FINANCIAL MANAGEMENT-QUESTION FOR CAIIB EXAM

Quest.1.On the recommendations of the Finance Manager, the board of directors will accept the project if-----

a. Benefit Cost Ratio is less than one
b. Net Present Value is greater than zero
c. Internal Rate of Return is less than cost of capital
d. Pay Back Period is greater than target period

Quest.2. Identify from the following statements , one statement which is not concerning to market analysis-----

a. Production possibilities and constraints
b. Consumer behaviour, intentions, motivations, attitudes, preferences and requirements
c. Extent of competition and market share
d. Suitability of production process

Quest.3. From the following sources of finance , find out the free source of finance-----

a. Equity Capital
b. Preference Capital
c. Retained Earnings
d. None of the above

Quest.4. From the following information, compute the operating cycle of LMP Ltd.-No of days the raw material remain in stock is 60 days, suppliers credit available for 15 days, production time 15 days, finished goods inventory period 15 days, realization from customers takes 25 days. The operating cycle therefore would be-----

a. 115 days
b. 100 days
c. 75 days
d. 85 days

Quest.5. If the fixed and variable cost at 50% production capacity are Rs.20000 and Rs.30000, respectively, the total cost at 70% capacity will be-----

a. Rs.50000
b. Rs.62000

c. Rs.70000
d. Rs.58000

Quest.6. Commercial paper , is an short term usance promissory note with fixed maturity period , issued by-----

a. Corporates & primary dealers
b. All India financial Institutions
c. (a) and (b) above
d. None of the above

Quest.7. Surabhi Enterprises has given you the following information. The Re-order level 4000 units, minimum usage 300 units per week, minimum lead time 2 weeks and re-ordering quantity 2000 units. The maximum stock level of Surabhi Enterprises should be-----

a. 1900 units
b. 5400 units
c. 2900 units
d. 4000 units

Quest.8. Susheel Hightech Ltd. are selling designer furniture to top customers. There is no direct competition for their product. They are negotiating a big order from one wealthy business magnate. While giving the quotation they should follow ------

a. conversions cost pricing method
b. market based pricing
c. marginal cost pricing
d. full cost pricing

Quest.9.Under cash budget system method, working capital is determined by -----

a. ascertaining level of current assets
b. ascertaining level of current liabilities
c. finding cash gap after taking in to account projected cash inflows and outflows
d. all of the above

Quest.10.IRR is calculated for one of the following purposes-----

a. Working capital finance
b. Pre-shipment finance
c. Project finance
d. Post shipment finance

Ques.11. Actual Sales minus Break Even Sales means-----

a. Profit on sales

b. Margin of safety sales
c. Loss on sales
d. Sales at which no profit or no loss is resulted

Ques.12. Conversion cost is calculated on the basis of following formula-----

a. Direct Material plus Direct Labour
b. Direct Material plus total overheads
c. Direct Labour plus direct overheads
d. Direct Material plus Administrative Cost

Ques.13. Under which method, the cost s are classified under fixed and variable cost and only variable costs are charged to products while fixed cost are written off to Profit and Loss Account.

a. standard costing
b. Marginal Costing
c. Absorption costing
d. Job costing

Ques.14. The following statements are pertaining to Letter of Credit (LC). One of the statements is wrong. Choose the wrong statement

a. All letters of credit in India relating to the foreign trade are subject to provisions of "Uniform Customer and Practice for Documentary Credit" (UCPDC).
b. The provisions of UCPDC have the status of law
c. The parties to a LC bind themselves to UCPDC provisions by specifically agreeing to do.
d. The UCPDC provisions help to arrive at unambiguous interpretation of terms used in LC

Ques.15. Which of the following is not part of working capital management?

a. credit period to buyers
b. proportion of current assets to be financed by long term debt
c. dividend payout
d. cash credit limit

Ques.16. In an operating cycle which of the following is not there

a. acquisition of raw material
b. acquisition of power
c. acquisition of consumables
d. conversion of raw material into work-in-progress

Ques.17. A low current assets ratio implies one of the following

a. greater liquidity & lower risk
b. poor liquidity & higher risk
c. greater liquidity & greater risk

d. poor liquidity & lower risk

Ques.18. Financing temporary current assets with short term finance and permanent current assets with long term finance refers to

a. matching approach
b. conservative approach
c. casual approach
d. conservative approach

Ques.19. The formula for Economic Order Quantity(EOQ) is------ (A= stock usage, C = cost of ordering, H= cost for holding stock per unit)

a. √2AC/H
b. √2ACH
c. √2CH/A
d. √AH/2C

Ques.20. If a buyer of goods gets a discount of 1.5% on a supply of Rs. 100 , if the amount is paid within 10 days where the normal credit period is 50 days. What is the annualized benefit to the buyer if he pays within 10 days.

a. 12.75%
b. 13.69%
c. 14.21%
d. 13.65%

Ques.21. which of the following is not a risk involved in carrying inventory

a. obsolescence of the product
b. physical deterioration in the goods
c. price fluctuation in the product
d. increase in the price of raw material

Ques.22. Factoring means

a. another entity buys your debts
b. another entity buys your credits
c. another entity loans an amount to you
d. none of the above

QUESTION 1:

GHI Ltd. manufacturers two products :Product G and Product H. The Variable cost of the manufacture is as follows:

	Product G	Product H

Direct Material	3	10
Direct Labour (Rs.6 per hour)	18	12
Variable Overhead	4	4

Product G sells for Rs.40 and Product H at Rs.30. During the month of January, the Company is having only 21000 of direct labour. The maximum production capacity of Product G is 5000 units and Product H is 10000 units.

