best investments
(B) Selection of one investment precludes the selection of an alternative
(C) The elite investment opportunities will get chosen
(D) There are no investment options available

75) Which of the following is a Profitability Ratio?
(A) Proprietary Ratio
(B) Debt-Equity Ratio
(C) Price-Earning Ratio
D) Fixed Asset Ratio

76) Which of the following is not a source of fund?
(A) Issue of Capital
(B) Issue of Debenture
(C) Decrease in Working Capital
(D) Increase in Working Capital

77) The 'Dividend-Payout Ratio' is equal to
(A) The Dividend yield plus the capital gains yield
(B) Dividends per share divided by Earning per Equity Share
(C) Dividends per share divided by par value per share
(D) Dividends per share divided by current price per share

78) If EBIT = Rs. 1,00,000, Fixed Assets = Rs. 2,00,000, Sales = Rs. 10,00,000 and Variable Cost = Rs. 7,00,000. Then, the Operating Leverage will be
(A) 2
(B) 3
(C) 6
(D) 4

79) Which of the following is not considered while preparing cash budget?
(A) Accrual Principal
(B) Difference in Capital and Revenue items
(C) Conservation Principle
(D) All of the above

80) Cost of capital may be defined as:
(A) Weighted Average cost of all debts
(B) Rate of Return expected by Equity Shareholders
(C) Average IRR of the Projects of the firm
(D) Minimum Rate of Return that the firm should earn

81) At Indifference level of EBIT, different capitals have:
(A) same EBIT
(B) same EPS
(C) same PAT
(D) same PBT

82) ABC Analysis is used in
(A) Inventory Management
(B) Receivables Management
(C) Accounting Policies
(D) Corporate Governance

83) Which of the following is not incorporated in Capital Building?
(A) Tax-Effect
(B) Time Value of Money
(C) Required Rate of Return
(D) Rate of Cash Discount

84) Objective of Financial Management is
(A) Management of Liquidity
(B) Maximization of Profit
(C) Maximization of Shareholders' Wealth
(D) Management of Fixed Assets

85) Which of the following variables is not known in Internal Rate of Return?
(A) Initial Cash Flows
(B) Discount Rate
(C) Terminal Inflows
(D) Life of the Project

86) Cost of Capital refers to
(A) Floatation Cost
(B) Dividend
(C) Required Rate of Return
(D) None of the above

87) Working Capital Management involves financing and management of
(A) All Assets
(B) All Current Assets
(C) Cash and Bank Balance
(D) Receivables and Payables

88) All listed companies are required to prepare
(A) Funds Flow statement
(B) Cash Flow Statement
(C) Statement of Affairs
(D) All of the above

89) Ratio Analysis can be used to study liquidity, turnover, profitability etc., of a firm. What does Debt-Equity Ratio help to study?

(A) Solvency
(B) Liquidity
(C) Profitability
(D) Turnover

90) A firm determines the shareholders' wealth by taking
(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

91) Capital Budgeting techniques which considers the time value of money is based on
(A) Cash Flows of the organization
(B) Accounting Profit of the organization
(C) Interest Rate on Borrowings
(D) Last Dividend Paid

92) Debt Financing is a cheaper source of finance because of
(A) Time Value of Money
(B) Rate of Interest
(C) Tax-deductibility of Interest
(D) Dividends not Payable to lenders

93) What should be the optimum Dividend payout ratio, when r=12% and Ke=10%?
(A) Zero
(B) 50%
(C) 12%
(D) 100%

94) The term Float is used in
(A) Receivable Management
(B) Cash Management
(C) Marketable Management
(D) Inventory Management

Answer Key:

(1) (c) Wealth Maximisation
(2) (d) Deciding on the utilization of the funds
(3) (c) 20%
(4) (d) Venture Capital
(5) (c) Securitisation
(6) (b)Net sales
(7) (b) 1.8 times
(8) (c) ` 50,000
(9) (d) ` 250 lakhs
(10)(d) None of these
(11)(c) Contribution / EBIT
(12)(d) ` 13,000
(13)(d) ` 2.5 lakhs
(14)(c) ` 3,50,000
(15)(b) ` 2,50,000
(16)(a) revenues
(17)(c) Both a and b
(18)(c) Financial risk
(19)(b) Carry voting rights

