## FINANCIAL MANAGEMENT - 16UCO625

## K1 LEVEL QUESTIONS

## UNIT-I

1. A statement of what one owns and owes _____

**a) Balance sheet** b) liability c) net worth d) assets

2. Plan for spending and saving money____________

a) Interest b) balance sheet c) endorsement **d) budget**

3. Setting financial goal is an example of?

a) Comparing financial institutions **b) element of financial planning** c) assessing current finances d) benefits of financial planning

4. What is the difference between assets and liability?

**a) Net worth** b) assets c) liability d) balance sheets

5. Recording expenses and deposits is called a_________

**a) check register** b) setting goal c) online banking d) all the above

6. Financial decision involve___________

**a) Investment, financing and dividend decisions** b) investment, financing and sales decisions c) financing, dividend and cash decision d) financing, cash decision and sales decision

7. The book cost which are related to the past is called as________

**a) Historical cost** b) specific cost c) explicit cost d) marginal cost

8. The relationship between the various long term forms of financing is called as_________

a) Cost of capital **b) capital structure** c) financial structure d) working capital

9. The most unproductive asset is ___________

a) Plant b) machinery **c) cash** d) stock

10. Objectives of financial management is _________

a) Profit maximisation b) wealth maximisation c) growth of the firm **d) all the above**

## UNIT-II

1. The part of profits of a company which is distributed by the company among its shareholder is known as _______

a) Interest **b) dividend** c) Assets d) capital

2. Cost of capital is______

a) Maximum rate of return **b) minimum rate of return** c) Dividend d) interest

3. According the present value of expected return form investments is _____ to the cost of investment

**a) Greater than or equal** b) less than or equal c) equal d) none of the above

4. Financial decision such as______

a) Dividend policy b) capitalisation of profits c) working capital **d) all the above**

5. Cost of debts is the ______ payable on debts

a) Rate of dividend b) cost **c) rate of interest** d) rate of amount

6. Cost of preference capital is________ payable on preference shares

**a) Flexible rate of dividend** b) fixed rate of dividend c) fixed rate of interest d)Flexible rate interest

7. An increase in the market value of a preferred stock will________ the cost of preferred stock

a) Increase **b) Decrease** c) not affects d) either increase or decrease

8. In weighted average cost of Capital Company can affect its capital cost through ______

a) Policy of capital structure b) policy of dividends c) policy of investment **d) all the above**

9. Under traditional approach cost of equity is _______

**a) More than cost of the debt** b) equal to overall cost c) less than cost of debts

d) less the overall cost

10. In finance “working capital” means the same things as_____

a) Total assets b) fixed assets c) current assets **d) currents assets minus current liability**

**UNIT III**

1. Long term capital resources________

a) Loans b) shares c) bonds **d) all the these**

2. Capital structure of a company refers to ________

**a) Long term debts, preferred stock, equity** b) current assets and current liability

c) total assets – liability d) shareholders’ equity

3. What forms capital structure of a company?

a) Debentures b) equity share c) preference share **d) all the above**

4. To increase a given future value the discount rate should be adjusted________

**a) Upward** b) downward c) first upward than downward d) none of the above

5. A firm ________ decision involve capital expenditure

a) Dividend decision b) financial decision **c) investment decision** d) liquidity decision

6._______ leverage a rise from the existence of first operating expenses

a) Financial **b)** combined **c) operating** d) A and C

7._______leverage derive from the existence of fixed interest expenses

**a) Financial** b) combined c) operating d) B and C

8. EBIT –explain

**a)Earnings before interest and tax** b) earnings before income and tax c) earnings before interest or tax d) all the above

9. EBIT is more beneficial employment of debt capital is______ structure

a) Share **b) capital** c) debts d) profits

10. Capital structure multiplied by its weights in the capital structure is called_______

a) Marginal cost of capital b) the cost of capital c) leverage **d) weighted average cost of capital**

## UNIT IV

1. The term of capital denotes that _____ of firm.

a) Funds b) short term debts c) long term debts **d) long term funds**

2.______ includes debentures and long term loans

a) Ownership capital **b) debt capital** c) share capital d) working capital

3.______leverage explain the degree of operating risk

a) Financial b) combined c) A and B d**) operating**

4. Cost of capital refers to the opportunity cost of making a specific

**a) Investment** b) marketing c) capital d) bonds

5. EPS stands for

a) Earning per stock **b) earnings per share** c) equity preference share d) equity preference stock

