



Mobilization and Management of Finance Course
Quiz 2 Date: 30/01/2017

Weightage 10%

Duration 90 minutes

Name _____

Roll No. _____

INSTRUCTIONS

1. Closed book exam. Answer all questions.
3. Students cannot use laptop. Students cannot bring their mobiles inside exam room.
You are not allowed to borrow books, papers, calculators, etc. All questions are fill in the blanks – you are required to write the appropriate answer in the blanks provided, **Marking MCQ without any reasoning will not be evaluated** ... writing junk would lead to negative marks/deduction of marks.
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 QUESTION

(Total: 3 Marks, Each Correct Answer +1/4 mark, Each Wrong Answer 1/4 mark)

1. The total asset turnover ratio is measured as:
- a. Sales minus total assets.
 - b. Sales divided by total assets.
 - c. Sales times total assets.
 - d. Total assets divided by sales.
 - e. Total assets plus sales.

Reason: _____

2. One of the reasons why cash flow analysis is popular is because:
- a. Cash flows are more subjective than net income.
 - b. Cash flows are hard to understand.
 - c. It is easy to manipulate, or spin the cash flows.
 - d. It is difficult to manipulate, or spin the cash flows.
 - e. None of these.

Reason: _____

3. A conflict of interest between the stockholders and management of a firm is called:

- a) Stockholders' liability.
- b) Corporate breakdown.
- c) The agency problem.
- d) Corporate activism.
- e) Legal liability.

Reason: _____

4. _____ refers to the changes in net capital assets.

- a. Operating cash flow
- b. Cash flow from investing
- c. Net working capital
- d. Cash flow from assets
- e. Cash flow to creditors

Reason: _____

5. Which one of the following statements is correct concerning the organizational structure of a corporation?

- a) The vice president of finance reports to the chairman of the board.
- b) The chief executive officer reports to the board of directors.
- c) The controller reports to the president.
- d) The treasurer reports to the chief executive officer.
- e) The chief operations officer reports to the vice president of production.

Reason: _____

6. An increase in which one of the following will cause the operating cash flow to increase?

- a. Depreciation
- b. Changes in the amount of net fixed capital
- c. Net working capital
- d. Taxes
- e. Costs

Reason: _____

7. Working capital management includes decisions concerning which of the following?

- (i) Accounts payable
- (ii) Long-term debt
- (iii) Accounts receivable
- (iv) Inventory

- a) I and II only
- b) I and III only
- c) II and IV only
- d) I, II, and III only
- e) I, III, and IV only

Reason: _____

8. The cash ratio is measured as:

- a. Current assets divided by current liabilities.
- b. Current assets minus cash on hand, divided by current liabilities.
- c. Current liabilities plus current assets, divided by cash on hand.
- d. Cash on hand plus inventory, divided by current liabilities.
- e. Cash on hand divided by current liabilities.

Reason: _____

9. Total assets are Rs.1000, fixed assets are Rs.700, long-term debt is Rs.250, and short-term debt is Rs.300. What is the amount of net working capital?

- a. Rs.0
- b. Rs.50
- c. Rs.300
- d. Rs.650
- e. Rs.700

Reason: _____

10. Ratios that measure a firm's financial leverage are known as _____ ratios.

- a. Asset Management
- b. Long-Term Solvency
- c. Short-Term Solvency
- d. Profitability
- e. Market Value

Reason: _____

11. You have deposited \$1,500 in an account that promises to pay 8% compounded quarterly for the next five years. How much will you have in the account at the end?

- a. \$1,598.33
- b. \$2,203.99
- c. \$2,228.92
- d. \$6,991.44
- e. None of these.

Reason: _____

12. The long-term debts of a firm are liabilities:

- a. that come due within the next 12 months.
- b. that do not come due for at least 12 months.
- c. owed to the firm's suppliers.
- d. owed to the firm's shareholders.
- e. the firm expects to incur within the next 12 months.

Reason: _____

SECTION II: ANSWER THE FOLLOWING

(Total: 7 Marks, Each Correct Answer +1 mark)

1. **Agency Problems and Corporate Ownership:** Till 1990s, the corporate sector in India were primarily funded by large domestic financial institutions such as IFCI, SCICI, and IDBI. In the process, these domestic institutions were one of the dominant owners of stocks in India. In recent years, with increasing privatization and globalization of India economy, the stake of these domestic financial institutions has gone down whereas the foreign institutional investors and privately managed funds have become the dominant owners of stock. What are the implications of this trend for agency problems and corporate control in India?

2. **Ratio Analysis** Consider the ratio EBITD/Assets. What does this ratio tell us? Why might it be more useful than ROA in comparing two companies?
3. **Present Value** Suppose two athletes sign 10-year contracts for Rs. 80 million. In one case, we're told that the Rs. 80 million will be paid in 10 equal installments. In the other case, we're told that the Rs. 80 million will be paid in 10 installments, but the installments will increase by 5 percent per year. Who got the better deal?
4. **Building an Income Statement** Travis, Inc., has sales of \$387,000, costs of \$175,000, depreciation expense of \$40,000, interest expense of \$21,000, and a tax rate of 35 percent. What is the net income for the firm? Suppose the company paid out \$30,000 in cash dividends. What is the addition to retained earnings?

5. **Cash Flow to Creditors** The 2011 balance sheet of Anna's Tennis Shop, Inc., showed long-term debt of \$1.45 million, and the 2012 balance sheet showed long-term debt of \$1.52 million. The 2012 income statement showed an interest expense of \$127,000. What was the firm's cash flow to creditors during 2012?

6. **Comparing ROE and ROA** Both ROA and ROE measure profitability. Which one is more useful for comparing two companies? Why?

7. **Financial Cash Flows** The Stencil Corporation provided the following current information:

Proceeds from long-term borrowing	\$17,000
Proceeds from the sale of common stock	4,000
Purchases of fixed assets	21,000
Purchases of inventories	1,900
Payment of dividends	14,500

Determine the cash flows from the firm and the cash flows to investors of the firm.