Class: - Mcom Sem IV **Year: -** 2019-2020

Sub: - Financial Management ***OBEJCTIVE BANKS*** **Exam :-** Final Exam

Chapter No.1 Investment Decisions

1. Capital Budgeting is a part of
   (a) Investment Decision
   (b) Working capital management
   (c) Marketing management
   (d) Capital structure'
2. Capital budgeting deals with
   (a) Long – term decisions
   (b) Short – term decisions
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)
3. Which of the following is not used in Capital budgeting?
   (a) Time value of money
   (b) Sensitivity analysis
   (c) Net assets method
   (d) Cash flows
4. Capital budgeting decisions are
   (a) Reversible
   (b) Irreversible
   (c) Unimportant
   (d) All of the above
5. Which of the following is not incorporated in Capital budgeting?
   (a) Tax – effect
   (b) Time value of money
   (c) Required rate of return
   (d) All of the above
6. Which of the following is not a capital budgeting decision?
   (a) Expansion programme
   (b) Merger
   (c) Replacement of an asset
   (d) Inventory level
7. A sound capital budgeting technique is based on
   (a) Cash flows
   (b) Accounting profit
   (c) Interest rate on borrowings
   (d) Last dividend paid
8. Which of the following is not a relevant cost in capital budgeting?
   (a) Sunk cost
   (b) Opportunity cost
   (c) Allocated overheads
   (d) Both (a) and (c) above

9. Capital budgeting decisions are based on
   (a) Incremental profit
   (b) Incremental cash flows
   (c) Incremental assets
   (d) Incremental capital
10. Which of the following has no effect on project cash flows?
   (a) Salvage value
   (b) Depreciation amount
   (c) Tax rate change
   (d) Method of project financing
11. Cash inflows from a project include
   (a) Tax shield of depreciation
   (b) After – tax operating profits
   (c) Raising of funds
   (d) Both (a) and (b)
12. Which of the following is not true with reference to capital budgeting?
   (a) Capital budgeting is related to asset replacement decisions
   (b) Cost of capital is equal to minimum required return
   (c) Existing investment in a project is not treated as sunk cost
   (d) Timing of cash flows is relevant
13. Which of the following is not followed in capital budgeting?
   (a) Cash flows principle
   (b) Interest exclusion principle
   (c) Accrual principle
   (d) Post – tax principle
14. Depreciation is incorporated in cash flows because it
   (a) Is unavoidable cost
   (b) Is a cash flow
   (c) Reduces tax liability
   (d) Involves an outflow
15. Which of the following is not true for capital budgeting?
   (a) Sunk costs are ignored
   (b) Opportunity costs are excluded
   (c) Increment cash flows are considered
   (d) Relevant cash flows are considered
16. Which of the following is not true for capital budgeting?
   (a) Cash flows be calculated in incremental terms
   (b) All costs and benefits are measured on cash basis
   (c) All accured costs and revenues be incorporated
   (d) All benefits are measured on after – tax basis
17. Evaluation of capital budgeting proposals is based on cash flows because
   (a) Cash flows are easy to calculate
   (b) Cash flows are suggested by SEBI
   (c) Cash is more important than profit
   (d) None of the above
18. Which of the following is not included in incremental A flows?
   (a) Opportunity costs
   (b) Sunk costs
   (c) Change in working capital

(d) Inflation effect

19. A proposal is not a capital budgeting proposal if it
    (a) Is related to fixed assets
    (b) Brings long – term benefits
    (c) Brings short – term benefits only
    (d) Has very large investments
20. In capital budgeting, sunk cost is excluded because it is
    (a) Of small amount
    (b) Not incremental
    (c) Not reversible
    (d) All of the above
21. Savings in respect of a cost is treated in capital budgeting as
    (a) An Inflow
    (b) An Outflow
    (c) Nil
    (d) None of the above
22. In capital budgeting, the term capital rationing implies
    (a) That no retained earnings available
    (b) That limited funds are available for investment
    (c) That no external funds can be raised
    (d) That no fresh investment is required in current year
23. Profitability Index, when applied to Divisible Projects, impliedly assumes that
    (a) Project cannot be taken in parts
    (b) NPV is linearly proportionate to part of the project taken up
    (c) NPV is additive in nature
    (d) Both (b) and (c)
24. A weakness of the internal rate of return (IRR) approach for determining the acceptability of investment is that it
    (a) Does not consider the time value of money
    (b) Is not a straightforward decision criterion
    (c) Implicity assumes that the firm is able to reinvest project cash flows at the firm's cost of capital
    (d) Implicity assumes that the firm is able to reinvest project cash flows at the project's internal rate of return
25. The profitability index approach to investment analysis
    (a) Fails to consider the timing of project cash flows
    (b) Considers only the project's contribution to net income and does not consider cash flow effects
    (c) Always yields the same accept/reject decisions for independent projects as the net present value method
    (d) Always yields the same accept/reject decisions for mutually exclusive projects as the net present value method
26. If an investment project has a profitability index of 1, 15, the
    (a) Project's internal rate of return is 15%
    (b) Project's cost of capital is greater than its internal rate of return
    (c) Project's internal rate of return exceeds its net present value
    (d) Net present value of the project is positive
27. The internal rate of return for a project can be determined
    (a) If the internal rate of return is greater than the firm's cost of capital