FROM THE ABOVE FACTS, ANSWER THE FOLLOWING:

I. The contribution from Product G and H together is-----

a. Rs.32
b. Rs.19
c. Rs.27
d. Rs.40

II. The contribution per labour hour from Product H is-----

a. Rs. 4
b. Rs. 2
c. Rs. 3
d. Rs. 5

III. The contribution per labour hour from Product G is-----

a. Rs.2
b. Rs.5
c. Rs.15
d. Rs.3

IV. The company can maximize profit if it can choose one of the following combination

a. Product G- 3500 units and Product H -5250 units
b. Product G- 5000 units and Product H -3000 units
c. Product G- 4500 units and Product H -6000 units
d. Product G- 4000 units and Product H -4500 units

QUESTION 2:

A Company producing a single product sells it at Rs. 100 each. The marginal cost of production is Rs.60 each and fixed cost is Rs.40000. Answer the following questions from this information:

I. The amount of sales to earn a profit of Rs.50000

a. Rs.225000

b. Rs.125000
c. Rs.500000
d. Rs.90000

II. The new break even sales if sales price is reduced by 10%

a. Rs.100000
b. Rs.120000
c. Rs.90000
d. Rs.110000

QUESTION 3:

Three Investment projects have the following net cash flows. Decide which of them should be accepted using the payback period method.

YEAR	PROJECT A	PROJECT B	PROJECT C	Project D
0	(10000)	(15000)	(20000)	(30000)
1	5000	5000	10000	0
2	5004	5000	10000	0
3	20000	5000	4000	100000
4	1000	10000	2000	120000
5	-	5000	-	60000

Project D
Project A
Project C
Project B

QUESTION 4:

The cash flow in respect of two projects is given below. The cost of capital is 12% , the discount factor of 12% is also given.

Year	Project A	Project B	Discount Factor @ 12%	Discount Factor @ 16%
0	(200)	(300)	1	1
1	60	100	0.8929	0.8620
2	60	100	0.7972	0.7431
3	60	90	0.7118	0.6406
4	60	70	0.6355	0.5522
5	60	70	0.5674	0.4761

Answer the following question using the above information.

I. What is the NPV of Project A (in Rs.)

a. 216.29
b. 16.29
c. 200
d. 182.24

II. What is the NPV of Project B (in Rs.)

a. 260.28
b. 300
c. 17.27
d. 71

III. What is the Profitability Index of Project A

a. 1.30
b. 1.08
c. 1
d. 0.91

IV. What is the Profitability Index of Project B

a. 0.86
b. 1
c. 1.06
d. 1.23

V. What is IRR of Project A

a. 15.24%
b. 14.24%
c. 16.24%
d. 14.50%

QUESTION 5:

The following is the information of XYZ Ltd for last 2 years (Rs. in Lakh).

	2005	2004	Difference
Profit before Tax	68	83	
Tax	34	41	
Profit after Tax	34	42	
Dividends	28	27	1
Retained Earnings	6	15	(9)

How the above information is shown in the cash flow statement-----

- At the sources column Rs.34 Lakh will be shown on account of Profit from operations and on uses column dividend payment of Rs. 28 Lakh will be shown
- At the sources column Rs.6 Lakh will be shown on account of Profit from operations and on uses column nothing is shown
- At the sources column nothing is shown on account of Profit from operations and on uses column Rs.9 Lakh is shown
- At the sources column nothing is shown on account of Profit from operations and on uses column Rs.8 Lakh is shown

CASELET

Read the following and answer

	Cost / unit
Raw material	50
Direct labour	20
Overheads	40
Total cost	110

No. of units	10,000
No. of units Sold on credit	8000

Average raw material in stock : 1 month
Average work in progress : ½ month
Average finished goods in stock : ½ month

Credit by supplier : 1 month
Credit to debtor : 2 months
Take 1 year = 12 months

Ques. 1. Investment of working capital in raw material inventory is

a. 41666
b. 50000
c. 33333
d. 10000

Ques. 2. Investment in working capital for finished goods is

a. 45833
b. 49090
c. 56453
d. 50000

Ques. 3. current assets in respect of debtors

e. 174541
f. 146666
g. 152500
h. 154326