BCH 305 Financial Decision Making

Semester-III

Section A: Long Answer Type Questions

Unit I: Basics of Financial Management

1. Define financial management. Explain its scope and significance.
2. Discuss the conflict between profit maximization and value maximization.
3. Explain the concept of time value of money with examples.
4. Describe the risk-return trade-off and its importance in financial decision-making.
5. Discuss the CAPM model in detail with its assumptions.
6. Explain the process and techniques for valuation of bonds.
7. Explain equity valuation using dividend discount models.
8. Discuss the objectives of financial management in a modern business environment.
9. Evaluate the importance of financial decision-making in business success.
10. Describe the relationship between financial management and other functional areas.

Unit II: Financing Decision

1. Define cost of capital and explain its importance in financial decision-making.
2. Explain the methods of calculating the cost of equity capital.
3. Describe the MM Hypothesis and its assumptions.
4. Distinguish between Net Income and Net Operating Income approaches.
5. Explain the concept of Weighted Average Cost of Capital (WACC).
6. Discuss the capital structure theories in detail.
7. Explain operating and financial leverage with suitable examples.
8. Describe the process of estimating the cost of retained earnings.
9. Discuss the determinants of capital structure.
10. How does marginal cost of capital affect financing decisions?

Unit III: Investment Decision

1. Explain the capital budgeting process and its importance.
2. Describe the methods of evaluating investment proposals.
3. Distinguish between NPV and IRR methods with examples.
4. What is risk-adjusted discount rate? How is it applied?
5. Discuss the Accounting Rate of Return and its limitations.
6. Describe the profitability index and its significance.
7. Explain risk analysis in capital budgeting with examples.
8. Explain Net Terminal Value and Certainty Equivalent Approach.
9. Discuss the advantages and limitations of Payback Period Method.
10. Explain the concept of capital rationing and its application.

Unit IV: Management of Working Capital

1. Define working capital and explain its components.
2. Discuss the factors affecting working capital requirements.
3. Explain the risk-return trade-off in working capital management.
4. Describe different sources of short-term finance.
5. Explain the process of estimating working capital needs.
6. Discuss the importance of inventory management.
7. Explain the techniques of receivables management.
8. Describe the process of payables management.
9. Explain cash management and its strategies.
10. What are the objectives of working capital management?

Unit V: Dividend Decision

1. Explain the relevance theory of dividend policy.
2. Discuss the Walter's Model and its implications.
3. Explain the MM irrelevance theory of dividends.
4. Compare and contrast different dividend policies.
5. Discuss the factors influencing dividend decisions.
6. Describe the concept of corporate valuation and role of dividends.
7. Differentiate between cash and stock dividends.
8. Explain residual dividend policy and its benefits.
9. Describe the practical considerations in dividend policy formulation.
10. What are the implications of dividend policy on shareholder value?

Section B: Short Answer Type Questions

Unit I

1. Define financial management.
2. What is value maximization?
3. Explain the time value of money.
4. Define risk in financial context.
5. What is CAPM?
6. Mention two differences between bond and equity.
7. Define cost of capital.
8. What are financial objectives?
9. Give any two advantages of value maximization.
10. What is valuation?

Unit II

1. Define cost of retained earnings.
2. What is capital structure?
3. Explain MM hypothesis in one line.
4. Define WACC.

5. What is financial leverage?
6. State one assumption of Net Income Approach.
7. What is marginal cost of capital?
8. Define preference capital.
9. What is cost of debt?
10. What is meant by operating leverage?

Unit III

1. What is capital budgeting?
2. Define Payback Period.
3. What is IRR?
4. Define NPV.
5. What is profitability index?
6. What is meant by risk-adjusted return?
7. Define terminal value.
8. What is risk-equivalent approach?
9. What is capital rationing?
10. Define ARR.

Unit IV

1. Define working capital.
2. Mention two sources of short-term finance.
3. What is inventory management?
4. Define receivables management.
5. What is the trade-off in working capital?
6. Define cash management.
7. What is working capital cycle?
8. Mention any two determinants of working capital.
9. What is gross working capital?
10. What is payables management?