(b) Only if the project cash flows are constant
(c) By finding the discount rate that yields a net present value of zero for the project
(d) By subtracting the firm's cost of capital from the project's profitability index

28. A company has unlimited capital funds to invest. The decision rule for the company to follow in order to maximize shareholders' wealth is to invest in all projects having a(n)
(a) Present value greater than zero
(b) Net present value greater than zero
(c) Internal rate of return greater than zero
(d) NOTA

29. The net present value (NPV) method and the internal rate of return (IRR) method are used to analyze capital expenditures. The IRR method, as contrasted with the NPV method
(a) Is considered inferior because it fails to calculate compounded interest rates
(b) Incorporates the time value of money whereas the NPV method does not
(c) Assumes that the rate of return on the reinvestment of the cash proceeds is at the indicated rate of return of the project analyzed rather than at the discount rate used
(d) Is preferred in practice because it is able to handle multiple desired hurdle rates, which is impossible with the NPV method

30. The NPV of a project has been calculated to be Rs.2,15,000. Which one of the following changes in assumptions would decrease the NPV?
(a) Decrease the estimated effective income tax rate
(b) Decrease the initial investment amount
(c) Extend the project life and associated cash inflows
(d) Increase the discount rate

31. The net present value method of capital budgeting assumes that cash flows are reinvested at
(a) The risk – free rate
(b) The cost of debt
(c) The rate of return of the project
(d) The discount rate used in the analysis

32. The net present value method of a proposed investment is negative; therefore, the discount rate used must be
(a) Greater than the project's internal rate of return
(b) Less than the project's internal rate of return
(c) Greater than the firm's cost of equity
(d) Less than the risk – free rate

33. Cash inflows for capital budgeting decisions means
(a) Accounting profit – depreciation + tax
(b) Accounting profit + tax – depreciation
(c) Accounting profit – tax + depreciation
(d) Accounting profit – depreciation – tax

34. Initial cash outflows
(a) Cost of asset + Installation expenses – salvage – working capital
(b) Cost of asset + Installation expenses + salvage + working capital
(c) Cost of asset + Installation expenses + Working capital
(d) None of the above

35. The payback period is the period
(a) A project takes to pay back the loan taken to purchase the capital assets.
(b) Equal to the useful life of the machines
(c) A project takes to recover its initial cash outflow.
(d) Over which the project will be getting operating cash inflows.

36. Net present value of a machine
    (a) PV of Cash Inflows less cost of investment
    (b) PV of Cash inflows + cost of Investment
    (c) PV of Net profit after tax Less cost of Investment
    (d) PV of Cash Inflows Less Average cost of Investment
37. Profitability Index
    (a) PV of Cash Inflows Less Cost of Investment
    (b) PV of Cash Inflows + PV of Cash Outflows
    (c) (Net cost of machine + 2) + Salvage value of machine + Initial working capital
    (d) Total cash Inflows less cost of Investment
38. Which of the following methods can be used for evaluating capital budget decisions?
    (a) Discounted payback period method
    (b) Internal rate of return method
    (c) NPV method
    (d) All of these
39. The number of years taken by a project to recover the initial investment is called _____
    (a) Payback period
    (b) Investment period
    (c) Profit period
    (d) None of these
40. In payback period method, the annual cash inflow means _____
    (a) Net income after tax
    (b) Net income before tax
    (c) Net income before depreciation but after tax
    (d) Net income after tax and depreciation
41. In payback period method, the project which _____ is recommended for investment.
    (a) Takes short payback period
    (b) Takes very long payback period
    (c) Yields highest rate of return
    (d) Is having longer life
42. In _____ the project which yields the highest rate of return is selected.
    (a) Net present value method
    (b) Pay – back method
    (c) Internal rate of return method
    (d) None of these
43. Under _____ if the present value of future cash flow is highest than the initial cash outlay, the project is selected otherwise rejected.
    (a) Net present value method
    (b) Internal rate of return method
    (c) Payback period method
    (d) None of these
44. Net salvage value of fixed assets is equal to
    (a) Excess of salvage value over book value
    (b) Excess of book value over salvage value
    (c) Working capital requirement in the first year
    (d) Salvage value of fixed assets less any income tax payable on the excess of salvage value over book value.

