

Online PGDM

First Year, Trimester 3, December 2023

Course Name : Essential Skills for Financial Decision Making

Max Marks : 70

Course Code : 3103

Max Time : 2 hrs

Instructions for Students : Attempt all questions.

Section A : Objective Type Questions

Max. Marks-20

Each question carries one marks.

QA.1 Capital budgeting involves

- A. how a firm's day-to-day financial matters should be managed.
- B. how the firm should finance its assets.
- C. which productive long term assets the firm should employ.
- D. All of the these.

QA.2 A good capital budgeting decision is

- A. one in which the benefits of the project are equal to the cost of the asset.
- B. one in which the benefits of the project are less than the cost of the asset.
- C. one in which the benefits of the project are more than the cost of the asset.
- D. none of the above.

QA.3 Which of the following is an appropriate goal for the firm?

- A. profit maximisation
- B. revenue maximisation
- C. shareholder wealth maximisation
- D. tax minimization

QA.4 Which of the following is a principal within the agency relationship?

- A. a company engineer
- B. the CEO of the firm
- C. a shareholder
- D. the board of directors

QA.5 The financial system's primary concern is funneling money from.....to..... (

- A. wealthy individuals, individuals.
- B. savers, borrowers
- C. borrowers, savers

D. the government, wealthy individuals

QA.6 An important function of the financial system is

- A. to direct money to the best investment opportunities in the economy.
- B. to allow the government to view all financial transactions.
- C. to help local governments to coordinate tax levies.
- D. All of the these.

QA.7 Direct financing occurs when

- A. a saver borrows directly from a savers.
- B. a borrower borrows directly from a saver.
- C. a saver borrows from the government.
- D. a consumer borrows from the government.

QA.8 Which of the following is an internal source of investment funding?

- A. Issuing Bonds
- B. Sale of Stocks
- C. Undistributed Profits or Retained Earnings
- D. All

QA.9 The agency problem can be resolved by (

- A. Effective Corporate Governance Policy
- B. Providing incentives to employees
- C. Providing extra benefits to managers
- D. Minimizing the accountability of Managers and Owners

QA.10 The conflict between the principal and agent of the business is known as

- A. Usual Problem
- B. Human Problem
- C. Agency Problem
- D. None of These

QA.11 The cost of capital is

- A. the minimum return that a capital budgeting project must earn for it to be accepted.
- B. the maximum return a project can earn.
- C. the return that a previous project for the firm had earned.
- D. none of the above.

QA.12 Capital rationing implies that

- A. funding resources exceed funding needs.
- B. funding needs exceed funding resources.
- C. funding needs equal funding resources.
- D. none of the above.

QA.13 To accept a capital project when using NPV,

- A. the project NPV should be less than zero.
- B. the project NPV should be greater than zero.
- C. the information is insufficient to answer this question
- D. none of the above.

QA.14 Which ONE of the following statements about the payback method is true?

- A. The payback method is consistent with the goal of shareholder wealth maximization
- B. The payback method represents the number of years it takes a project to recover its initial investment plus a required rate of return.
- C. There is no economic rationale that links the payback method to shareholder wealth maximization.
- D. None of the above statements are true.

QA.15 Which one of the following statements about the discounted payback method is NOT true?

- A. The discounted payback method represents the number of years it takes a project to recover its initial investment.
- B. The discounted payback method calls for the project to be accepted if the payback period is greater than a target period.
- C. The discount payback method is a risk indicator.
- D. The expected cash flows from the project are discounted at the cost of capital.

QA.16 Which one of the following statements about IRR is NOT true?

- A. The IRR is the discount rate that makes the NPV greater than zero.
- B. The IRR is a discounted cash flow method.
- C. The IRR is an expected rate of return.
- D. None of the above.

QA.17 The internal rate of return is

- A. the discount rate that makes the NPV greater than zero.
- B. the discount rate that makes the NPV equal to zero.
- C. the discount rate that makes the NPV less than zero.
- D. All of these

QA.18 When evaluating capital projects, the decisions using the NPV method and the IRR method will agree if

- A. the acceptance of one project will decide rejection of another
- B. the cash flow pattern is conventional.
- C. the projects are mutually exclusive.
- D. None

QA.19 The impact of a project on a firm's overall value depends on

- A. a firm's accounting earnings.
- B. a firm's cash flow.
- C. a project's cash flow.
- D. none of the above.

QA.20 The type of investors who prefer less/no dividends are called

- A. Bird-in-Hand Investors
- B. Tax Preference Investors
- C. Irrelevant Investors
- D. None

Section B : Subjective Type Questions (Short Answer Questions)

Max. Marks-10

Attempt any two questions. Each question carries 5 marks. (Word Limit: 100 Words)

Differentiate the followings using relevant examples.

- B.1 Annuity versus Perpetuity
- B.2 Net Present Value (NPV) versus Internal Rate of Return (IRR)
- B.3 Direct versus Indirect Financial System

Section C : Subjective Type Questions (Long Answer Questions)

Max.Marks-40

Attempt any four questions. Each question carries 10 marks. (Word Limit: 500 Words)

- C1. Working capital management decisions are having significant importance in the overall financial management decisions. Do you agree with this statement? Support your answer with suitable logic.
- C2. Discuss the importance of time value of money in financial management decisions.
- C3. Discuss the importance of different types of investors while deciding the dividend policy of the company.
- C4. Capital structure decisions are relevant for the overall wealth maximization of firms. Do you agree with this statement? Support your answer with suitable logic.
- C5. Financial system plays a very crucial role for the success of firms within an economy. Do you agree with this statement? Support your answer with suitable logic.
- C6. The relevant financial information for JP Limited for the year ended 2021 is given below:

Profit and Loss Account Data		Balance Sheet Data (Rs. million)	
<i>(Rs. million)</i>		Beginning of 2021	End of 2021
Sales	80	Inventory	9
			12

Cost of goods sold	56	Accounts receivable	12	16
		Accounts payable	7	10

Analyse the operating and cash cycle of the firms by assuming the 365 days in a year? Why the cash cycle is different from the operating cycle of the firms? Suggest methods to shorten the cash cycle of the JP Limited.

C7. ABC Ltd. is considering two mutually exclusive projects, each with an initial investment of Rs. 150,000. The company's board of directors has set a maximum 4-year payback requirement and has set its cost of capital at 9%. The cash inflows associated with the two projects are as follows:

Year	Cash Inflows (Numbers in Rs.)	
	Project A	Project B
1	45,000	75000
2	45,000	60000
3	45,000	30000
4	45,000	30000
5	45,000	30000
6	45,000	30000

- A. Compute the Payback period of both projects and suggest which one to choose.
- B. Compute the NPV of both projects and suggest which one to choose.