XLRI JAMSHEDPUR – EDC MMFNA

Quiz 1, Time: 60 Minutes, Total Weightage: 10%, 16-Jan.-2017

NAME: ________________________________ **ROLL # ___________**

INSTRUCTIONS

This is a closed book examination. You are not allowed to borrow books, calculators, etc. Answer all questions. Marks in brackets at the start of each section indicate the marks assigned for that section. In case of multiple-choice questions, true/false questions and such, you are required to write the most appropriate choice in the answer sheet given.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

SECTION I: MULTIPLE CHOICE QUESTIONS

(Total: 3.7 Marks, Each Correct Answer +0.1 mark, Each Wrong Answer –0.1 mark)

1. The ease with which an asset can be converted to cash is referred to as:
(a) Spread
(b) Liquidity
(c) Both (a) and (b)
(d) None of the above

2. The decrease in the economic utility of a tangible fixed asset (say, due to wearing out or using up) is best known as:
(a) Devaluation
(b) Utilization
(c) Depreciation
(d) None of the above

3. Aniket Pizza Limited has current assets worth Rs 5,275,000, current liabilities and provisions worth Rs. 1,000,000, zero longterm liabilities, and shareholders equity totalling Rs 5,000,000. The total assets of the company would be:
(a) Equal to Rs. 6,000,000
(b) Less than Rs. 6,000,000
(c) More than Rs. 6,000,000
(d) Insufficient information

4. A company's total liabilities and shareholders' equity amounts to Rs. 850,000, long-term assets to Rs. 500,000, accounts receivable to Rs. 50,000 and inventory to Rs. 100,000. The only other current asset account shown on the balance sheet is cash. The value of the cash would be:
(a) Rs. 100,000
(b) Rs. 150,000
(c) Rs. 200,000
(d) Rs. 250,000

5. Goods Purchased – Rs 10,000, Sales Rs 9,000 Margin 20% on cost. Closing Stock - ?
(a) (1,000) (b) 1,000
(c) 2,500 (d) 2,800

6. If the opening inventory is understated and the closing inventory is overstated, the profit would:
(a) Increase (b) Decrease
(c) No Change (d) None

7. Inventories consist of:
(a) Raw Materials (b) Work-in-Progress
(c) Finished Goods (d) All of the above

8. On which principle will the determination of expenses for the accounting period depend?
(a) Periodicity (b) Matching
(c) Realization (d) Accrual

9. Revenue from sale of a product is generally, realized when:
(a) Sale is made (b) It is Manufactured
(c) Cash is collected (d) It is Delivered

10. The depletion method of depreciation is adopted on:
(a) Land & Building (b) Computers
(c) Goodwill (d) Mines & Quarries

11. Which among the followings is assumed to be non-depreciating?
(a) Land (b) Goodwill
(c) Cash (d) Plant & Machinery

12. Owners' Equity would change as a result of:
(a) Decrease of Creditors (b) Payment of salaries & wages
(c) Increase of Debtors (d) Purchase of Fixed Assets

13. Which of the following are uses of funds?
(a) Purchase of fixed assets
(b) Repayment of long-term loans
(c) New issue of share capital
(d) Only (a) and (b).

14. The important internal sources of funds are:
(a) Funds generated from operations
(b) Sale of non-current assets
(c) Existing surplus working capital
(d) None of the above.

15. Interest received on long-term investments made or on a part of non-current assets should be considered as an:
(a) Operating activity
(b) Investing activity
(c) Financing activity
(d) None of the above

16. Which of the following is a source of funds?
(a) Issue of share capital
(b) Sale of fixed assets or long-term investments

(c) Non-trading receipts
(d) Funds from operations
(e) All of the above

17. Payment of interest on loans and dividends is classified as a:
(a) Operating activity
(b) Investing activity
(c) Financing activity
(d) None of the above.

18. Tinkle Comics Limited paid income tax on capital gains resulting from disposal of capital assets. This amount would be shown in the statement of cash flow as a deduction in ______ type of activities:
(a) Operating activities
(b) Investing activities
(c) Financial activities
(d) None of the above

19. Farista Financial Services Limited, a non-banking financial services company, made a total loan of Rs 136 Crore during the financial year 2013. This amount will be classified as part of:
(a) Operating activities
(b) Investing activities
(c) Financial activities
(d) None of the above

20. Dividend paid is always classified as a:
(a) Operating activity
(b) Investing activity
(c) Financing activity
(d) None of the above.