Management and Financing of Working capital

1. The total current Assets without deducting the current liabilities.
   (a) Gross working capital
   (b) Net working capital
   (c) Permanent working capital
   (d) Temporary working capital
2. Current assets – Current Liabilities
   (a) Gross working capital
   (b) Net working capital
   (c) Permanent working capital
   (d) Temporary working capital
3. When cash is received against overdraft from bank
   (a) There is an increase in Net working capital
   (b) There is an increase in Gross working capital
   (c) There is an increase in both the gross and net working capital
   (d) There is no effect on both the gross and the net working capital
4. The minimum amount of working capital required to enable the concern to operate at the lowest level of activity
   (a) Gross working capital
   (b) Net working capital
   (c) Permanent working capital
   (d) Temporary working capital
5. Permanent working capital is also known as
   (a) Gross working capital
   (b) Net working capital
   (c) Core working capital
   (d) Fixed capital
6. When activity is at higher level, the concern needs more working capital, which is known as
   (a) Gross working capital
   (b) Net working capital
   (c) Permanent working capital
   (d) Temporary working capital
7. Cash working capital includes
   (a) Fixed assets less depreciation
   (b) Debtors at sales value
   (c) Debtors at sales less profit margin
   (d) Creditors at purchase cost less profit margin
8. Cash working capital includes
   (a) Fixed assets less depreciation
   (b) Cost of inventory including depreciation
   (c) Cost of inventory excluding depreciation
   (d) None of the above
9. Which of the following statements is false?
   (a) In a trading concern, the operating cycle does nit involve items of raw materials and work – in – progress.
   (b) In a monopolistic concern selling only on cash basis, the operating cycle does not involve the item of debtors.

(c) In a manufacturing concern, the operating cycle does not involve items of opening and closing stock
(d) Negative working capital indicates lack of liquidity and adverse solvency position of a concern.

10. The amount of funds invested in current assets is called _____.
    (a) Gross working capital
    (b) Net working capital
    (c) Surplus capital
    (d) None of these
11. Under the gross working capital concept the working capital is equal to _____.
    (a) Total current liabilities
    (b) Surplus current assets
    (c) Total current assets
    (d) None of these
12. The term net working capital refers to _____.
    (a) The excess of the current assets over current liabilities
    (b) The liquid assets
    (c) The total current assets less provisions
    (d) None of these
13. _____ will ensure high return on investment.
    (a) Adequate working capital
    (b) Surplus working capital
    (c) Shortage of working capital
    (d) None of these
14. _____ refers to idle funds which earns no return.
    (a) Shortage of working capital
    (b) Excess working capital
    (c) Variable working capital
    (d) Fixed working capital
15. Shortage of working capital may result in _____
    (a) Poor credit standing
    (b) More cash discount
    (c) More trade discount
    (d) None of the above
16. Net operating cycle can be delayed by
    (a) Increase in WIP period
    (b) Decrease in raw materials storage period
    (c) Increase in credit payment period
    (d) Both (a) and (c) above
17. If the conversion period is arrived at as , it means
    (a) It takes 10 days to covert the raw materials to finished goods
    (b) 20 days cost of production is held on an average as WIP
    (c) Raw materials which can be consumed in 10 days are held in WIP
    (d) None of the above
18. Which of the following is not a factor that affects the composition of the working capital?
    (a) Nature of business
    (b) Nature of raw materials used
    (c) Tax structure of the company
    (d) Process technology used

19. If the net working capital is negative then it indicates that
    (a) Long – term funds have been used for financing short – term assets
    (b) Long – term funds have been used for financing long – term assets
    (c) Short – term funds have been used for financing long – term assets
    (d) Short – term funds have been used for financing short – term assets
20. Net operating cycle period is
    (a) The period from raw material procurement to sale of finished goods
    (b) The length of time taken for a rupee invested in current assets to come back with profit to the company
    (c) The time taken to convert raw materials into finished goods
    (d) The time between payment of raw material purchases and the collection of cash for sales
21. The duration of the net operating cycle can be reduced by
    (a) Increasing the time available for payments to creditors
    (b) Decreasing the raw material storage period
    (c) Decreasing the work – in – progress period
    (d) None of the above
22. Gross working capital means
    (a) Total assets
    (b) Total current assets
    (c) Total current liabilities
    (d) Fixed assets minus current assets
    (e) Current assets minus current liabilities
23. Net working capital is equal to
    (a) Current assets – Current liabilities
    (b) Fixed assets – Current assets
    (c) Current assets – Cash
    (d) Long term loans – Short term loans
    (e) Current liabilities – provisions
24. Which of the following is not an item of current liabilities?
    (a) Sundry creditors
    (b) Advances from customers
    (c) Hire purchase dues
    (d) Unclaimed dividends
    (e) Debentures
25. Which of the following equations describes the net operating cash cycle?
    (a) Average stock turnover period + Average creditor payment period – Average debt collection period
    (b) Average stock turnover period + Average debt collection period – Average creditor payment period
    (c) Average cash balance + Average debt collection period – Average creditor payment period
    (d) Average cash balance – Average debt collection period + Average creditor payment period
26. Which of the following will increase the duration of the net operating cycle?
    (a) Increase in the raw material storage period
    (b) Decrease in the average payment period
    (c) Decrease in the conversion period
    (d) Both (a) and (c) above

