

Heading Based Test

Chapter 9

Q1. Money required for carrying out business activities is called _____

Q2. _____ is needed to establish a business, to run it, to modernise it, to expand, or diversify it.

Q3. _____ is concerned with optimal procurement as well as the usage of finance.

Q4. _____ aims at reducing the cost of funds procured, keeping the risk under _____ control and achieving effective deployment of such funds.

Q5. The financial statements, such as Balance Sheet and Profit and Loss Account, reflect a firm's financial _____ and its financial _____

Q6. The primary aim of financial management is to maximise shareholders' wealth, which is _____ referred to as the _____ concept.

Q7 from **the following statements identify the point of objectives of financial management**

1. The market price of a company's shares is linked to the three basic financial decisions _____ , _____ , _____
2. For a company the market price of its equity share increases, if the benefit from a decision exceeds the cost involved.
3. The Objective of financial management is to maximise the current price of equity shares of the company or to maximise the wealth of owners of the company, that is, the shareholders.
4. The aim of financial management is to ensure that benefits from the investment exceed the cost so that some value addition takes place. Similarly, when finance is procured, the aim is to reduce the cost so that the value addition is even higher.

Q8 **from the following statements identify the concept/type of financial decision**

1. The _____ decision, therefore, relates to how the firm's funds are invested in Different assets.
2. _____ Decision can be long term or short-term.
3. A long-term investment decision is also called a _____ decision.
4. The size of assets, profitability and competitiveness are all affected by _____ decisions.
5. _____ Decisions normally involve huge amounts of investment and are irreversible except at a huge cost. Therefore, once made, it is often almost impossible for a business to wriggle out of such decisions.
6. Short-term investment decisions (also called _____ decisions) are concerned with the decisions about the levels of cash, inventory and receivables.
7. _____ decisions affect the day-to-day working of a business. These affect the liquidity as well as profitability of a business.
8. Efficient cash management, inventory management and receivables management are essential ingredients of sound _____ capital management
9. _____ Decision is about the quantum of finance to be raised from various long-term sources.
10. The shareholders' funds refer to the _____ capital and _____ earnings.

11. Borrowed funds refer to the finance raised through debentures or other forms of debt.
12. The risk of default on payment is known as financial risk which
13. A firm, therefore, needs to have a judicious mix of both debt and equity in making _____ decisions, which may be debt, equity, preference share capital, and retained earnings.
14. _____ is considered to be the cheapest of all the sources, tax deductibility of interest makes it still cheaper.
15. The fund raising exercise also costs something. This cost is called _____
16. _____ is, thus, concerned with the decisions about how much to be raised from which source. This decision determines the overall cost of capital and the financial risk of the enterprise
17. The overall financial risk depends upon the proportion of _____ in the total capital
18. _____ is that portion of profit which is distributed to shareholders.
19. In this The _____ decision is involved how much of the profit earned by company (after paying tax) is to be distributed to the shareholders and how much of it should be retained in the business.
20. While the dividend constitutes the current income re-investment as _____. Increases the firm's future earning capacity.
21. The _____ funds refer to the equity capital and the retained earnings.
22. _____ Funds refer to the finance raised through debentures or other forms of debt.

Q9. From the following statements identify the point / factors affecting capital budgeting decision

1. These cash flows are in the form of a series of cash receipts and payments over the life of an investment. These cash flows are in the form of a series of cash receipts and payments over the life of an investment.
2. There are two projects, A and B (with the same risk involved), with a rate of return of 10 per cent and 12 per cent, respectively, then under normal circumstance, project B should be selected.
3. Different techniques to evaluate investment proposals which are applied to each proposal before selecting a particular project. These are known as capital budgeting techniques.

Q 10 from the following statements identify the point / factors affecting financing decisions

1. A prudent financial manager would normally opt for a source which is the cheapest.
2. If a business has high fixed expenses like building rent, Insurance premium, Salaries, etc.), It must reduce fixed financing costs.
3. Issues of more equity may lead to dilution of management's control over the business.
4. Debt financing has no such implication. Companies afraid of a takeover bid would prefer debt to equity.
5. During the period when stock market is rising, more people invest in equity. However, depressed capital market may make issue of equity shares difficult for any company.

Q11 from the following statements identify the point / factors affecting dividend decision

1. Dividends are paid out of current and past earning.
2. earnings is a major determinant of the decision about dividend.
3. a company having regular profits is in a better position to declare higher dividends
4. Dividend per share is not altered if the change in earnings is small or seen to be temporary in nature.
5. Companies having good future opportunities retain more money out of their earnings so as to finance the required investment.

6. The dividend in growing companies is, therefore, smaller, than that in the non– growth company
7. A company may be earning profit but may be short on cash.
8. Availability of enough cash in the company is necessary for declaration of dividend.
9. If the shareholders in general desire that at least a certain amount is paid as dividend, the companies are likely to declare the same.
10. If tax on dividend is higher, it is better to pay less by way of dividends. or higher dividends may be declared if tax rates are relatively lower.
11. a decrease in dividend may have a negative impact on the share prices in the stock market.
12. the possible impact of dividend policy on the equity share price is one of the important factors considered by the management
13. Large and reputed companies generally depend less on retained earnings to finance their growth. These companies tend to pay higher dividends than the smaller companies which have relatively low access to the market.
14. Certain provisions of the Companies Act place restrictions on pay-outs as dividend.
15. While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future.