21. The term 'cash' as used in Cash Flow Statements includes:
(a) Only cash balances.
(b) Only bank balances.
(c) Bank balances and bank overdrafts.
(d) Cash in hand plus bank balances less bank overdrafts.
(e) All of the above.

22. Cash payments or receipts to acquire or dispose fixed assets are classified as:
(a) Operating activity
(b) Investing activity
(c) Financing activity
(d) None of the above.

23. Financial ratios help to identify some of the financial strengths and weaknesses of a company. What are the two ways that the ratios provide for making meaningful comparisons of a firm's financial data?
(a) The current ratio and the acid-test ratio.
(b) How long it takes to collect the firm's receivables and how long it takes to pay its accounts payables.
(c) The return on assets versus the return on equity.

(d) Examining ratios across time to identify trends and comparing the firm's ratios with those of other firms.

24. The taxable income for a company is based on:
(a) Gross income less dividends.
(b) Gross income less the cost of producing the product.
(c) Gross income less tax-deductible expenses.
(d) Gross income less depreciation expenses.

25. Which of the following is NOT one of the questions used as a map in analysing financial ratios?
(a) How liquid is the firm?
(b) Is management generating adequate operating profits on the firm's assets?
(c) How much should the firm invest in new equipment next year?
(d) How is the firm financing its assets?
(e) Are the owners (stockholders) receiving an adequate return on their investment?

26. The short-term solvency ratios examine how quickly a firm's assets can be converted into cash. The quick ratio is computed by what formula?
(a) Current assets/Current liabilities.
(a) (Current assets-loans and advances)/Current liabilities.
(c) (Current assets - inventories)/Current liabilities.
(d) (Current assets - accounts receivable)/ (Current liabilities - cash).

27. Which of the following is NOT included in the calculation of the quick ratio?
(a) Accounts receivable
(b) Fixed assets
(c) Accounts payable
(d) Cash

28. An increase in the average collection period could have been caused by:
(a) Customers quickly paying off their accounts.
(b) Management carefully enforcing its collection policies.
(c) Management extending longer credit terms to customers.
(d) All of the above.
(e) None of the above.

29. Which of the following is not affected by how a firm is financed, whether with debt or equity?
(a) Balance sheet.
(b) Income statement.
(c) Operating income.
(d) Net income.

30. An approach to calculating the liquidity involves determining the firm's ability to convert its accounts receivable and inventory into cash, on a timely basis. The receivables turnover ratio indicates how rapidly the firm is collecting its credit accounts, as measured by the number of times its accounts receivable are collected or 'rolled over' during the year. What is the formula for the accounts receivable turnover ratio?
(a) (Total annual sales - cash)/Accounts receivable.
(b) Total annual sales/Accounts receivable.
(c) Credit sales/Accounts receivable.
(d) None of the above.

31. Which financial statement measures the amount of profits generated by a firm over a given period of time?
   (a) Statement of cash flow.
   (b) Balance sheet.
   (c) Income statement or profit and loss statement.
   (d) Operating income statement.

32. A firm might also want to know how rapidly it is turning over its inventories during the year, so as to gain some insight about the liquidity of inventories. What is the formula for calculating the inventory turnover ratio?
   (a) Total annual sales/Inventory.
   (b) Credit sales/Inventory.
   (c) Cost of goods sold/Inventory.
   (d) None of the above.

33. Holding all other variables constant, an increase in ______ would increase the operating income return on investment (OIROI).
   (a) Operating income
   (b) Total assets
   (c) Marketing expenses
   (d) Interest expenses

34. The debt ratio indicates how much debt is used to finance a firm’s assets and provides an indication of how a firm is financed. What is the formula for calculating the debt ratio?
   (a) Long-term debt/Total assets.
   (b) Total debt/Total assets.
   (c) Total debt/Shareholders’ equity.
   (d) None of the above.