27. Which of the following will cause a decrease in the net operating cycle of a firm?
    (a) Increase in the average collection period
    (b) Increase in the average payment period
    (c) Increase in the finished goods storage period
    (d) Increase in the raw materials storage period
    (e) Increase in the work – in – progress period
28. Which of the following statements is / are not true?
    I. Shorter the duration of net operating cycle period, slower will be the transformation of current assets into cash
    II. The net operating cycle approach is useful for both controlling and forecasting working capital
    III. Gross operating cycle period less average collection period is the net operating cycle period.
    (a) Only (i) above
    (b) Only (II) above
    (c) Only (III) above
    (d) Both (I) and (II) above
    (e) Both (I) and (III) above
29. S Ltd. buys raw materials from suppliers on six weeks' credit, which are delivered immediately. The raw materials are held in stock for four weeks before being issued to production. The production process take three weeks and the finished goods are in held in stock for two weeks before being sold on credit. Customers are allowed eight weeks' credit and pay promptly at the end of the period. What is the length of the cash conversion cycle of the business?
    (a) 19 weeks
    (b) 11 weeks
    (c) 17 weeks
    (d) 23 weeks
30. D Engineering Co. buys raw materials from suppliers on four weeks' credit and they are delivered immediately. When the raw materials are received, they are held in the warehouse for five weeks before being used in production. The production process takes one week and the completed goods are held for two weeks before being sold to credit customers. These customers are allowed a maximum period of six weeks. What is the cash conversion cycle of the business?
31. P Co. buys materials from its suppliers on eight weeks' credit. The materials are delivered immediately and held for two weeks before being issued to production. The production process takes five weeks and the finished goods are held for four weeks before being sold. All customers are allowed four weeks' credit but take seven weeks to pay. How long is the cash conversion cycle of the business?
    (a) 7 weeks
    (b) 10 weeks
    (c) 18 weeks
    (d) 25 weeks
32. Which of the following is not a spontaneous source of short – term funds?
    (a) Trade credit
    (b) Accrued expenses
    (c) Provision for dividend
    (d) All of the above

33. Concept of maximum permissible bank finance was introduced by
    (a) Kannan committee
    (b) Chore committee
    (c) Nayak committee
    (d) Tandon committee
34. Which of the following is spontaneous source of financing current assets?
    (a) Overdrafts
    (b) Provision for dividends
    (c) Letter of credit
    (d) Cash credit
    (e) None of the above
35. Which of the following is/are true?
    (a) A company following an aggressive working capital policy will finance its current assets more from long – term sources
    (b) A company following a conservative working capital policy will finance its current assets more from long – term sources
    (c) A company having a conservative working capital policy will have a higher current ratio than one following an aggressive working capital policy
    (d) Both (a) and (c) above
    (e) Both (b) and (c) above
36. Which of the following is not a spontaneous liability?
    (a) Term loans
    (b) Sundry creditors
    (c) Provision for taxes
    (d) Provision for payment of bonus
    (e) Salary accrued but not due
37. Which of the following is/are true if a firm uses its short term funds for financing fixed assets?
    (i) This will result in serious asset – liability mismatch
    (ii) This will improve the liquidity position of the firm
    (iii) Since interest on long term borrowing is higher than short term borrowings, it will help reduce the financing cost and thereby increase profitability.
    (iv) This will lead to interest rate and liquidity risks.
    (a) Only (i) above
    (b) Only (ii) above
    (c) Both (i) and (iii) above
    (d) Both (i) and (iv) above
38. In which of the following types of factoring the bad debt loss is not borne by the factor?
    (a) Recourse factoring
    (b) Full factoring
    (c) Maturity factoring
    (d) Invoice discounting
    (e) All of the above
39. Which of the following statements is/are true with respect to factoring?
    (i) Under Invoice factoring sales ledger administration and collection of receivables are carried out by the client.
    (ii) Under resource factoring credit protection is provided by the factor to the client.
    (iii) Under non – recourse factoring credit protection is provided by the factor to the client.
    (iv) Factoring is related only to a specific transaction. It is not a continuous agreement between the factor and the seller of goods and services.

(a) Only (i) above
(b) Only (ii) above
(c) Only (i) and (iii) above
(d) Both (ii) and (iv) above

40. Which of the following types of factoring does not carry the service elements of factoring?
(a) Recourse factoring
(b) Full factoring
(c) Maturity factoring
(d) Invoice discounting
(e) Non – resource factoring

Cash Management

1. Cash budget does not include
(a) Dividend payable
(b) Postal expenditure
(c) Issue of capital
(d) Total sales figure
2. Which of the following is not a motive to hold cash?
(a) Transaction Motive
(b) Precautionary motive
(c) Capital investment
(d) None of the above
3. Cheques deposited in bank may not be available for immediate use due to
(a) Payment float
(b) Receipt float
(c) Net float
(d) Playing the float
4. Difference between the bank balance as per cash book and Pass book may be due to
(a) Overdraft
(b) Float
(c) Factoring
(d) None of the above
5. Concentration Banking helps in
(a) Reducing Idle Bank balance
(b) Increasing Collection
(c) Increasing Creditors
(d) Reducing bank transactions
6. The transaction motive for holding cash is for
(a) Safety cushion
(b) Daily operations
(c) Purchase of assets
(d) Payment of dividends
7. Miller – Orr model deals with
(a) Optimum cash balance
(b) Optimum finished goods
(c) Optimum receivables
(d) All of the above