6. Ke represents

a) cost of debts b) value of debts **c) cost of equity** d) rate of return

7. Financial leverage is also known as

**a) Trading on equity** b) operating expense's c) equity share d) all the above

8. Net operating income (not) approach was propounded by ______

a) Solomon Ezra b) David Durand **c) modigillani-miller** d) none of these

9. Working capital refers to excess of currents assets over_____

a) Capital  b) bad debts  c) share& debentures  **d) current liability**

10. Role of financial management_______

a) Liquidity  b) profitability  c) management  **d) retained capital**

**UNIT V**

1.________ is the variability between the expected and actual return

a) Return  **b) Risk**  c) capital gain  d) liquidity

2. Dividend policy of a firm affects both the ______ financing and wealth of share holders

**a) Long-term** b) short- term  c) both A and B  d) none of these

3. Profit of a company is distributed to shareholders as _______

a) Interest  **b) dividend**  c) loan  d) both A and B

4. Theory of irrelevance is divided into 2 approaches one is MM model and the other is

**a) Residual approach**  b) dual approach  c) Walter's approach  d) Gordon's approach

5. Walter's support that dividend decision are

a) Irrelevant& affect the value  **b) relevant& affect the value**  c) relevant &does not affect the value  d) irrelevant & does not affect the value

6. What are the types of dividend policy _______

a) Regular dividend policy  b) stable dividend policy  **c) both A and B**

d) none of the

7.__________ means payments of a fixed percentage of net earnings as dividends every year

a) Constant dividend per share  b) stable dividend policy  **c) constant pay-out ratio** d) regular dividend policy

8. What are the forms of dividend?

a) Cash dividend  b) bond dividend  c) property dividend  **d) all the above**

9. What is the name for bond dividend?

**a) Scrip dividend** b) property dividend c) A and B d) none of these

10.________ means issue of bonus shares to the existing share holders

a) Cash dividend b) stable dividend **c) stock dividend** d) property dividend

**FINANCIAL MANAGEMENT -16UCO625**

**K 2 LEVEL QUESTIONS**

**UNIT I**

1. Define financial management.

"**Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations."-** Massie

2. What is fiancé?

**Finance is defined as the management of money and includes activities like investing, borrowing, lending, budgeting, saving, and forecasting. There are three main types of finance: (1) personal, (2) corporate, and (3) public/government.**

3. What are the functions of finance?

- ✓ **Acquiring sufficient funds**
- ✓ **Proper utilization of funds**
- ✓ **Increasing profitability**
- ✓ **Maximising firm's value**

4. What is business finance?

**Business finance refers to money and credit employed in business. It involves procurement and utilization of funds so that business firms may be able to carry out their operations effectively and efficiently.**

5. What are the functions of finance manager?

- ✓ **Finance forecasting &planning**
- ✓ **Acquisition of funds**
- ✓ **Investment of funds**
- ✓ **Helping in valuation decision**
- ✓ **Maintaining proper liquidity**

6. What are the two objective of financial management?

- ✓ **Profit maximisation**
- ✓ **Wealth maximisation**

7. What are the examples of modern approach?

- ✓ **Investment**
- ✓ **Dividend**
- ✓ **Collection**

- ✓ **Finance**

8. What is wealth maximisation?

**A process that increases the current net value of business or shareholder capital gains, with the objective of bringing in the highest possible return. The wealth maximization strategy generally involves making sound financial investment decisions which take into consideration any risk factors that would compromise or outweigh the anticipated benefits.**

9. Write short note of profit maximisation?

**Profit earning is the main aim of every economic activity institution must earn profit to cover it costs and provide funds for growth.**

10. Write a two type of controller?

- ✓ **Planning and control management**
- ✓ **Prepare the financial reports**
- ✓

**UNIT-II**

1. Define *cost of capital:*

**According to Ezra Solomon, 'the cost of capital is the minimum required rate of earnings or the cut-off rate of capital expenditure'.**

2. What is cost of preference share capital?

**Cost of preference share capital is that part of cost of capital in which we calculate the amount which is payable to preference shareholders in the form of dividend with fixed rate. The cost of capital that is incurred for the preference share capital includes the dividend that needs to be paid at the end of the financial year for the shares held by preference shareholders.**

3. What is cost of retained earning?

**Retained Earnings (RE) are the portion of a business's profits that are not distributed as dividends to shareholders but instead are reserved for reinvestment back into the business. Normally, these funds are used for working capital and fixed asset purchases (capital expenditures) or allotted for paying off debt obligations**.

