**Financial Management**

Chapter -Capital Budgeting

1. Capital Budgeting is a part of:
   1. **Investment Decision**
   2. Working Capital Management
   3. Marketing Management
   4. Capital Structure
2. Capital Budgeting deals with:
   1. **Long-term Decisions**
   2. Short-term Decisions
   3. Both (a) and (b)
   4. Neither (a) nor (b)
3. Which of the following is not used in Capital Budgeting?
   1. Time Value of Money
   2. Sensitivity Analysis
   3. **Net Assets Method**
   4. Cash Flows
4. Capital Budgeting Decisions are:
   1. Reversible
   2. **Irreversible**
   3. Unimportant
   4. All of the above
5. Which of the following is not incorporated in Capital Budgeting?
   1. Tax-Effect
   2. Time Value of Money
   3. Required Rate of Return
   4. **Rate of Cash Discount**
6. Which of the following is not a capital budgeting decision?
   1. Expansion Programme
   2. Merger
   3. Replacement of an Asset
   4. **Inventory Level**
7. A sound Capital Budgeting technique is based on:
   1. **Cash Flows**
   2. Accounting Profit
   3. Interest Rate on Borrowings
   4. Last Dividend Paid
8. Which of the following is not a relevant cost in Capital Budgeting?
   1. Sunk Cost
   2. Opportunity Cost
   3. Allocated Overheads
   4. **Both (a) and (c) above**
9. Capital Budgeting Decisions are based on:
   1. Incremental Profit
   2. **Incremental Cash Flows**
   3. Incremental Assets
   4. Incremental Capital
10. Which of the following does not effect cash flows proposal?
    1. Salvage Value
    2. Depreciation Amount
    3. Tax Rate Change
    4. **Method of Project Financing**
11. Cash Inflows from a project include:
    1. Tax Shield of Depreciation
    2. After-tax Operating Profits
    3. Raising of Funds
    4. **Both (a) and (b)**
12. Which of the following is not true with reference capital budgeting?
    1. Capital budgeting is related to asset replacement decisions
    2. Cost of capital is equal to minimum required return
    3. **Existing investment in a project is not treated as sunk cost**
    4. Timing of cash flows is relevant.
13. Which of the following is not followed in capital budgeting?
    1. Cash flows Principle
    2. Interest Exclusion Principle
    3. **Accrual Principle**
    4. Post-tax Principle
14. Depreciation is incorporated in cash flows because it:
    1. Is unavoidable cost
    2. Is a cash flow
    3. **Reduces Tax liability**
    4. Involves an outflow
15. Which of the following is not true for capital budgeting?
    1. Sunk costs are ignored
    2. **Opportunity costs are excluded**
    3. Incremental cash flows are considered
    4. Relevant cash flows are considered
16. Which of the following is not applied in capital budgeting?
    1. Cash flows be calculated in incremental terms
    2. All costs and benefits are measured on cash basis
    3. **All accrued costs and revenues be incorporated**
    4. All benefits are measured on after-tax basis.
17. Evaluation of Capital Budgeting Proposals is based on Cash Flows because:
    1. Cash Flows are easy to calculate
    2. Cash Flows are suggested by SEBI
    3. **Cash is more important than profit**
    4. None of the above
18. Which of the following is not included in incremental A flows?
    1. Opportunity Costs
    2. **Sunk Costs**
    3. Change in Working Capital
    4. Inflation effect
19. A proposal is not a Capital Budgeting proposal if it:
    1. is related to Fixed Assets
    2. brings long-term benefits
    3. **brings short-term benefits only**
    4. has very large investment
20. In Capital Budgeting, Sunk cost is excluded because it is:
    1. of small amount
    2. **not incremental**
    3. not reversible
    4. All of the above
21. Savings in respect of a cost is treated in capital budgeting as:
    1. **An Inflow**
    2. An Outflow
    3. Nil
    4. None of the above.
22. Risk in Capital budgeting implies that the decision-maker knows\_\_\_\_\_\_\_\_\_\_\_of the cash flows.
    1. Variability
    2. **Probability**
    3. Certainty
    4. None of the above
23. In Certainty-equivalent approach, adjusted cash flows are discounted at:
    1. Accounting Rate of Return
    2. Internal Rate of Return
    3. Hurdle Rate
    4. **Risk-free Rate**
24. Risk in Capital budgeting is same as:
    1. Uncertainty of Cash flows
    2. Probability of Cash flows
    3. Certainty of Cash flows
    4. **Variability of Cash flows**
25. Which of the following is a risk factor in capital budgeting?
    1. Industry specific risk factors
    2. Competition risk factors
    3. Project specific risk factors
    4. **All of the above**
26. In Risk-Adjusted Discount Rate method, the normal rate of discount is:
    1. **Increased**
    2. Decreased
    3. Unchanged
    4. None of the above
27. In Risk-Adjusted Discount Rate method, which one is adjusted?
    1. Cash flows
    2. Life of the proposal
    3. **Rate of discount**
    4. Salvage value
28. NPV of a proposal, as calculated by RADR real CE Approach will be:
    1. Same
    2. **Unequal**
    3. Both (a) and (b)
    4. None of (a) and (b)
29. Risk of a Capital budgeting can be incorporated
    1. Adjusting the Cash flows
    2. Adjusting the Discount Rate
    3. Adjusting the life
    4. **All of the above**
30. Which element of the basic NPV equation is adjusted by the RADR?
    1. **Denominator**
    2. Numerator
    3. Both
    4. None
31. In CE Approach, the CE Factors for different years are:
    1. Generally increasing
    2. **Generally decreasing**
    3. Generally same
    4. None of the above
32. Which of the following is correct for RADR?
    1. Accept a project if NPV at RADR is negative
    2. Accept a project if IRR is more than RADR
    3. **RADR is overall cost of capital plus risk-premium**
    4. All of the above
33. In Payback Period approach to risk the target payback period is
    1. Not adjusted
    2. Adjusted upward
    3. **Adjusted downward**
    4. B or C
34. In Sensitivity Analysis, the emphasis is on assessment of sensitivity of
    1. Net Economic Life
    2. **Net Present Value**
    3. Both (a) and (b)
    4. None of (a) and (b)
35. Most Sensitive variable as given by the Sensitivity Analysis should be:
    1. Ignored
    2. Given Least important
    3. **Given the maximum importance**
    4. None of the above
36. Expected Value of Cashflow, EVCF, is:
    1. Certain to occur
    2. **Most likely Cashflows**
    3. Arithmetic Average Cashflow
    4. Geometric Average Cashflow
37. Concept of joint probability is used in case of:
    1. Independent Cashflows
    2. Uncertain Cashflows
    3. **Dependent Cashflows**
    4. Certain Cashflows
38. Decision-tree approach is used in:
    1. Proposals with longer life
    2. **Sequential decisions**
    3. Independent Cashflows
    4. Accept-Reject Proposal