8. Float management is related to
   (a) Cash management
   (b) Inventory management
   (c) Receivable management
   (d) Raw materials management
9. Which of the following is not an objective of cash management?
   (a) Maximization of cash balance
   (b) Minimization of cash balance
   (c) Optimization of cash balance
   (d) Zero cash balance
10. Which of the following is not true of cash budget?
   (a) Cash budget indicates timings of short – term borrowing
   (b) Cash budget is based on accrual concept
   (c) Cash budget is based on cash flow concept
   (d) Repayment of principal amount of law is shown in cash budget
11. Baumol's model of cash management attempts to
   (a) Minimize the holding cost
   (b) Minimization of transaction cost
   (c) Minimization of total cost
   (d) Minimization of cash balance
12. Which of the following is not considered by Miller – Orr – Model?
   (a) Variability in cash requirement
   (b) Cost of transaction
   (c) Holding cost
   (d) Total annual requirement of cash
13. Basic characteristic of short – term marketable securities
   (a) High return
   (b) High risk
   (c) High marketability
   (d) High safety
14. Marketable securities are primarily
   (a) Equity shares
   (b) Preference shares
   (c) Fixed deposits with companies
   (d) Short – term debt investments
15. A typical firm doing business nationally cannot expect to accelerate its cash inflow by
   (a) Establishing multiple collection centers throughout the country
   (b) Employing a lockbox arrangement
   (c) Initiating controls to accelerate the deposit and collection of large checks
   (d) Maintaining compensating balances rather than paying cash for bank services
16. Some managers express the opinion that their " cash management problems are nothing more than inventory problems." They then proceed to use cash management models, such as the EOQ model, to determine the
   (a) Credit and collection policies
   (b) Marketable securities level
   (c) Proper relationship between current assets and current liabilities
   (d) Proper blend of marketable securities and cash

17. According to John Maynard Keynes, the three major motives for holding cash are for
    (a) Transactional, psychological, and social purposes
    (b) Speculative, fiduciary, and transactional purposes
    (c) Speculative, special and precautionary purposes
    (d) Transactional, precautionary, and speculative purposes
18. Methods of accelerating cash collections include all of the following except
    (a) Decentralized collections
    (b) Electronic funds transferes
    (c) Compensating balances
    (d) Lockbox systems
19. Which security is most often held as a substitute for cash?
    (a) Treasury bills
    (b) Equity shares
    (c) Gold funds
    (d) Debentures
20. The most direct way to prepare a cash budget for a manufacturing firm is to include
    (a) Projected sales, credit terms, and net income
    (b) Projected net income, depreciation, and goodwill amortization
    (c) Projected purchases, percentages of purchases paid, and net income
    (d) Projected sales and purchases, percentages of collections, and terms of payments
21. A lock – box system
    (a) Reduces the need for compensating balances
    (b) Provides security for late night deposits
    (c) Reduces the risk of having checks lost in the mail
    (d) Accelerates in inflow of funds
22. A working capital technique which delays the outflow of cash is
    (a) Factoring
    (b) A demand draft
    (c) A lock – box system
    (d) Electronic funds transfer
23. Determining the amount and timing of conversions of marketable securities to cash is a critical element of a financial manager's performance. In terms of the rate of return forgone on converted securities and the cost of such transactions, the optimal amount of cash to be raised by selling securities is
    (a) Inversely related to the rate of return forgone and directly related to the cost of the transaction
    (b) Directly related to the rate of return forgone and directly related to the cost of the transaction
    (c) Directly related to the rate of return forgone and inversely related to the cost of the transaction
    (d) Inversely related to the rate of return forgone and inversely related to the cost of the transaction
24. All of the following are valid reasons for a business to hold cash and marketable securities except to
    (a) Satisfy compensating balance requirements
    (b) Maintain adequate cash needed for transactions
    (c) Meet future needs
    (d) Earn maximum returns on investment assets

