

Class: B.Com. Semester – 6

Subject: Fundamentals of Financial Management (F.F.M.)

Multi Choice Questions (MCQs) / Main points of short questions (E-Content)

- (1) Which author said that Finance Management relates to the procurement of the finance and its use? - **Hogland**
- (2) Scope of Financial Management classify in to – **Managerial finance function and Administrative finance function**
- (3) How many Objectives of Financial Management ? – **4 (Maximization of Income, Satisfactory return on Investment, Effective use of Assets and Social services oriented objectives)**
- (4) “The finance function is the process of acquiring and utilizing funds by a business”, said by - **R.C. Osborne**
- (5) Modern concept of Finance function includes following matters –
- **(Financial Planning, Forecasting of fund, Acquisition and Utilization of fund, Distribution and financial control)**
- (6) How many stages of Financial Planning? – **6 (Determining financial situation, Developing financial goals, Identifying alternative courses of action, Evaluating alternatives, Creating and implementing a financial action plan and Re-evaluating and revising the plan)**
- (7) ‘Financial planning is concerned with raising, controlling and administering of funds used in Business’ – **said by Guthman and Dougall**
- (8) Traditional concept of Finance function is- **Acquisition of finance according to the objectives of business**
- (9) Value of fixed capital regularly required in the business is called – **Capitalization**
- (10) Formula of capitalization is – **Income/Rate of Return X 100**
- (11) Which method of capitalization leads to satisfactory results for new established companies – **Historical Cost Theory**

- (12) Market value of the assets is higher than Book value if called- **Under Capitalization**
- (13) Income of the company is lower than Capital of the company shows - **Over Capitalization**
- (14) Formula of Market value of the shares = **Earning of the company/No. of shares**
- (15) Formula of Book value of the shares = **Share capital + Reserve / No. of Equity shares**
- (16) Which situation of Watered capital is the same in business unit – **Over Capitalization**
- (17) How many Internal factors determining Capital Structure ? - **5 (Require for Finance, Risk in Business, Increase in Trading in Equity, Control on Management, Future Needs)**
- (18) “When company is making use of borrowed money or preference shares, for procurement of finance for company, then it has done trading on equity” is called – **Trading on Equity**
- (19) Ratio of Equity Capital is less in comparison of borrowed capital is – **Thin Equity**
- (20) Equity share capital is more than the borrowed capital is – **Thick Equity**
- (21) When in comparison of equity share capital, ratio of borrowed capital is more – **High Gearing Ratio**
- (22) “Leverage may be defined as percentage return on equity to percentage return on total capitalization”- **James E. Walter**
- (23) How many main types of Leverage? – **2 (Financial Leverage and Operating Leverage)**
- (24) A unit can have more earning due to fixed cost is the same, that situation shows – **Operating Leverage**
- (25) Formula of Degree of Operating Leverage is –

$$\text{DOL} = \frac{\text{Contribution}}{\text{EBIT}} \quad \text{or} \quad \frac{\text{F}}{\text{C}} \quad (\text{Here, F=Fixed Cost, C= Contribution})$$
- (26) Formula of Degree of Financial Leverage is –

$$\text{DFL} = \frac{\text{EBIT}}{\text{EBT}} \quad (\text{Here I = Interest, EBT = Earning Before Tax})$$
- (27) Which type of Leverage is a Double Edged Weapon ? - **Financial**
- (28) How many sources of Long Term Finance ? - **3 (Equity Share, Preference Share, Debenture)**
- (29) Give any seven features of Equity Shares. – **Dividend, Refund of Capital, General Meeting, True Owners, Registration of Share, Right Shares, Bonus Share)**

- (30) Explain types of Preference Share from the view point of refund of the capital. – **Redeemable Preference share and Irredeemable Preference share**
- (31) Explain types of Preference Share from the view point of share in the surplus profit. – **Participating and Non-Participating Preference Share**
- (32) Give any 5 benefits of Preference Share Capital. – **(Definite Dividend, Burden-free Asset, Increase efficiency of business, Benefit of Trading on equity, Share in profit)**
- (33) Give any 5 limitation of Preference Share Capital. – **(Burden of rate of dividend, No Right of voting, No capital gain, No benefit of Bonus Share, No benefit of trading on equity)**
- (34) Perpetual Debenture is also known as - **Irredeemable Debenture**
- (35) Write any 5 limitations of Debenture. – **(Burden of Interest, High price, Higher Interest Rate, Less Dividend, Difficult for a new business)**
- (36) Write any 3 reasons for watered capital. – **(Buy high rate of Asset, Less return on excess advertisement, High payment to promoters)**
- (37) Give any 3 limitations of Trading on Equity. – **(Risk of changing situations, Employees demand excess of dividend, Mortgage on fixed assets)**
- (38) Write any 3 importance of Capital Structure. – **(Raising the capital, Dividend per share, Cost of capital)**
- (39) Write any 4 main characteristics of an ideal capital structure. – **(Should be simple, Objective, flexible and have liquidity)**
- (40) “Working Capital means a sum of current assets.” said by **Mr. Banker. (Formula, Working Capital = Current Assets- Current Liabilities)**
- (41) How many main types of Working Capital? - **2 (Permanent Working Capital, Flexible Working Capital)**
- (42) What is Permanent Working Capital? – **Minimum proportion of the current assets is Permanent Working Capital.**
- (43) What is Fluctuating or Flexible Working Capital? – **The additional working capital required for maintenance of seasonal change in transaction is known as flexible working capital.**
- (44) Give names of Principles of Working Capital Management. – **(Principles of cost of capital, Equity position, maturity of payment, Optimization)**
- (45) Write names of component of Working Capital. – **(Cash, Receivables, Inventories, Creditors, Bank Overdraft)**

- (46) What is Ideal Capital? – **Good stand is obtained by bringing balance between Profitability and liquidity is called an Ideal Capital.**
- (47) How many limitations of Inadequate Working Capital? – **4(Buying costly, Production not continue, Decrease in sales, Problems in Quality of the Product)**
- (48) "Cost of capital is the minimum needed rate of earning or the cut-off rate for capital expenditure." Said by – **Soloman Ezra**
- (49) Base cost to calculate future cost is called - **Historical or Previous Cost**
- (50) Write 4 importance of Cost of Capital. – **(Taking decision of financial resources, evaluate financial position, useful in decision making process, Awareness of financial risk)**
- (51) What is Capital Budgeting? – **(I.M.Pandey - Capital budget is a firm's decision to invest its current funds most efficiently in long term activities in anticipation of an expected flow of future benefits over a series of years.)**
- (52) What is Profitability Index (PI) ? – **It is defined as tool for measuring profitability of a proposed corporate project by comparing cash flow created by the project to the capital investments required for the project. It is also called Cost-benefit ratio or Capital Rationing.**
- (53) What are the stages of Capital Budgeting? – **(Send proposal for Capital Expenses, Verifying proposal, Approval of proposal, Demand for Capital expenses, Control on Capital Expenditure)**
- (54) What is Pay-back period? – **In how much tenure the value of investment will be available in the form of return from the project.**
- (55) What is Marginal Cost of Capital? – **To determine the WACC (Weighted Average Cost of Capital) when the amount of new issued capital is considered then it is called Marginal Cost of Capital.**
