

FINANCIAL MANAGEMENT

1.	Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in:
(a)	an increase in the average collection period.
(b)	a decrease in bad debt losses.
(c)	an increase in sales.
(d)	higher profits
	Answer: A an increase in the average collection period.
2.	The credit policy of Spurling Products is "1.5/10, net 35." At present 30% of the customers take the discount, 62% pay within the net period, and the rest pay within 45 days of invoice. What would receivables be if all customers took the cash discount?
(a)	Lower than the present level.
(b)	No change from the present level.
(c)	Higher than the present level.
(d)	Unable to determine without more information
	Answer: A Lower than the present level
3.	An increase in the firm's receivable turnover ratio means that
(a)	it is collecting credit sales more quickly than before.
(b)	cash sales have decreased.
(c)	it has initiated more liberal credit terms.
(d)	inventories have increased.
	Answer: A it is collecting credit sales more quickly than before
4	A single, overall cost of capital is often used to evaluate projects because:
(a)	it avoids the problem of computing the required rate of return for each investment proposal.
(b)	it is the only way to measure a firm's required return.
(c)	it acknowledges that most new investment projects have about the same degree of risk.
(d)	it acknowledges that most new investment projects offer about the same expected return
	Answer: A it avoids the problem of computing the required rate of return for each investment proposal.
5	The cost of equity capital is all of the following Except
(a)	the minimum rate that a firm should earn on the equity-financed part of an investment.
(b)	a return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged.
(c)	by far the most difficult component cost to estimate.
(d)	generally lower than the before-tax cost of debt
	Answer: D generally lower than the before-tax cost of debt

6	In calculating the proportional amount of equity financing employed by a firm, we should use:	
	(a)	the common stock equity account on the firm's balance sheet.
	(b)	the sum of common stock and preferred stock on the balance sheet.
	(c)	the book value of the firm.
	(d)	the current market price per share of common stock times the number of shares outstanding
Answer: D the current market price per share of common stock times the number of shares outstanding		
7	In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?	
	(a)	common stock.
	(b)	debt.
	(c)	preferred stock.
	(d)	none of the above
Answer: B debt..		
8	The common stock of a company must provide a higher expected return than the debt of the same company because	
	(a)	there is less demand for stock than for bonds.
	(b)	there is greater demand for stock than for bonds.
	(c)	there is more systematic risk involved for the common stock.
	(d)	there is a market premium required for bonds.
Answer: C there is more systematic risk involved for the common stock.		
9	A quick approximation of the typical firm's cost of equity may be calculated by	
	(a)	adding a 5 percent risk premium to the firm's before-tax cost of debt.
	(b)	adding a 5 percent risk premium to the firm's after-tax cost of debt.
	(c)	subtracting a 5 percent risk discount from the firm's before-tax cost of debt.
	(d)	subtracting a 5 percent risk discount from the firm's after-tax cost of debt
Answer: A adding a 5 percent risk premium to the firm's before-tax cost of debt.		
10	Market values are often used in computing the weighted average cost of capital because	
	(a)	this is the simplest way to do the calculation.
	(b)	this is consistent with the goal of maximizing shareholder value.
	(c)	this is required in the U.S. by the Securities and Exchange Commission.
	(d)	this is a very common mistake.
Answer: B this is consistent with the goal of maximizing shareholder value.		
11	Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax	
	(a)	1 = bonds; 2 = common stock; 3 = preferred stock.
	(b)	1 = bonds; 2 = preferred stock; 3 = common stock.
	(c)	1 = common stock; 2 = preferred stock; 3 = bonds.
	(d)	1 = preferred stock; 2 = common stock; 3 = bonds.
Answer: B 1 = bonds; 2 = preferred stock; 3 = common stock		

12..	Current ratio is 2:5.Current liability is Rs.30000.The Net working capital is
(a)	Rs.18,000
(b)	Rs.45,000
(c)	Rs.(-) 45,000
(d)	Rs.(-)18000
	ANSWER : D Rs.(-)18000
13	The term "capital structure" refers to:
(a)	long-term debt, preferred stock, and common stock equity.
(b)	current assets and current liabilities.
(c)	total assets minus liabilities.
(d)	shareholders' equity.
	Answer: A long-term debt, preferred stock, and common stock equity.
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 $k_0$ remains constant regardless of changes in leverage.
(d)	that interest expense and taxes are included in the calculation
	Answer: C that $k_0$ remains constant regardless of changes in leverage.
15	The traditional approach towards the valuation of a company assumes
(a)	that the overall capitalization rate holds constant with changes in financial leverage.
(b)	that there is an optimum capital structure.
(c)	that total risk is not altered by changes in the capital structure.
(d)	that markets are perfect
	Answer: B that there is an optimum capital structure.
16	Two firms that are virtually identical except for their capital structure are selling in the market at different values. According to M&M
(a)	one will be at greater risk of bankruptcy.
(b)	the firm with greater financial leverage will have the higher value.
(c)	this proves that markets cannot be efficient.
(d)	this will not continue because arbitrage will eventually cause the firms to sell at the same value.
	Answer: D this will not continue because arbitrage will eventually cause the firms to sell at the same value.
17	PI of a project is the ratio of present value of inflows to _____
(a)	Life of the project
(b)	Cash outflows
(c)	Both a and b
(d)	None of the above
	Answer: B Cash outflows
18	Reserves & Surplus are which form of financing?
(a)	Security Financing
(b)	Internal Financing
(c)	Loans Financing