25. When managing cash and short – term investments, a corporate treasurer is primarily concerned with
    (a) Maximizing rate of return
    (b) Minimizing taxes
    (c) Investing in treasury bonds since they have no default risk
    (d) Liquidity and safety
26. Which of the following is not a motive for the companies to hold cash?
    (a) Transaction motive
    (b) Precautionary motive
    (c) Speculative motive
    (d) Lack of proper synchronization between cash inflows and outflows
    (e) Capital invetments
27. When the net float is positive
    (a) The firm's balance in the books of the bank is higher than the bank balance in the books of the firm
    (b) The firm's balance in the books of the bank is less than the bank balance in the books of the firm
    (c) The current assets are more than current liabilities
    (d) The current assets are less than current liabilities
    (e) The receivables are more than current liabilities
28. Playing the float indicates
    (a) Manipulating books of accounts
    (b) The company issuing cheques to the extent that the amount shown in the bank book is higher than the amount shown in the company's books
    (c) Converting a credit customer into a cash customer
    (d) Expenditing the implementation of the project to firm's convenience before sanction of loan
    (e) Purchasing machinery and dishonouring the instrument after delivery of machinery
29. Investing surplus cash involves two basic problems of determining the amount of cash surplus and determining the channels of investment. Which of the following statements is not true with respect to determination of channels of investments?
    (a) Security can be ensured by investing money in securities whose price remains same forever
    (b) Liquidity can be ensured by investing money in the long – term securities
    (c) The corporate managers who follow aggressive investment policies maximize the yield on their investment
    (d) Permanent cash surplus consists of funds which are kept by the firm to use in some unforeseen profitable opportunity of expansion or acquisition of some assets
    (e) Permanent cash surplus is available for investment for a period ranging from six months to a year.
30. Which of the following is not a marketable instrument?
    (a) Commercial paper
    (b) Certificate of deposit
    (c) Inter corporate deposit
    (d) Treasury bills

31. Which of the following statements is true with respect to 'float' in the context of cash management?
    (a) It is an instrument that may increase the cash inflows
    (b) It represents the difference between the total cash inflows and total outflows during any given period
    (c) It is the difference between the actual bank balance and the bank balance in the cash book of the company
    (d) It means the time required for the encashment of a cheque submitted to a bank
    (e) It implies the time lag between the public issue and the actual receipt of funds
32. Which of the following statements is/are true?
    (i) Collection float indicates the amount of cheques issued by a company, awaiting payment by the bank.
    (ii) If the collection float is more than the payment float, the company is said to have positive net float.
    (iii) When the bank balance as per the books of the company is less than that in the bank's books, the company can play the float.
    (a) Only (ii) above
    (b) Only (iii) above
    (c) Both (ii) and (iii) above
    (d) Both (i) and (iii) above
    (e) All (i), (ii) and (iii) above
33. Which of the following is not a relevant factor in cash management?
    (a) Prompt billing and mailing the same to the customers
    (b) Branch – wise collection of receivables
    (c) Centralized purchases and payment to the suppliers
    (d) Availing term loans to the maximum possible limit
    (e) Prompt depositing of the cheques received from customers in bank.
34. Which of the following is included in the broader sense of cash?
    (a) Bank drafts
    (b) Notes and coins
    (c) Marketable securities
    (d) Gold
    (e) Bank balances
35. Which of the following is not an objective of cash management?
    (a) To arrange for repayment / investments during periods of cash surplus
    (b) To find avenues for financing during periods of cash deficits
    (c) To make long – term forecasts of cash position
    (d) To minimize idle cash
    (e) To effectively monitor the cash position
36. M/s ABC Ltd. had decided to allocate certain proportion of cash to take advantage of opportunities that do not arise in the course of its routine business activities. Which of the following motives explains the decision of the firm?
    (a) Speculative motive
    (b) Precautionary motive
    (c) Transaction motive
    (d) None of the above

37. Holding cash balance to pay for the purchases made is
    I. An indication of the precautionary motive
    II. An implication for the transaction motive
    III. A motivation due to the speculative motive
    IV. Caused by lack of synchronization between cash inflows and outflows
    (a) Only I above
    (b) Only II above
    (c) Both I and II above
    (d) Both I and IV above
    (e) Both II and IV above
38. When the net float is negative, it is said that
    (a) The company has used the short term sources of funds for financing long term assets
    (b) The current ratio is less than 1
    (c) The payment float is larger than the collection float
    (d) The balance in the books of the bank is less than the balance in the books of the firm
    (e) The outstanding debtors are more than the outstanding creditors
39. Which of the following is not a relevant factor in an efficient cash management system for a business entity?
    (a) Prompt billing and mailing to the customers
    (b) Payment of interest on term loans whenever it becomes due
    (c) Collection of receivables from branches
    (d) Deposit the cheques immediately to the bank on receiving the same from customers
    (e) Making a centralized payment system for the suppliers
40. Which of the following defines the amount of cheques deposited by a company in the bank awaiting clearance?
    (a) Net float
    (b) Balance
    (c) Payment float
    (d) Margin
    (e) Collection float
41. Which of the following results in a collection float?
    (a) Cheques issued by a firm, but awaiting payment by the bank
    (b) Cheques deposited by a firm in the bank, but not cleared by the bank
    (c) Payments due from sundry debtors
    (d) Payments due to sundry creditors
    (e) The minimum balance shown in current account
42. Which of the following statements is true?
    (a) When the net float is negative, the balance in the books of the firm is lower than the balance in the books of the bank
    (b) When the net float is positive, the payment float is more than the collection float
    (c) When the net float is positive, the firm cannot play the float, as the balance in the bank's book is less than that in the firm's books
    (d) When the net float is negative, the firm can play the float and issue cheques as it has an overdrawn bank account according to its own books
    (e) The amount of cheques deposited by a company in the bank awaiting clearance is called payment float

43. Which of the following statement is/are true regarding float?

I. Collection float indicates the amount of cheques issued by a company, awaiting payment by the bank.
II. If the collection float is more than the payment float, the company is said to have positive net float.
III. When the bank balance as per the books of the company is less than that in the bank's books, the company can play the float.
IV. Payment float is the amount of cheques that have been received but not credited to the firm's accounts.