35. The DuPont analysis is an approach to evaluate a firm’s profitability and return on equity. What is the correct formula for calculating the DuPont equation?
   (a) Return on equity = Net profit margin x Asset utilization ratio x Equity Multiplier.
   (b) Return on equity = Net profit margin x (1 <-> Total debt) Total assets.
   (c) Return on equity = Operating profit margin X Total asset turnover.
   (d) None of the above.

36. Which of the following would increase cash flows from financing? An increase in:
   (a) Dividends.
   (b) Short-term notes.
   (c) Interest expense.
   (d) Operating income.

37. Which profit margin measures the overall operating efficiency of the firm?
   (a) Gross Profit Margin.
   (b) Net Profit Margin.
   (c) Operating Profit Margin.
   (d) None of the above.

SECTION II: TRUE OR FALSE

(Total: 2.6 Marks, Each Correct Answer +0.1 mark, Each Wrong Answer –0.1 mark)

Mark whether the following statements are "True" or "False" by marking T or F opposite each statement.

38. An increase in an asset always results in an increase in the owner(s') equity. (T/F)
39. Assets = Liabilities + Owners' Equity is always true. (T/F)
40. An increase in the assets could be equated by an increase in the liabilities. (T/F)
41. Losses result in an increase in the owner(s) equity. (T/F)
42. Some companies, instead of having cash on their balance sheet, have a line of credit or bank indebtedness (i.e., negative balance in their bank current accounts). (T/F)
43. Current Assets are liquid and will be converted to cash within one year or one operating cycle. (T/F)
44. Using debt is a two-edged sword. When times are good, debt financing can make them very good, but when times are bad, debt financing makes them very bad. (T/F)
45. The Du-Pont analysis is a method that is used to analyze a firm's profitability and return on equity. (T/F)
46. Seasonality is not considered a limitation of ratio analysis. (T/F)
47. Financial ratios are the principal tools of financial analysis because they standardize financial information, so that comparisons can be made between firms of varying sizes. (T/F)
48. A current ratio of more than five should always be considered as a good indication. (T/F)
49. Published industry average ratios provide ratios that are classified by industry and firm size. (T/F)
50. In common size analysis, we measure and compare every item of balance sheet with respect to sales. (T/F)
51. Trend analysis involves comparing a firm's financial ratios with similar ratios for another firm in the same industry. (T/F)
52. One of the biggest advantages of ratios is that they standardize financial information. (T/F)
53. Current assets, or gross working capital, are comprised of those assets that are relatively liquid - those that are expected to be converted into cash within a year. (T/F)
54. Debt capital is financing provided by shareholders. (T/F)
55. Net working capital is defined as current assets minus current liabilities. (T/F)
56. Dividends paid over a firm's life increase a firm's common equity account on the balance sheet. (T/F)
57. If a firm is profitable, it also has a positive cash flow. (T/F)
58. Free cash flows from an asset perspective; represent the after-tax cash flows generated from financing the business, less the firm's investment in assets. (T/F)
59. The Banks and Financial Institutions would have high Equity Multiplier. (T/F)
60. An Auditors Report contains the result of operations. (T/F)
61. A company with shorter operating cycle has better liquidity position. (T/F)
62. Accounts Payable includes short term borrowings. (T/F)
63. Financial managers do not pay much attention to information reported in financial statements. (T/F)

SECTION III: CLASSIFICATION OF ITEMS

(Total: 2.1 Marks, Each Correct Answer +0.1 mark, Each Wrong Answer –0.1 mark)

Classify each item listed in column A into one of the following categories – (a) Operating revenue (b) Non-operating revenue (c) Cost of goods sold (d) Selling and distribution expense (e) General administrative expense (f) Appropriation of profit and (g) Not related to profit and loss account, by appropriately marking them in column B. Assume that the information relates to a small manufacturing firm.

A	____B____
64. Raw material consumed	
65. Interest received	
66. Dividends received	
67. Wages paid to manufacturing workers	
68. Carriage on goods sold	
69. Carriage on goods purchased	
71. Salary of clerical staff	
72. Rent for office	
73. Power and fuel	
74. Selling agents commission	
75. Advertising	
76. Auditor(s) fees	
77. Sales tax	
78. Municipal rates on office premises	
79. Profit on sale of fixed assets	
80. Power used in administrative office	
81. Sales discount	
82. Purchase returns and allowances	
83. Dividends paid	
84. Interest expense on loans	