Unit V

1. What is dividend policy?
2. Define residual dividend.
3. What is stock dividend?
4. What is Walter's Model?
5. Define corporate valuation.
6. What is irrelevance theory?
7. Mention two types of dividends.
8. What is payout ratio?
9. What is retention ratio?
10. Give two factors affecting dividend policy.

Section C: Multiple Choice Questions (MCQs)

Unit I

1. Financial management is primarily concerned with:
   - (a) Profit maximization
   - (b) Value maximization
   - (c) Wealth maximization
   - (d) None of the above
2. Time value of money refers to:
   - (a) Decrease in value of money
   - (b) Increase in value over time
   - (c) Value of money changing over time
   - (d) None of the above
3. CAPM stands for:
   - (a) Capital Asset Pricing Model
   - (b) Current Asset Profit Margin
   - (c) Current Accounting Performance Measure
   - (d) None
4. Which one is a valuation model for equity?
   - (a) CAPM
   - (b) DDM
   - (c) NPV
   - (d) IRR
5. Risk is measured by:
   - (a) Return
   - (b) Standard deviation
   - (c) Time
   - (d) ROI
6. Which principle conflicts with value maximization?
   - (a) Dividend
   - (b) Profit maximization
   - (c) Equity
   - (d) Capital budgeting
7. Bond valuation depends on:
   - (a) Interest rate
   - (b) Market rate
   - (c) Time to maturity
   - (d) All of the above
8. Which model explains risk-return trade-off?
   - (a) CAPM
   - (b) IRR
   - (c) ARR
   - (d) NPV

9. Equity holders are:
   - (a) Owners
   - (b) Creditors
   - (c) Lenders
   - (d) Debtors

10. Profit maximization ignores:

- (a) Risk
- (b) Time
- (c) Both (a) and (b)
- (d) None

Unit II: Financing Decision

1. Cost of capital is:
    - (a) Average return
    - (b) Required return
    - (c) Minimum required return
    - (d) None of the above
2. WACC stands for:
    - (a) Weighted Average Cost of Capital
    - (b) Working Asset Capital Cost
    - (c) Weighted Asset Capital Calculation
    - (d) None of the above
3. Which of the following is not a source of long-term finance?
    - (a) Debentures
    - (b) Bank overdraft
    - (c) Equity shares
    - (d) Preference shares
4. MM Hypothesis assumes:
    - (a) Taxes exist
    - (b) Capital markets are inefficient
    - (c) No taxes and perfect market
    - (d) None of the above
5. Cost of debt is usually:
    - (a) Higher than equity
    - (b) Lower than equity
    - (c) Same as equity
    - (d) Not considered in capital structure
6. Financial leverage affects:
    - (a) Sales
    - (b) Operating profits
    - (c) Earnings per share
    - (d) Fixed cost
7. Capital structure includes:
    - (a) Long-term sources of funds
    - (b) Short-term sources
    - (c) Both a and b
    - (d) Current liabilities only
8. Operating leverage is associated with:
    - (a) Fixed operating costs
    - (b) Financial expenses
    - (c) Sales
    - (d) Dividend
9. Marginal cost of capital refers to:

    - (a) Overall cost of capital
    - (b) Cost of raising additional funds
    - (c) Initial investment cost
    - (d) Historical cost
10. Cost of preference capital is calculated as:

- (a) Dividend / Price
- (b) Earnings / Equity
- (c) Debt / Price
- (d) Dividend / Equity