(a) Only II above
(b) Only III above
(c) Both II and III above
(d) I, II and IV above
(e) All I, II and IV above

44. In the monthly cash report which of the following comes under cash receipts?
(a) Cash sales
(b) Cash purchases
(c) Wages and salaries
(d) Taxes
(e) Capital equipment purchase

45. Which of the following criteria is generally least important in selecting marketable securities for inclusion in the firm's portfolio for cash management purposes?
(a) Length of maturity
(b) Yield
(c) Marketability
(d) Default risk
(e) Liquidity

Receivables Management

1. 5 C's of the credit does not include
(a) Collateral
(b) Character
(c) Conditions
(d) None of the above
2. Which of the following is not an element of credit policy?
(a) Credit terms
(b) Collection policy
(c) Cash discount terms
(d) Sales price
3. Ageing schedule incorporates the relationship between
(a) Creditors and days outstanding
(b) Debtors and days outstanding
(c) Average age of directors
(d) Average age of all employees

4. Which of the following is not a technique of receivables management?
   (a) Funds flow analysis
   (b) Ageing schedule
   (c) Days sales outstanding
   (d) Collection matrix
5. Which of the following is not a part of credit policy?
   (a) Collection effort
   (b) Cash discount
   (c) Credit standard
   (d) Paying practices of debtors
6. Credit policy of a firm should invoice a trade – off between increased
   (a) Sales and Increased profit
   (b) Profit and increased costs of receivables
   (c) Sales and cost of goods sold
   (d) None of the above
7. If the closing balance of receivables is less than the opening balance for a month then which one is true out of
   (a) Collections > Current Purchases
   (b) Collections > Current sales
   (c) Collections < Current Purchases
   (d) Collections < Current sales
8. If the average balance of debtors has increased, which of the following might not show a change in general?
   (a) Total sales
   (b) Average payables
   (c) Current ratio
   (d) Bad debts loss
9. 80% of sales of Rs.10,00,000 of a firm are on credit. It has a receivables turnover of 8. What is the Average collection period (360 days a year) and Average debtors of the firm?
   (a) 45 days and Rs.1,00,000
   (b) 360 days and Rs.1,00,000
   (c) 45 days and Rs.8,00,000
   (d) 360 days and Rs.1,25,000
10. In response to market expectations, the credit period has been increased from 45 days to 60 days. This would result in
    (a) Decrease in sales
    (b) Decrease in Debtors
    (c) Increase in Bad debts
    (d) Increase in Average collection period
11. Cash discount term 3/15, net 40 means
    (a) 3% Discount if payment in 15 days, otherwise full payment in 40 days
    (b) 15% Discount if payment in 3 days, otherwise full payment in 40 days
    (c) 3% Interest if payment made in 40 days and 15% interest thereafter
    (d) None of the above
12. If the sales of the firm are Rs.60,00,000 and the average debtors are Rs.15,00,000 then the receivables turnover is
    (a) 4 times
    (b) 25%
    (c) 400%

(d) 0.25 times

13. If cash discount is offered to customers, then which of the following would increase?
    (a) Sales
    (b) Debtors
    (c) Debt collection period
    (d) All of the above
14. Receivables management deals with
    (a) Receipts of raw materials
    (b) Debtors collection
    (c) Creditors management
    (d) Inventory management
15. Which of the following is related to Receivables management?
    (a) Cash budget
    (b) Economic order quantity
    (c) Ageing schedule
    (d) All of the above
16. The one item listed below that is not considered in credit and collection policy decisions is the
    (a) Quality of accounts accepted
    (b) Quantity discount given
    (c) Cash discount given
    (d) Level of collection expenditures
17. When a company analyses credit applicants and increases the quality of the accounts rejected, the company is attempting to
    (a) Maximise sales
    (b) Increase bad – debt losses
    (c) Increase the average collection period
    (d) Maximize profits
18. A change in credit policy has caused an increase in sales, an increase in discounts taken, a reduction in the investment in accounts receivable, and a reduction in the number of doubtful accounts. Based upon this information, we know that'
    (a) Net profit has increased
    (b) The average collection period has decreased
    (c) Gross profit has declined
    (d) The size of the discount offered has decreased
19. An aging of accounts receivable measures the
    (a) Ability of the firm to meet short – term obligations
    (b) Average length of time that receivables have been outstanding
    (c) Percentage of sales that have been collected after a given time period
    (d) Amount of receivables that have been outstanding for given lengths of time
20. The average collection period for a firm measures the number of days
    (a) After a typical credit sales is made until the firm receives the payment
    (b) For a typical check to "clear" through the banking system
    (c) Beyond the end of the credit period before a typical customer payment is received
    (d) Before a typical account becomes delinquent
21. Which of the following is not the logical consequence of liberalizing credit standards?
    (a) Sales tend to increase
    (b) Investment in receivables tend to increase
    (c) Bad debt losses tend to increase
    (d) Requirement of finance for working capital tends to decrease