	(d) International Financing
	Answer: B Internal Financing
19	What are the different options other than cash used for distributing profits to shareholders?
	(a) Bonus shares
	(b) Stock split
	(c) Stock purchase
	(d) All of these
	Answer: D All of these
20	In Walter model formula D stands for
	(a) Dividend per share
	(b) Direct Dividend
	(c) Dividend Earning
	(d) None of these
	Answer: A Dividend per share
21	In MM model MM stands for...
	(a) M.Khan and Modigliani
	(b) Miller and M.Khan
	(c) Modigliani and M.Khan
	(d) Miller and Modigliani
	Answer: D Miller and Modigliani
22	The addition of all current assets investment is known as...
	(a) Net Working Capital
	(b) Gross Working capital
	(c) Temporary Working Capital
	(d) All of these
	Answer: B Gross Working capital
23	When total current assets exceeds total current liabilities it refers to
	(a) Gross Working Capital
	(b) Temporary Working Capital
	(c) Both a and b
	(d) Net Working Capital
	Answer: D Net Working Capital
24	If the weighting of equity in total capital is $\frac{1}{3}$ , that of debt is $\frac{2}{3}$ , the return on equity is 15% that of debt is 10% and the corporate tax rate is 32%, what is the Weighted Average Cost of Capital (WACC)?
	(a) 10.533%
	(b) 7.533%
	(c) 9.533%
	(d) 11.350%

	Answer: C 9.533%
25	Which of the following would not be financed from working capital?
(a)	Cash float.
(b)	Accounts receivable.
(c)	Credit sales.
(d)	A new personal computer for the office
	Answer: D A new personal computer for the office

INDIRECT TAX	
1.	_____ is levied on Inter State Supply of Goods and /or Services:
(a)	SGST
(b)	IGST
(c)	CGST
(d)	UTGST
	Answer: D Difficulty Level: S
2.	GST is a national level tax based on _____?
(a)	First point tax principle
(b)	Service Tax
(c)	Value Added principle
(d)	Second point tax principle
	Answer: C Difficulty Level: S
3.	GST was introduced in India on?
(a)	1-4-2017
(b)	1-6-2017
(c)	1-7-2017
(d)	1-5-2017
	Answer:c Difficulty Level: M

4	Indian GST model has _____ tier rate structure.
(a)	3
(b)	4
(c)	5
(d)	6
	Answer:b Difficulty Level: D

5	HSN Code Stands for
(a)	Home Shopping Network
(b)	Harmonized System of Nomenclature
(c)	Harmonized System Number
(d)	Home State Number
	Answer:b Difficulty Level: D

6	_____ specifies the activities which are neither to be treated as supply of goods nor a supply of services.	
	(a)	Schedule III of CGST Act
	(b)	Schedule I of CGST Act
	(c)	Schedule II of CGST Act
	(d)	Schedule IV of CGST Act
Answer:A		Difficulty Level:M
7	Lease, tenancy, easement, license to occupy land shall be considered as _____	
	(a)	Supply of goods
	(b)	Supply of services
	(c)	Neither as a supply of goods nor a supply of services
	(d)	Either as a supply of goods or a supply of services
Answer: B		Difficulty Level: D
8	Temporary transfer or permitting the use or enjoyment of any intellectual property right shall be treated as _____	
	(a)	Supply of services
	(b)	Supply of goods
	(c)	Neither as a supply of goods nor a supply of service
	(d)	Either as a supply of goods or a supply of services
Answer:a		Difficulty Level: M
9	Services of funeral, burial, crematorium or, mortuary including transportation of the deceased shall be treated as _____	
	(a)	Supply of goods
	(b)	Neither as a supply of goods nor a supply of services
	(c)	Supply of services
	(d)	Either as a supply of goods or a supply of services
Answer:B		Difficulty Level: S
10	What would be the tax rate applicable in case of composite supply?	
	(a)	Tax rate as applicable on ancillary supply
	(b)	Tax rate as applicable on respective supply
	(c)	Tax rate as applicable on limited supply
	(d)	Tax rate as applicable on principal supply
Answer:D		Difficulty Level: M