Q12 from the following statements identify the concept financial planning/ capital structure

1. _____management aims at choosing the best investment and financing alternatives by focusing on their costs and benefits. Its objective is to increase the shareholders' wealth.
2. _____ on the aims at smooth operations by focusing on fund requirements and their availability in the light of financial decisions.
3. This process of estimating the fund requirement of a business and specifying the sources of funds is called _____
4. _____ enables the management to foresee the fund requirements both the quantum as well as the timing and Likely shortage and surpluses so that necessary activities are taken in advance
5. Thus, financial planning strives to achieve the following twin objectives-----

6. financial planning is done for _____ to _____ years
7. Financing pattern or the proportion of the use of different sources in raising funds.
8. On the basis of _____, the sources of business finance can be broadly classified into two categories viz., 'owners' funds' and 'borrowed funds'.
9. _____ Funds consist of equity share capital, preference share capital and reserves and surpluses or retained earnings.
10. Borrowed funds can be in the form of _____ , _____ , _____ etc. These may be borrowed from banks, other financial institutions, debenture holders and public.
11. Capital structure refers to the mix between _____ and _____
12. The cost of debt is _____ than the cost of equity for a firm because the lender's risk is lower than the equity shareholder's risk,
13. _____ is cheaper but is more risky for a business because the payment of interest and the return of principal is obligatory for the business
14. _____ refers to a position when a company is unable to meet its fixed financial charges namely interest payment, preference dividend and repayment obligations

15. A capital structure will be said to be optimal when the proportion of _____ & _____ is such that it results in an increase in the value of the equity share.
16. The proportion of debt in the overall capital is also called financial _____
17. Trading on _____ refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest
18. Ideally, a company must choose that risk-return combination which maximises _____ wealth. The debt-equity mix that achieves it, is the optimum capital structure.

Q13 from the following statements identify the point / factors affecting the choice of capital structure

1. Cash flows must not only cover fixed cash payment obligations but there must be sufficient buffer also.
2. the number of times earnings before interest and taxes of a company covers the interest obligation
3. The higher the ratio, lower shall be the risk of company failing to meet its interest payment obligations.
4. If the ROI of the company is higher, it can choose to use trading on equity to increase its EPS,
5. A firm's ability to borrow at a lower rate increases its capacity to employ higher debt
6. A higher tax rate, thus, makes debt relatively cheaper and increases its attraction vis-à-vis equity.
7. Stock owners expect a rate of return from the equity which is commensurate with the risk they are assuming.
8. Public issue of shares and debentures requires considerable expenditure.
9. The total risk depends upon both the business risk and the financial risk
10. If a firm should not uses its debt potential to the full, as it loses chances to issue further debt or borrowing power to take care of unforeseen circumstances.
11. A public issue of equity may reduce the managements' holding in the company and make it vulnerable to takeover.
12. This factor also influences the choice between debt and equity especially in companies in which the current holding of management is on a lower side.
13. Raising funds from banks and other financial institutions require fulfilment of other norms provided by the law
14. If the stock markets are bullish, equity shares are more easily sold even at a higher price.
15. One of the common practice & useful guideline in the capital structure planning is the debt equity ratios of other companies in the same industry.

Q14 identify the concept Fixed and Working Capital

1. _____ capital refers to investment in long-term assets.
2. Management of fixed capital involves allocation of firm's capital to different projects or assets with long-term implications for the business. These decisions are called _____ decisions or _____ decisions
3. _____ are those assets which, in the normal routine of the business, get converted into cash or cash equivalents within one year, e.g. Inventories, debtors, bills receivables,
4. _____ liabilities are those payment obligations which are due for payment within one year; such as bills payable, creditors, outstanding expenses and advances received from customers, etc.
5. net working capital may be defined as the excess of current _____ over current _____

Q15 from the following statements identify the point / factors affecting the requirement of fixed capital

1. a trading concern needs lower investment in fixed assets The type of business has a bearing upon the fixed capital requirements.
2. A larger organisation operating at a higher scale needs bigger plant, more space etc. and therefore, requires higher investment in fixed assets than small organisation
3. A capital-intensive organisation requires higher investment in plant and machinery Labour intensive organisations on the other hand require less investment in fixed assets.
4. Computers become obsolete faster and are replaced much sooner than say, furniture. Thus, such organisations which use assets which are prone to obsolescence require higher fixed capital to purchase such assets.
5. Higher growth of an organisation generally requires higher investment in fixed assets.
6. a textile company is diversifying and starting a cement manufacturing plant. Obviously, its investment in fixed capital will increase and so capital requirements increase
7. When an asset is taken on lease, the firm pays lease rentals and uses it. By doing so, it avoids huge sums required to purchase it. Availability of leasing facilities, thus, may reduce the funds required to be invested in fixed assets,
8. a bank may use another's ATM or some of them may jointly establish a particular facility. This is feasible if the scale of operations of each one of them is not sufficient to make full use of the facility.

Q16 from the following statements identify the point / factors affecting the working capital requirements

1. In a manufacturing business, raw material needs to be converted into finished goods before any sales become possible. a trading business requires less working capital. Similarly, service industries which usually do not have to maintain inventory require less working capital.
2. In case of a boom, the sales as well as production are likely to be larger and, therefore, larger amount of working capital is required than depression.
3. In peak season, because of higher level of activity, larger amount of working capital is required.
4. Production cycle is the time span between the receipt of raw material and their conversion into finished goods.
5. Working capital requirement is higher in firms with longer processing cycle and lower in firms with shorter processing cycle.
6. A liberal credit policy results in higher amount of debtors, increasing the requirement of working capital.
7. Just as a firm allows credit to its customers it also may get credit from its suppliers.
8. a firm managing its raw materials efficiently may be able to manage with a smaller balance resulting in lower requirement of working capital
9. If the raw materials and other required materials are available freely and continuously, lower stock levels may suffice. larger the quantity of material to be stored and larger shall be the amount of working capital required.
10. With rising prices, larger amounts are required even to maintain a constant volume of production and sales.