(e) Collection costs tend to increase

22. Which of the following statements is not true?
    (a) If credit standards are liberalized, then sales will increase
    (b) Strict credit standards will tend to reduce the incidence of bad debt loss
    (c) Increase in credit period will tend to increase the investment in receivables
    (d) Liberalizing cash discount policy will tend to increase the average collection period
    (e) A rigoirous collection effort tends to increase the collection expenses
23. Which of the following does not result from liberalizing credit standards?
    (a) It leads to higher bad debt loss
    (b) It cause an increase in sales
    (c) It reduces the cost of collection
    (d) It increases the investment in receivables
    (e) Requirement for finance working capital tends to increase
24. Which of the following is/are not technique(s) for monitoring collection of receivables?
    (a) Ageing schedule
    (b) Lockbox arrangements
    (c) Days sales outstanding
    (d) Funds flow analysis
    (i) Only (a) above
    (ii) Only (d) above
    (iii) Both (a) and (c) above
    (iv) Both (b) and (d) above
25. The average collection period measures the
    (a) Number of days it takes a typical cheque to "clear" through the banking system
    (b) Number of days between the day a customer places an order with the firm and the day the firm sends the goods to the customers
    (c) Number of days beyond the end of the credit period and before a typical customer payment is received
    (d) Number of days between the day when a typical credit sale is made and the day when the firm receives the payment
26. Which of the following statements is true about the terms the trade credit 2/10, net 30?
    (a) 10% cash discount is offered for payment before 30 days
    (b) 2% cash discount is awarded for payment on the 30th day after purchase
    (c) 10% cash discount can be taken if paid by the second day after invoicing
    (d) No cash discount is offered from the eleventh day onwards after the date of purchase.
27. Which of following costs is not a cost of maintaining receivables?
    (a) Administrative costs
    (b) Collection costs
    (c) Ordering costs
    (d) Defaulting costs
    (e) Financing costs
28. An ageing schedule gives particular about
    (a) Profit and present value
    (b) Accounts receivable and proportion of sales
    (c) Employees and age of their service
    (d) Age – wise distribution of accounts receivable

29. Which of the following is/are not true?
    (i) If credit standards are made more stringent, sales are likely to decrease and less amount of money will be locked up in receivables.
    (ii) If credit period is lengthened, sales are likely to increase but bad debt losses are likely to decrease.
    (iii) If cash discount is increased, discount paid is likely to increase and amount of receivable is decrease
    (a) Only (ii) above
    (b) Only (iii) above
    (c) Both (i) and (ii) above
    (d) Both (ii) and (iii) above
    (e) Both (i) and (iii) above
30. Which of the following statements is true about the terms of trade credit 4/10, net 30?
    (a) A 10% cash discount is offered for payment before 30 days
    (b) A 4% cash discount can be taken for payment before the 10th of the following month after invoicing
    (c) A 10% cash discount can be taken if paid by the fourth day after invoicing
    (d) No cash discount is offered from the eleventh day onwards after the date of purchase
    (e) 4% cash discount is awarded for payment on the 30th day after purchase
31. Which of the following measures is not adopted to monitor the payment of receivables?
    (a) Days sales outstanding
    (b) Ageing schedule of receivables
    (c) Numerical credit scoring
    (d) Average collection period
32. Which of the following is a logical consequences of liberalizing credit standards?
    (a) Collection costs tend to decrease
    (b) Bad debt losses tend to increase
    (c) Sales tend to decrease
    (d) Cost of funds locked in receivables tend to decrease
    (e) Requirement for financing working capital tends to decrease
33. Other things remaining the same, which of the following will generally result as a consequence of making the credit standards more stringent (strict / tight)?
    (a) More bad debt losses
    (b) Higher sales turnover
    (c) Reduction of the outstanding debtors in the balance sheet.
    (d) Incremental cost of collection of the receivables
34. Which of the following is a technique for monitoring the status of the receivables?
    (a) Ageing schedule
    (b) Outstanding creditors
    (c) Selection matrix
    (d) Funds flow analysis
    (e) Credit evaluation
35. Which of the following is not part of collection program?
    (a) Dispatch of letters to customers whose due date is approaching
    (b) Monitoring the state of payables
    (c) Telegraphic and telephonic advice to customers around the due date
    (d) Threat of legal actions to overdue accounts
    (e) Legal action against overdue accounts