(20)(a) Tool of short term borrowing
(21)(c) Price Earnings Ratio
(22)(b) ` 270000
(23)(a) 1.625
(24)(d) Increase in working capital
(25)(d) All of the above
(26)(c) Accounting of Average rate of return
(27)(c) Market risk
(28)(d) PI
(29)(d) Net Profit Ratio and Overall Turnover Ratio
(30)(b) Measurement of the cost of funds
(31)(d) Avail Bank Overdraft to buy Machine
(32)(d) Lower Debt Equity Ratio means lower Financial Risk
(33)(d) the market price per share of the firm
(34)(d) All of the above
(35)(c) Both
(36)(a) No. of shares owned x Current stock price per share
(37)(c) Both of the above
(38)(d) All of the above
(39)(a) Operating or Service Lease
(40)(d) All of the above
(41)(a) 564.5
(42)(a) window dressing
(43)(a) 1 day to 19 days
(44)(d) Initial Public Offering
(45)(b) Subsequent Public Offering
(46)(a) Cash Credit
(47)(d) All of the above
(48)(a) relative
(49)(d) All of the above
(50)(c) interest and tax
(51)(b) Long term solvency Ratio
(52)(c) cash on hand and demand deposits with banks
(53)(b) (i) Financial enterprises, and (ii) Other enterprises
(54)(a) not a substitute
(55)(a) Working capital
(56)(d) Minimize the amount of fund in very liquid assets
(57)(b) Financing short-term needs with long-term debt
(58)(d) current assets minus current liabilities
(59)(c) Minimization of total cost
(60)(d) Total annual requirement of cash
(61)(b) only owner‘s equity in its capital structure
(62)(a) the overall cost of capital is minimised
(63)(d) D. Durand
(64)(b) DOL and margin of safety ratio
(65)(b) capital structure decision
(66)(c) EPS = 0
(67)(a) positive net present value
(68)(c) same decisions
(69)(d) internal rate of return
(70)(c) internal rate of return
(71)(a) discounted payback period
(72)(a) payback period
(73)(b) Cash flow
(74)(b) Selection of one investment precludes the selection of an alternative
(75)(c) Price-Earning Ratio

(76)(d) Increase in Working Capital
(77)(b) Dividends per share divided by Earning per Equity Share
(78)(b)3
(79)(d) All of the above
(80)(d) Minimum Rate of Return that the firm should earn
(81)(b) same EPS
(82)(a) Inventory Management
(83)(d) Rate of Cash Discount
(84)(c) Maximization of Shareholders' Wealth
(85)(b) Discount Rate
(86)(c) Required Rate of Return
(87)(b) All Current Assets
(88)(b) Cash Flow Statement
(89)(a) Solvency
(90)(b) the book value of the firm's assets less the book value of its liabilities
(91)(a) Cash Flows of the organization
(92)(c) Tax-deductibility of Interest
(93)(a)Zero
(94)(b) Cash Management

(II) Match the following in Column I with the appropriate in Column II

(1) Match the following:

	Column I		Column II
1.	Leverage	A	Control Limits
2.	Stochastic Model	B	Influence of one force over another
3.	Commercial Paper	C	Sold at discount
4.	Factoring	D	Raise short term finance through Receivables

(2) Match the following:

	Column I		Column II
1.	Cash flow statement	A	Capital Budgeting
2.	Net working capital	B	Net Sales / Fixed Assets
3.	Pay Back Period	C	AS – 3
4.	Fixed Assets Turnover Ratio	D	Current Assets – Current Liabilities

(3) Match the following:

	Column I		Column II
1.	Liquid Ratio	A	Operations Statement
2.	Funds Flow Statement	B	Quick Assets / Current Liability
3.	IRR	C	Permissible Finance
4.	Tandon Committee	D	PVs of inflows minus outflows is ZERO

(4) Match the following:

	Column I		Column II
1.	Capital Budgeting	A	Money Market Instrument
2.	Commercial Paper	B	NOPAT / Sales x Sales / Average Capital employed
3.	Debtors Turnover Ratio	C	Capital structure theory
4.	ROI	D	Change in working capital between balance sheet dates.
5.	Fund Flow Statement	E	Initial investment / Annual Cash Inflows
6.	NPV	F	Functional area of Financial Management
7.	Payback Period	G	Credit Sales / Average Collection Period
8.	Net Income Approach	H	EBIT / EBT
9.	ADR	I	Negotiable Instrument
10.	Financial Leverage	J	Cost of Capital

(5) Match the following:

	Column I		Column II
1.	Dividend policy has no effect on its value of assets	A	Myron Gordon
2.	Value of share is worth the present value of its future dividend rather than its earnings.	B	Graham & Dodd
3.	Dividend policy has an impact on share valuations.	C	John Burr Williams
4.	Market Price of share will increase when company declares dividend rather than when it does not.	D	Modigliani & Miller

(6) Match the following:

	Column I		Column II
1.	Capital Structure	A	Credit facility is upto 80% of bill value
2.	Tandon Committee	B	Discounted Pay Back
3.	Capital Budgeting	C	Capital Budgeting
4.	Net Income Approach	D	Effective and Efficient
5.	Benefit Cost Ratio	E	Baumol Model
6.	Cash Inventory	F	Credit facility is higher than 80% of bill value
7.	Factoring	G	MM Approach
8.	Forfeiting	H	Maximum Permissible Bank Finance
9.	Organisation has to be both	I	Management
10.	Management Accounting is a tool to	J	Capital Structure

(7) Match the following:

	Column I		Column II
1.	It represents the ownership interest in the company	A	Debenture
2.	Is also owner's capital but has a maturity period	B	Venture Capital
3.	Issued keeping in view the need and cash flow profile of the company as well as the investor.	C	Equity Share Capital
4.	Is a form of equity financing especially designed for funding high risk and high reward projects.	D	Preference Share Capital

(8) Match the following:

	Column I		Column II
1.	This ratio is the most rigorous test of a firm's liquidity position. In case the ratio is '1', it means the firm can meet its current liabilities any time.	A	Defensive Interval Ratio
2.	The ratio indicates the number of times the fixed financial charges are covered by income before interest and tax.	B	Proprietary Ratio
3.	This ratio denotes the liquidity of a firm in relation to its ability to meet projected daily expenditure from operations.	C	Super Quick Ratio
4.	The ratio focuses attention on the general financial strength of the business enterprise.	D	Fixed charges cover ratio.

(9) Match the following:

	Column I		Column II
1.	Optimal Dividend Payout	A	Business Risk
2.	Optimal Capital Structure	B	Financial Marginal of Safety
3.	DFL	C	Gordon
4.	DOL	D	Durand

(10) Match the following:

	Column I		Column II
1.	Dividend Models	A	Modigliani and Miller Hypothesis
2.	Theory of Capital structure	B	Fund Based Financial Service
3.	Factoring	C	Indicator of short-term solvency of a company
4.	Liquid Ratio	D	Gorden Model

(11) Match the following:

	Column I		Column II
1.	Gordon's Model	A	Activity Ratio
2.	Discounted Cash Flow	B	Inventory Management
3.	Carrying Cost	C	Internal Rate of Return
4.	Working Capital Turnover Ratio	D	Relevance of Dividends on share value

(12) Match the following:

	Column I		Column II
1.	Important element of Capital Budgeting is	A	Represents a risky situation
2.	High Operating and Financial Leverage	B	May affect the size of working capital
3.	A consistent dividend policy	C	A tool for analysis of financial statements
4.	Fund Flow Statement is	D	The analysis of risk and uncertainty

(13) Match the following:

	Column I		Column II
1.	Defensive Interval Ratio	A	Exporter relinquishes the right to a receivable due in future for immediate cash payment.
2.	Capital Asset Pricing Model	B	Two control limits are used for managing balances.
3.	Forfeiting	C	Risk – return trade off securities.
4.	Miler and Orr model of cash management.	D	Liquidity of a firm in relation to its ability to meet daily operating expenditure.