Unit III: Investment Decision

1. NPV is the difference between:
    - (a) Cash inflow and outflow
    - (b) Discounted cash inflows and cost
    - (c) Cash inflows only
    - (d) Profit and sales
2. Payback period method focuses on:
    - (a) Total profits
    - (b) Time taken to recover initial investment
    - (c) Risk and return
    - (d) Discount rate
3. IRR is:
    - (a) Internal Recovery Rate
    - (b) Internal Rate of Return
    - (c) Investment Rate of Return
    - (d) None
4. The method that considers time value of money:
    - (a) Payback
    - (b) ARR
    - (c) NPV
    - (d) None
5. ARR is based on:
    - (a) Cash flows
    - (b) Profit
    - (c) Discount rate
    - (d) Market rate
6. Profitability Index is:
    - (a) PV of inflows / PV of outflows
    - (b) Net profit / Sales
    - (c) Cash inflows / Investment
    - (d) ROI × Time
7. Capital budgeting under risk uses:
    - (a) CAPM
    - (b) NPV
    - (c) Risk-adjusted discount rate
    - (d) ARR

8. Terminal value is used in:
   - (a) Dividend decision
   - (b) NPV calculation
   - (c) Working capital
   - (d) Tax computation
9. Certainty equivalent is:
   - (a) Risk-free cash flow equivalent
   - (b) Capital structure tool
   - (c) Tax adjustment
   - (d) Inventory value
10. Which method is best for mutually exclusive projects?

- (a) IRR
- (b) Payback
- (c) NPV
- (d) ARR

Unit IV: Management of Working Capital

1. Working capital =
   - (a) Fixed assets – current assets
   - (b) Current assets – current liabilities
   - (c) Total assets – current liabilities
   - (d) None

2. Gross working capital includes:
   - (a) Current assets only
   - (b) Current liabilities
   - (c) Fixed assets
   - (d) Long-term debts

3. Main source of short-term finance:
   - (a) Debentures
   - (b) Equity
   - (c) Bank overdraft
   - (d) Bonds

4. Receivables are also known as:
   - (a) Payables
   - (b) Credit sales
   - (c) Advances
   - (d) Cash flows
5. Risk-return trade-off in working capital means:
   - (a) More return less risk
   - (b) Less capital more risk
   - (c) High liquidity less risk
   - (d) None
6. Inventory turnover is used to assess:
   - (a) Efficiency of inventory usage
   - (b) Cash position

    - (c) Credit policy
    - (d) Sales price
7. Cash budget is used for:
    - (a) Long-term planning
    - (b) Capital investment
    - (c) Short-term cash planning
    - (d) Tax estimation
8. Receivables turnover ratio =
    - (a) Credit sales / Average receivables
    - (b) Total sales / Credit sales
    - (c) Debts / Equity
    - (d) None
9. Working capital management ensures:
    - (a) Liquidity
    - (b) Insolvency
    - (c) Bankruptcy
    - (d) Loss
10. Payables are:

- (a) Assets
- (b) Equity
- (c) Liabilities
- (d) Expenses

Unit V: Dividend Decisions

1. Walter's model is related to:
    - (a) Costing
    - (b) Dividend policy
    - (c) Capital structure
    - (d) Working capital

2. MM model assumes:
    - (a) Taxable world
    - (b) Perfect market
    - (c) Government control
    - (d) Inflation

3. Residual dividend policy pays dividend:
    - (a) Before investment
    - (b) After investment
    - (c) Randomly
    - (d) Quarterly
4. Dividend policy affects:
    - (a) Market value of shares
    - (b) Cash flows
    - (c) Interest rate
    - (d) None

5. Relevance theory says dividend is:
    - (a) Not important
    - (b) Irrelevant
    - (c) Important for value
    - (d) None
6. Payout ratio =
    - (a) Dividend / Earnings
    - (b) Retained earnings / Earnings
    - (c) Earnings / Dividend
    - (d) Net sales / Dividend
7. High dividend payout is preferred by:
    - (a) Growth investors
    - (b) Retired investors
    - (c) Government
    - (d) Creditors
8. Dividend declared in form of additional shares:
    - (a) Interim dividend
    - (b) Stock dividend
    - (c) Bonus
    - (d) Final dividend

9. Dividend irrelevance theory is proposed by:
    - (a) Walter
    - (b) MM
    - (c) Gordon
    - (d) Keynes

10. Dividend policy depends on:

- (a) Legal restrictions
- (b) Liquidity
- (c) Access to capital
- (d) All of the above