39 . Which of the following statements is true about mutually exclusive projects?

a. They are not in direct competition with each other.

b. They are in direct competition with each other.

c. They are not evaluated based on shareholder wealth.

d. They are never evaluated.

Section: Management of Fixed Assets

40. What is the net present value?

a. the future value of a project’s cash flows plus its initial cost

b. the present value of a project’s cash flows plus its initial cost

c. the future value of a project’s cash flows minus its initial cost

d. the present value of a project’s cash flows minus its initial cost

41. What is a SWOT analysis?

a. a review of stock strategies

b. a review of the firm’s internal strengths and weaknesses and its external opportunities and threats

c. a review of the firm’s external strengths and weaknesses and its internal opportunities and threats

d. a review of the firm’s internal strengths and opportunities and its external weaknesses and threats.

42. Why are projects with negative net present values (NPVs) unacceptable to a firm?

a. Returns lower than the cost of capital result in firm failure.

b. Returns with negative NPVs cause an equal profit ratio.

c. Returnswith negative NPVs are acceptable to a firm.

d. Returns lower than the cost of capital result in higher profit ratios.

43. The NPV measures the \_\_\_\_\_\_ change in shareholder wealth that ari ses from undertaking a project.

a. consistent

b. dollar

c. annual

d. semi-annual

44. The Internal Rate of Return is defined as

a. the discount rate

which causes the payback to equal one year.

b. the discount rate which causes the NPV to equal zero.

c. the ROE when the NPV equals 0.

d. the ROE associated with project maximization.

45. What are the two drawbacks associated with the payback period?

a. The time value of money is ignored. It ignores cash flows beyond the payback period.

b. The time value of money is considered. It ignores cash flows beyond the payback period.

c. The time value of money is considered. It includes cash flows beyond the payback period.

d. The time value of money is ignored. It includes cash flows beyond the payback period.

46. Each of the following techniques use discounted cash flows to incorporate the time value of money into their analysis except

a. net present value (NPV)

b. payback method

c. internal rate of return (IRR)

d. modified internal rate of return

47. Which of the following cash flows should not be considered relevant in calculating project cash flows?

a. opportunity costs

b. any effects caused by cannibalization

c. investments in net working capital as a result of making the investment

d. sunk costs

48. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ measures the dollar change in shareholder wealth that arises from Under taking a project.

a. Net present value

b. IRR

c. Profitability index

d. Modified IRR

49. In relation to cash flow projections, the format of the statem ent of cash flows is beneficial because it identifies the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of a capital budgeting project.

a. unified cash flows

b. individual cash flows

c. periodic cash flows

d. multiple cash flows

50. Which of the following is not a characteristic of an effective control system?

a. It pinpoints personal responsibility.

b. Top management lacks the ability to evaluate the business unit.

c. It controls intra firm agency problems.

d. It records the names of the persons who make estimates.

51. What occurs in the fifth stage of the capital budgeting process?

a. Financial analysts refer the books over to the CPA.

b. Financial analysts conduct a SWOT analysis.

c. Financial analysts close out the books and sell the business.

d. Financial analysts track both the spending and the results of the firm’s current capital budgeting projects.

52. A manager can presume that the project will enhance shareholder wealth only if its NPV based on the risk-adjusted rate is

a. positive.

b. negative.

c. zero.

d. equal.

53. What is a way to operationalize shareholder wealth maximization?

a. Identify and select projects that are expected to have negative net future values.

b. Identify and select projects that are expected to have positive net future values.

c. Identify and select projects that are expected to have positive net present values.

d. Identify and select projects that are not expected to have positive net present values.