Answer Key:

Ans: 1

i) B
ii) A
iii) C/D
iv) D/C

Ans: 2

i) C
ii) D
iii) A
iv) B

Ans: 3

i)	B
ii)	A
iii)	D
iv)	C

Ans: 4

i)	F
ii)	A
iii)	G
iv)	B
v)	D
vi)	J
vii)	E
viii)	C
ix)	I
x)	H

Ans: 5

i)	B
ii)	A
iii)	D
iv)	C

Ans: 6

i)	G
ii)	H
iii)	B
iv)	J
v)	C
vi)	E
vii)	A
viii)	F
ix)	D
x)	I

Ans: 7

i)	C
ii)	D
iii)	A
iv)	B

Ans: 8

i)	C
ii)	D
iii)	A
iv)	B

Ans: 9

i) C
ii) D
iii) B
iv) A

Ans: 10

i) D
ii) A
iii) B
iv) C

Ans: 11

i) D
ii) C
iii) B
iv) A

Ans: 12

i) D
ii) A
iii) B
iv) C

Ans: 13

i) D
ii) C
iii) A
iv) B

(III) State whether the following are 'True' or 'False':

1. In case of mutually exclusive capital budgeting decision, all the feasible proposals may be accepted.
2. As per the Gordan Model, $K_e = D_1/P_0 + g$, where K_e = Cost of Equity, D_1 = Dividend, P_0 = Current market price of share and g = growth rate.
3. Gross Working Capital is the difference between total current assets and total current liabilities.
4. Working Capital Turnover Ratio may be classified under Activity Ratio.
5. Ratio Analysis is the only technique of analysis of financial statement.
6. The difference between the cash receipts and cash payments is the net cash flow provided by (or used in) operating activities.
7. Commercial Paper (CP) is a secured promissory note.
8. Investment decisions and capital budgeting are same.
9. ARR is the Accounting Rate of Return or Average Rate of Return.
10. Capital Budgeting is the short term financial planning.
11. Risk free interest rate and cost of capital are same things.
12. Financial leverage depends upon the operating leverage.
13. Cost of capital is highest in Equity share Financing.
14. Bill Financing is least liquid from Banker's point of view.
15. Payout Ratio = Earning per Equity share / Dividend per equity share.
16. Liquid Assets=Current Assets – Inventory.
17. Under cash credit / overdraft arrangement, a predetermined limit for borrowing is specified by the bank.
18. As per TANDON Committee norms under method 1 the proprietor should contribute 75% of Working Capital Gap.
19. Value of right = Cum right share price minus Ex right share price.
20. Combined leverage = Contribution/EBT.
21. DPP = Discounted Annual Cash Flow/Investment.
22. Project can be accepted when NPV is positive or at least zero.
23. Treasury Bills are short term instruments issued by the Reserve Bank of India to address short term liquidity shortfalls.
24. While calculating cost of redeemable debt, it is necessary to consider the repayment of the principal, but the interest can be ignored.
25. A Depository Receipt in the US market is called American Depository Receipt (ADR).
26. Net Present Value method cannot serve as the best decision criteria for selection of projects when they are mutually exclusive.
27. At Internal Rate of Return the Profitability Index will be zero.
28. For an all equity company Cost of Capital is same as Cost of Equity.
29. Commercial Paper is a long term source of Finance.
30. Liquid Assets do not include Inventory.
31. NPV is Non-Discounted Cash Flow Technique of Capital Budgeting.
32. Cash collected from Sundry Debtors will be shown under Cash from Investing Activities as per AS – 3.
33. If dividends from at 'g'% p.a. and cost of equity is ke, the current market price of a share is determined by a geometric progression with common ratio (1 + g) (1 + k_e).
34. The MM Hypothesis assumes that the overall cost of capital is independent of the capital structure.
35. Companies P and Q are competitors for product PQ. P has a higher degree of operating leverage than Q. if demand for PQ decreases, profits of Q will decrease at a slower rate than P.
36. The internal rate of return (IRR) assumes that cash flows are reinvested at the firm's cost of capital.
37. As per Walter's Model of Dividend Policy the firm should retain its earnings if the rate of internal retention is higher than the capitalization rate.
38. Operating Cycle means time required to Produce One Quantity of a Product.