11.	In case of goods sent on sale on approval basis, invoice has to be issued	
	(a)	While sending the goods: another Invoice has to be issued by the recipient while rejecting the goods
	(b)	When the recipient accepts the goods or ten months from the date of supply whichever is earlier
	(c)	When the recipient accepts the goods or three months from the date of supply whichever is earlier
	(d)	When the recipient accepts the goods or six months from the date of supply whichever is earlier
Answer: D		Difficulty Level: S
12.	What is the time of supply of vouchers when the supply with respect to the voucher is the identifiable?	
	(a)	Date of issue of voucher
	(b)	Earlier of issue of voucher or redemption of voucher
	(c)	Date of redemption of voucher
	(d)	Later of issue of voucher or redemption of voucher

	Answer: C	Difficulty Level: S
13.	. what is the time of supply of service if the invoice is issued within 30 days from the date of supply of service?	
	(a)	Date of receipt of payment by the supplier
	(b)	Date of issue of invoice by the supplier
	(c)	Date of receipt of payment or date of issue of invoice whichever is earlier
	(d)	date of receipt of payment or date of issue of invoice whichever is later
	Answer:c	Difficulty Level: M

14	What is rate of tax of IGST?	
	(a)	VAT rate
	(b)	CGST+ SGST rate
	(c)	CGST rate
	(d)	SGST rate
	Answer:b	Difficulty Level: D

15	Determine the TOS in accordance with provisions of CGST Act, 2017 Date of actual supply of service – 10 <sup>th</sup> Nov, 2019 Date of Invoice – 30 <sup>th</sup> Nov, 2019 Date on Which Payment Received- 15 <sup>th</sup> Nov 2019	
	(a)	10 <sup>th</sup> Nov, 2019
	(b)	15 <sup>th</sup> Nov, 2019
	(c)	30 <sup>th</sup> Nov, 2019
	(d)	10 <sup>th</sup> Dec, 2019
	Answer:b	Difficulty Level: D

16	Whether credit on capital goods can be taken immediately on receipt of the goods?	
	(a)	Yes
	(b)	NO
	(c)	After usage of such capital goods
	(d)	After capitalizing in books of Accounts
	Answer:A	Difficulty Level:M

17	Input tax credit on capital goods and Inputs can be availed in one instalment or in multiple instalments?	
	(a)	In thirty-six instalments
	(b)	In one instalment
	(c)	In twelve instalments
	(d)	In six instalment
	Answer: B	Difficulty Level: D

18	Can the recipient avail the input tax credit for the part payment of the amount to the supplier within one hundred and eighty days?	
	(a)	Yes, but proportionately to the extent of value and tax paid
	(b)	One hundred and eight days
	(c)	Yes, on full tax amount and partly value amount
	(d)	No, he can't until full amount is paid to supplier
	Answer:a	Difficulty Level: M

19	1. The tax paying documents in section 16(2) is	
	(a)	Acknowledged copy of tax paid to department
	(b)	Bill of entry, Invoice raised on RCM supplies etc
	(c)	Supply invoice by the recipient

	(d)	Supply invoice by the suppliers	
	Answer:B		Difficulty Level: S
20	2. Whether credit can be availed without actual receipt of goods where goods are transferred through transfer of document of title before or during the movement of goods?		
	(a)	Yes	
	(b)	No	
	(c)	Can be availed only after transfer of document of title after movement of goods	
	(d)	Yes, in specific instances	
	Answer:D		Difficulty Level: M

21	Taxable minimum turnover limit in GST that is applicable to the state of Maharashtra.		
	(a)	20 lakhs	
	(b)	10 lakhs	
	(c)	25 lakhs	
	(d)	1.5 cr	
	Answer:A		Difficulty Level:M
22	What is the due date for payment of tax?		
	(a)	Last day of the month to which payment relates	
	(b)	Within 20 days of the subsequent month	
	(c)	Within 10 days of the subsequent month	
	(d)	Within 15 days of the subsequent month	
	Answer: B		Difficulty Level: D
23	Over the counter payment can be made in branches of banks authorised for deposits up to <input type="checkbox"/> _____ per challan per tax period?		
	(a)	10,000	
	(b)	5,000	
	(c)	20,000	
	(d)	40,000	
	Answer:a		Difficulty Level: M
24	which section deals with the TDS provision in GST?		
	(a)	Section 52	
	(b)	Section 51	
	(c)	Section 54	
	(d)	Section 53	
	Answer:B		Difficulty Level: S
25	Determine rate of tax and nature of supply, if not determinable at time of advance		
	(a)	28% inter-state	
	(b)	18% intra-state	
	(c)	28% intra-state	
	(d)	18% inter-state	
	Answer:D		Difficulty Level: M