**SEMESTER- V**

**COURSE- B.COM(H)**

**PAPER- FINANCIAL MANAGEMENT**

## ASSIGNMENT

Q1. Describe and evaluate payback method of evaluating investment decisions.

Q2. How the role of finance manager has evolved over time?

Q3. Which are the major decision areas of financial management?

Q4. Wealth maximization is superior to profit maximization as objective of financial management. Discuss.

## INTERNAL TEST

Q.1 Why time value of money is important in financial decisions?

Q. 2 A company is considering the purchase of a machine that will cost 50000. The machine will have a life of 5 years and it is expected to generate the following cash flows after tax during its life time :

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Cash flows (Rs.) | 10,000 | 10,000 | 15,000 | 20,000 | 20,000 |

If the firm's cost of capital is 10% calculate Payback period, Net present value and Internal rate of return for the proposal.

Q. 3 Define leverage. What causes operating and financial leverage? How leverage affects the riskiness of the firm?

Q. 4 Discuss the Net Income and Net Operating Income approach to capital structure?

Q. 5 Discuss the factors that affect the capital structure decision of the firm in practice.

## MULTIPLE-CHOICE QUESTIONS

1. The assets held by a business that can be easily converted into cash:

(a)Tangible assets

(b)Intangible assets

(c)Fixed assets

(d)Current assets

(Ans:d)

2. The return which the company pays on borrowed funds is termed as:

(a)Dividend

(b)Interest

(c)Bonus

(d)All of the above

(Ans:b)

3. The following is(are) the type(s) of capital budgeting decision(s)

(a)Diversification

(b)Replacements

(c)Expansion

(d)All of the above

(Ans:d)

4. Current assets are also referred to as

(a)Working capital

(b)Investments

(c)Inventory

(d)Livestock

(Ans:a)

5. Capital Budgeting Decisions are:

(a) Reversible,

(b) Irreversible,

(c) Unimportant,

(d) All of the above.

(Ans:b)

6. Cost of Capital refers to:

(a) Flotation Cost,

(b) Dividend,

(c) Required Rate of Returned

(d) None of the above.

(Ans:c)

7. Which of the following has the highest cost of capital?

(a) Equity shares,

(b) Loans,

(c) Bonds,

(d) Preference shares.

(Ans:a)

8. Cost of Capital for Bonds and Debentures is calculated on:

(a) Before Tax basis,

(b) After Tax basis,

(c) Risk-free Rate of Interest basis,

(d) None of the above.

(Ans:b)

9. Which of the following cost of capital require tax adjustment?

(a) Cost of Equity Shares,

(b) Cost of Preference Shares,

(c) Cost of Debentures,

(d) Cost of Retained Earnings.

(Ans:c)

10. 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.

(Ans:d)

11. Advantage of Debt financing is:

(a) Interest is tax-deductible,

(b) It reduces WACC,

(c) Does not dilute owners control,

(d) All of the above.

(Ans:d)

12. Combined Leverage is obtained from OL and FL by their:

(a) Addition,

(b) Subtraction,

(c) Multiplication,

(d) Any of these

(Ans:c)

13. High degree of financial leverage means:

(a) High debt proportion,

(b) Lower debt proportion,

(c) Equal debt and equity,

(d) No debt

(Ans:a)

14. Operating leverage arises because of:

(a) Fixed Cost of Production,

(b) Fixed Interest Cost,

(c) Variable Cost,

(d) None of the above

(Ans:a)

15. Financial Leverage arises because of:

(a) Fixed cost of production,

(b) Variable Cost,

(c) Interest Cost,

(d) None of the above

(Ans:c)

16. Operating Leverage is calculated as:

(a) Contribution /EBIT,

(b) EBIT/PBT,

(c) EBIT /Interested

(d) EBIT /Tax

(Ans:a)

17. Financial Leverage is calculated as:

(a) EBIT/Contribution,

(b) EBIT/PBT,

(c) EBIT/ Sales,

(d) EBIT /Variable Cost

(Ans:b)

18. Business risk can be measured by:

(a) Financial leverage,

(b) Operating leverage,

(c) Combined leverage,

(d) None of the above

(Ans:b)

19. If the fixed cost of production is zero, which one of the following is correct?

(a) OL is zero,

(b) FL is zero,

(c) CL is zero,

(d) None of the above

(Ans:a)

20. If a company issues new share capital to redeem debentures, then:

(a) OL will increase,

(b) FL will increase,

(c) OL will decrease,

(d) FL will decrease

(Ans:d)

21. If a firm has a DOL of 2.8, it means:

(a) If sales increase by 2.8%, the EBIT will increase by l%,

(b) If EBIT increase by 2.896, the EPS will increase by 1 %,

(c) If sales rise by 1%, EBIT will rise by 2.8%,

(d) None of the above

(Ans:c)

22. Which of the following is true for Net Income Approach?

(a) Higher Equity is better,

(b) Higher Debt is better,

(c) Debt Ratio is irrelevant,

(d) None of the above.

(Ans:b)

23. In case of Net Income Approach, the Cost of equity is:

(a) Constant,

(b) Increasing,

(c) Decreasing,

(d) None of the above.

(Ans:d)

24. In case of Net Income Approach, when the debt proportion is increased, the cost of debt:

(a) Increases,

(b) Decreases,

(c) Constant,

(d) None of the above.

(Ans:c)