39. IRR and NPV always give the same profitability ranking.
40. If the Profitability Index is more than one, the project should be accepted otherwise rejected.
41. The permissible bank borrowings are calculated under Method – I = 0.75 (Current Assets) – Current Liabilities.
42. There is a conflict between profitability and liquidity of a firm.
43. The Finance Manager has to bring a trade-off between risk and return by maintaining a proper balance between debt capital and equity share capital.
44. The earlier objective of profit maximization is now replaced by wealth maximization.
45. The modern approach to the Financial Management is concerned with only the solution of a problem - financing of a business enterprise.
46. The investment decision is concerned with the selection of assets.
47. One of the most important functions of the Finance Manager is to ensure availability of adequate financing.
48. Accounting Rate of Return (ARR) method does not consider time value of money.
49. Unrealised gains and losses arising from changes in foreign exchange rates are not cash flows.
50. A high proprietary ratio will indicate a relatively little danger to the creditors or vise-versa in the event of forced reorganization or winding up of the company.
51. Cash equivalents include purely short term and highly liquid investments which are readily convertible into cash and which are subject to an insignificant risk of changes in value.
52. An example of cash flows arising from investing activities is Cash proceeds from issuing shares.
53. Debtors Turnover Ratio or Debt Collection Period Ratio measures the quantity of debtors since it indicates the speed with which money is collected from the debtor.
54. Decrease in working capital is a source of fund.
55. According to Accounting Standard - 3 (Revised) an enterprise should prepare a Cash Flow Statement and should present it for each period with financial statements prepared.
56. The business risk is independent of capital structure because the operating profitability is not influenced by the sources from which the funds have been raised.
57. Under CAPM model, it is assumed that unsystematic risk can be avoided by the investors by considering different kinds of securities in their portfolio.
58. According to Walter‘s model, the optimal dividend payout ratio of a growth firm is 100 per cent.
59. The investment policy adopted by the company is fixedǁ. This assumption is made in Gordon‘s Dividend Model.
60. When NPV is zero PI will be one.
61. In case the IRR of a project is higher than the cost of capital, NPV will be positive.
62. In calculating Discounted Payback Period, IRR is used as the discounting rate.
63. IRR is also known as the highest opportunity cost that the project can bear.
64. Debt Service Coverage Ratio indicates the liquidity of a firm in relation to its ability to meet projected daily expenditure from operations.
65. Bill Discounting is defined as the relationship between the seller of goods and a financial firm, called the Factor.
66. Finance is called the "Chemistry of money".
67. Capital Budgetary Forecasts Returns on proposed long-term investments and compares profitability of different Investments and their cost of capital.
68. In mutually exclusive capital budgeting decisions, the firm can accept all feasible proposals.
69. Weighted Average Cost of Capital in always calculated with reference to book value of different sources of funds.
70. Debt-Equity Ratio is a measure of long-term solvency of a firm.
71. Capital Rationing as a situation when the Government has imposed a ceiling on investment by a firm.

72. **In Financial Management, the objective of Financial Manager is profit maximization.**
73. **Investment Decisions and Capital Budgeting are one and the same.**
74. **Operating Leverage analyses the relationship between Sales Level and Earning Per Share (EPS).**
75. **The Cost of Capital is the required rate of return to maintain the value of the firm.**
76. **Wealth maximization goal is only an extension of profit maximization goal of the organization.**
77. **Cost of capital is not the minimum required rate of earning or the cut off rate of capital Expenditure.**
78. **Low degree of operating leverage and high degree of financial leverage is not an ideal situation.**
79. **IRR indicated that the discounting rate at which net present value is Zero.**

Answer Key:

1. False
2. True
3. False
4. True
5. False
6. True
7. False
8. False
9. True
10. False
11. False
12. False
13. True
14. False
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79. True

NOTES

Behind every successful business decision, there is always a CMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

Headquarters

CMA Bhawan, 12 Sudder Street, Kolkata - 700016

+91-33-2252 1031/34/35/1602/1492

Delhi Office

CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

+91-11-24666100

studies@icmai.in

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