4. What are the types of cost of debt?

- ✓ **Irredeemable debt**
- ✓ **Redeemable debt**

5. What is cost of debts?

**Debt is the external source of financing cost of debt is the simply the interest paid by the firm on debt.**

6. What do you mean by cost of capital?

**Cost of capital of a firm is the minimum rate of return expected by its investors**

7. What is the significance of cost of capital?

- ✓ **As a acceptance criteria in Capital budgeting**
- ✓ **As a determination of capital mix on capital structure decision**
- ✓ **As a basis for evaluation the financial performance**

8. Write a short note on concept of cost of capital.

- ✓ **The expected normal rate of return at zero risk level**
- ✓ **The premium for financial risk**
- ✓ **Premium for business risk**

9. Write a formula for weighted Average Cost of Capital.

$$\mathbf{WACC = ((E/V) * R_e) + [((D/V) * R_d)*(1-T)]}$$

10. Write a cost of redeemable debt formula?

**Cost of Redeemable Debt Formula** $\mathbf{= L + (NPV_L/NPV_H - NPV_L) x\ (H-L)}$

## UNIT III

1. What is capital structure?

**The capital structure is made up of debts and equity securities and refers to presents financing of a firm. It is composed of long term debts preference share capital and shareholders' funds.**

2. Write any three principles of capital structures?

- ✓ **Cost**
- ✓ **Risk**
- ✓ **Time**

3. Define capital structure.

**Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders"-P. Chandra.**

**4. What is business risk?**

**Business risk is the possibilities a company will have lower than anticipated profits or experience a loss rather than taking a profit. Business risk is influenced by numerous factors, including sales volume, per-unit price, input costs, competition, the overall economic climate and government regulations. A company with a higher business risk should choose a capital structure that has a lower debt ratio to ensure it can meet its financial obligations at all times.**

5. Write the note on the importance of capital structure?

**The term capital structure refers to the relationship between the various long term form of financing such as debenture preference share capital and equity share capital.**

6. What is finance risk?

**Financial risk refers to the risk of a firm that may not be able to cover its fixed financial cost. Financial risk is associated with the capital structure of company.**

7. Discuss any five factors relevant in determining capital structure?

- ✓ **Financial leverage**
- ✓ **Risk**
- ✓ **Control**
- ✓ **Flexibility**

8. Write a note on assets structure?

**The proportions of various types of asset held by a firm as shown in the balance sheet. For example, a large manufacturing company or public utility is likely to have proportionately large fixed assets, while retail companies are likely to have proportionately large current assets, such as debtors and stock. A firm's asset structure helps to determine the way in which finance is raised, in particular the balance of long-term loans and short-term debt.**

9. Name various theorises of capital structure?

- ✓ **Net income approach**
- ✓ **Net operating income approach**
- ✓ **The traditional approach**
- ✓ **Modigliani and miller approach**

10. What is legal requirement?

**The government has also issued certain guideline for the issue of share and debentures. The legal restrictions are very significant as this lay down a frame work with in capital structure decision as to be made. UNIT-IV-Multiple Choice Questions**

**UNIT IV**

1. What is cash budget?

**A cash budget is an estimation of the cash inflows and outflows for a business over a specific period of time.**

2. What is capital budget?

**Capital budgeting is the process in which a business determines and evaluates potential large express or investment. It is also known as "investment appraisal"**

3. What is management of inventory?

**Inventory management is the supervision of non-capitalization assets and stock items.**

4. What is the cost of receivables?

**It is typical for a business to perceive their Accounts Receivable as a cash equivalent. Sadly this short term asset has a lot of differences that are commonly overlooked, such as, the cost of capital, doubtful accounts, and payment/collections expense.**

5. What credit policy?

**A firm's credit policy is the set of principles on the basis of which it determines who it will lend money to or gives credit (the ability to pay for goods or services at a later date).**

6. What is the receivables management?

**Receivables management is the process of making decisions relating to investments in trade debtor.**

7. Write any three tools and techniques of inventory management

- ✓ **Determination of stock levels**
- ✓ **Determination of safety stock**
- ✓ **V. E. D analysis**

8. Define capital budget

**Capital budget consists of capital receipt and payment. It also incorporate transaction in the public account.**

9. Write any two objectives inventory of management

- ✓ **To avoid both over stocking and under stocking of inventory**
- ✓ **To minimise losses through deterioration pilferage wastage and damage**

10. What is management of cash?

**Cash is one of the current assets of a business. It is needed at well times to keep the business going.**

## UNIT V

**1. What is dividend?**

**Dividend refers to a reward, cash or otherwise, that a company gives to its shareholders. Dividends can be issued in various forms, such as cash payment, stocks or any other form. A company's dividend is decided by its board of directors and it requires the shareholders' approval. However, it is not obligatory for a company to pay dividend. Dividend is usually a part of the profit that the company shares with its shareholders.**

2. Definition Walters approach

**Prof. Walters approach support the doctrine that dividend decision are relevant and affect the value of the firm.**

3. Write any two assumption of Walter approach

- ✓ **Earnings and dividend do not change while determining the value**
- ✓ **The firm has a very long life**

