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Maximum Weight : 5

**Section II**

[TO BE ATTACHED TO THE MAIN ANSWER-BOOK]

UG CBCSS INTERNAL EXAMINATION, MAY 2024

DO NOT WRITE YOUR REGISTER NUMBER OR NAME ANYWHERE IN SECTION II OF THE QUESTION PAPER

*Answer all questions.*

*All questions carry equal weight.*

*Put a tick mark [✓] in the column against the correct answer.*

1. MM Model argues that dividend is irrelevant as :

- (A) The value of the firm depends upon earning capacity of the firm.
- (B) The investors buy shares for capital appreciation.
- (C) Dividend decision is a residual decision.
- (D) dividend payment is insignificant when compared to the investment.

2. Which one of the following has the highest cost capital ?

- (A) Loan.  (B) Bonds.
- (C) Equity.  (D) Preference.

3. High degree of financial leverage means :

- (A) Low proportion of debt.
- (B) High proportion of debt.
- (C) Same level of debt and equity .
- (D) None.

**Turn over**





4. Benefit of trading on equity can be enjoyed only when ?

- (A) Rate of interest  $>$  Rate of return.
- (B) Rate of interest  $<$  Rate of return.
- (C) Rate of interest = Rate of return.
- (D) None.

5. Which one of the following capital structure theories assumes constant  $K_d$  and  $K_e$  ?

- (A) Net income approach.
- (B) Net operating income approach.
- (C) Traditional approach.
- (D) MM model.

6. The primary goal of the financial management is :

- (A) To maximise the return.
- (B) To minimize the risk.
- (C) To maximize the wealth of owners.
- (D) To maximize profit.

7. Altering the leverage ratio does not influence the market value of the firm. This is the basic premise of :

- (A) Net income approach.
- (B) Traditional approach.
- (C) Modern approach.
- (D) Net operating income approach





8. While calculating the weighted average cost of capital, market value weights are preferred because :

- (A) Book value weights are historical in nature.
- (B) This is in conformity with the definition of cost of capital as the investors minimum required rate of return.
- (C) Book value weights fluctuate violently.
- (D) Market value weights are fairly consistent over a period of time.

9. Financial risk is most associated with :

- (A) The use of equity financing by corporations.
- (B) The use of debt financing by corporations.
- (C) Equity investments held by corporations.
- (D) debt investments held by corporation.

10. Which of the following factors does not affect the capital structure of a company ?

- (A) Cost of capital.
- (B) Composition of the current assets.
- (C) Size of the company.
- (D) Expected nature of cash flows.

11. Arbitrage is the process of keeping equilibrium as evolved in :

- (A) Net income approach.
- (B) MM approach.
- (C) Operating approach.
- (D) Traditional approach.

Turn over





12. The fixed proportion of working capital should be generally financed from :

- (A) Fixed.  (B) Variable.   
(C) semi-variable.  (D) Borrowed.

13. The amount of the temporary working capital :

- (A) Keeps on fluctuating from time to time.   
(B) Remains constant for all times.   
(C) Financed through long term services.   
(D) None.

14. Bonus issue is permitted to be made out of \_\_\_\_\_ and premium collected in cash.

- (A) Free reserves  (B) Free interest.   
(C) Free bonus.  (D) Free cash dividend.

15. Amount of current assets that varies with seasonal requirements is referred to as working capital.

- (A) Permanent.  (B) Net.   
(C) Temporary.  (D) Gross.

16. Effective cost of debentures is \_\_\_\_\_ as compared to equity shares.

- (A) Higher.  (B) Lower.   
(C) Equal.  (D) Medium.





17. Cost of capital is the \_\_\_\_\_ rate of return expected by the investor.

- (A) Minimum.  (B) Maximum.
- (C) Expected.  (D) Marginal.

18. The measure of business risk is :

- (A) Operating leverage.  (B) Financial leverage.
- (C) Total leverage.  (D) Working capital leverage.

19. The value of EBIT at which EPS is equal to zero is known as \_\_\_\_\_.

- (A) Break-even point.
- (B) Financial break-even point.
- (C) Operating break-even point.
- (D) Overall break-even point.

20. Degree of financial leverage is a measure of relationship between \_\_\_\_\_.

- (A) EPS and EBIT.
- (B) EBIT and quantity produced.
- (C) EPS and quantity produced.
- (D) EPS and sales.

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(To be entered by the examiner)			
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**ATTACH SECTION II INTERNAL EXAMINATION MCQ PAPER WITH  
THE MAIN ANSWER-BOOK**

