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FINANCIAL MANAGEMENT

THIRD SEMESTER M.COM ELECTIVE :MC3E(F)01

Multiple Choice Questions

1. Profit maximization when:
   a. Cost is minimized
   b. revenue is maximized
   c. marginal revenue = marginal cost
   d. None of these.
2. Net working capital means:
   a. Current asset+current liability
   b. current asset-current liability
   c. current asset only
   d. none of these
3. The longer the operating cycle:
   a. The larger the size of current assets
   b. the smaller the size of current asset.
   c. current asset remain the same
   d. none of the above.
4. Which of the following is not the principle of working capital management
   a. Risk variation
   b. cost of capital
   c. maturity of payment
   d. conservatism
5. Capital structure is optimal when :
   a. WACC tends to decline
   b. WACC is the lowest
   c. cash is sufficient to meet debt
   d. none of these
6. Capital structure can be classified according to :
   a. Nature and sources
   b. ownership and creditorship
   c. cost behavior
   d. all of these
7. MM theory suggests that changing leverage ratio does not influence the value of firm because of :
   a. The arbitrage process
   b. no change in the WACC
   c. both of the above
   d. none of the above
8. Cost of preference share is:
   a. Treated for taxes
   b. not treated for taxes
   c. only occasionally treated for taxes
   d. none of these
9. Cost of equity share is influenced by:
   a. Growth rate of dividend only
   b. growth rate of earnings only.
   c. both of the above
   d. none of these
10. Cost of new debt incorporates:
    a. Floatation cost
    b. no floatation cost
    c. only a part of floatation
    d. none of these

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11. MM theory suggests that dividend payment:

    a.has a positive impact on the value of firm

    b. has a negative impact on the value of a firm

    c. has no impact on the value of firm.

    d.none of these

12. Residual theory of dividend is applicable only when:

    a. The cost of retained earnings lower than the cost of debt

    b. the cost of retained earnings is higher than the cost of debt

    c. the cost of retained earnings is equal to the cost of debt.

13. In _____ approach, the capital structure decision is relevant to the valuation of the firm.

    a. Net income b. Net operating income

    c. Traditional d. Miller and Modigliani

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

    a. that debt and equity levels remain unchanged.

    b. that dividends increase at a constant rate.

    c. that ko remains constant regardless of changes in leverage.

    d. that interest expense and taxes are included in the calculation.

15. Marketable securities are primarily

    a. Short term debt instruments. b. Short term equity securities.

    c. Long term debt instruments d. Long term equity securities.

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ANSWER KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	b	e	d	b	d	c	b	c	a	c	b	a	c	a

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