4. What is asset dividend?

**The term dividend refers to a distribution of profits payable to shareholders in accordance with their shareholding. In the case of an asset dividend, property is paid instead of money, usually in the form of a product produced by the company.**

5. Define Gordon approach

**According to Gordon the market value of a share is equal to present value of future stream of dividend.**

6. What are the types of dividend policy?

- ✓ **Regular dividend policy**

- ✓ **Stable dividend policy**
- ✓ **Irregular dividend policy**
- ✓ **No dividend policy**

7. What are the determine of dividend policy?

- ✓ **Legal restrictions**
- ✓ **Nature of industry**
- ✓ **Desire and type of shareholders**

8. What is the stables dividend?

**The term of dividend means consistency or lack of variability in the stream of dividend payment.**

9. List out forms of dividend.

- ✓ **Cash dividend**
- ✓ **Bond dividend**
- ✓ **Property dividend**
- ✓ **Stock dividend**

10. What is stock dividend?

**A stock dividend is a dividend payment made in the form of additional shares rather than a cash pay-out. Companies may decide to distribute this type of dividend to shareholders of record if the company's availability of liquid cash is in short supply.**

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**K 3 LEVEL QUESTIONS**

**UNIT I**

1. What is profit maximization?

2. What are the approaches to finance function?

3. List out the draw backs of profit maximization.

4. What are the functions of finance?

5. Write about wealth maximization?

6. What are the functions of finance manager?

7. Distinguish between controller and treasure.

8. What are the aims of finance function?

9. What are the scopes of finance management?

10. What are the function areas of finance management?

**UNIT II**

1. Explain the concept of cost of capital.

2. Write a short note on cost of retained earnings.

3. Explain cost of debt.

4. Write a short note on equity share capital.

5. Explain weighted average cost of capital.

6. Differentiate preference share capital and equity share capital.

7. Briefly explain the cost of capital.

8. Explain the type of cost of debt.

9. Write short note on dividend yield method.

10. Explain the significance of cost of capital.

**UNIT III**

1. What is net income approach? And explain their assumption.
2. What are the determinants of capital structure?
3. What is optimal capital structure?
4. What are the theories of capital structure?
5. Write the assumption of net operating income approach.
6. Explain net operating income approach.
7. What is capital structure?
8. What are the purposes of financing in capital structure?
9. Differentiate between capital structure and optimal capital structure?
10. What are the considerations for achieving the optimal capital structure of an organization?

## UNIT IV

1. What are the kinds of working capital?
2. List out the important of adequate working capital.
3. What are the needs of working capital?
4. What are the determinants of working capital?
5. What are the objectives of inventory management?
6. What are natures of inventory?
7. What are the source of short term and long term working capital?
8. What do you mean by receivable?
9. Enumerate the various cost of receivable.
10. What are the benefits of holding inventory?

## UNIT V

1. Write a short note on dividend policy?
2. What is dividend payout ratio? Explain.
3. What is the significance of stable dividend?

4. Write the assumption and criticism of Walters approach.

5. What are the types of dividend policy?

6. Explain determined of dividend policy.

7. Explain the form of dividend policy.

8. What is the significance of regular dividend policy?

9. Explain the theory of Walters approach.

10. Explain the theory of gardens approach

## FINANCIAL MANAGEMENT -16UCO625

## K 4 LEVEL QUESTIONS

### UNIT I

1. Define financial management; explain the scope of financial management.

2. Briefly discuss the function of finance and finance manager.

3. Explain the objective of financial management.

4. What is financial management?  Discuss various approaches to finance function.

5. Explain the duties of controller and treasure.

### UNIT II

1.Write a short note on retained earnings and weighted average cost of capital.

2. Define cost of debts and explain its type.

3. What is cost of capital and explain its significance?

4. Explain the different approaches for computing the cost of equity.

5. Explain weighted average cost of capital.

### UNIT III

1. Explain net income approach.

2. Explain net operating income approach.

3. Write the determinants of capital Structure.

4. What is capital structure?  Distinguish between capital structure and optimal capital structure .

5. Explain the considerations for achieving the optimal capital structure of an organization

### UNIT IV

1. Determine the factors of working capital requirement.

2. Explains the tools and techniques of inventory management.

3. What are the financing for short-term working capital?

4. What are the dimensions of receivable management?

5. Explain the concept of cash management.

## UNIT V

1. What is dividend policy? And explain its type.

2. Explain about Walters approach.

3. Explain forms of dividend and determinants of dividend policy.

4. Explain about garden's approach.

5. Differentiate Walter's theory and garden's theory.