

Dire Dawa University
College of Business and Economics
Department of Accounting & Finance
EXIT EXAM ON FINANCIAL MANAGEMENT

Date: 22/04/2015

Time allowed: 2:15 hrs

Total marks: 100%

Instructor: Addisu A. and Beweketu Y.

Name: _____ ID.No: _____ Section: _____

General Instructions

- This examination has **10** page including cover page
- Any attempt to copy from others and, intentionally, letting others to copy leads to a serious penalty.
- Switch of your cell phone.
- Provide your answers on the answer sheet provided only.
- Make your answer legible and neat.
- Sharing of calculator also forbidden

Good luck!

Approved By Exam Committee:

1. _____	_____
2. _____	_____
3. _____	_____

Choose the best answer from the given alternatives.

1. When financial institutions follow government regulations pertaining to the industry, the institutions are
 - A. Being independent
 - B. In compliance
 - C. Being ethical
 - D. In mediation
2. How do finance companies commonly raise capital?
 - A. Investing deposits from savers
 - B. Investing funds from premium payments
 - C. Issuing notes, bonds, and other obligations
 - D. Establishing mutual funds and investment banks
3. Mortgages and government bonds are examples of
 - A. Debt instruments
 - B. Unrated investments
 - C. Equity products
 - D. Interest-free services.
4. Debt markets buy and sell _____, and equity markets buy and sell _____.
 - A. corporate stock, certificates of deposit
 - B. grain, gold
 - C. government bonds, corporate stock
 - D. gold, government bonds
5. Falling interest rates typically cause
 - A. Stock prices to increase
 - B. A stock market to crash
 - C. Stock prices to decrease
 - D. No change in stock prices
6. Which of the following has accelerated the globalization of financial markets?
 - A. An expansion of protectionism practices
 - B. The reduction of government regulations
 - C. The movement toward fixed exchange rates
 - D. A decrease in foreign access to domestic markets
7. Basic objective of Financial Management is _____.
 - A. Maximization of profit
 - B. Maximization of share holder's wealth
 - C. Ensuring Financial discipline in the firm
 - D. All of these
8. The market value of the firm is the result of _____.
 - A. Dividend decisions
 - B. Working capital decisions
 - C. Capital budgeting decisions
 - D. Trade-off between risk and return.
9. Cost of capital is _____.
 - A. Lesser than the cost of debt capital
 - B. Equal to the last dividend paid to the equity shareholders
 - C. Equal to the dividend expectations of equity shareholders for the coming year
 - D. None of the above.
10. _____ security is known as variable income security
 - A. Debentures
 - B. Preference shares
 - C. Equity shares
 - D. None of these.
11. Current ratio of a concern is 1, its net working capital will be _____.
 - A. Positive
 - B. Neutral
 - C. Negative
 - D. None of the above

12. Risk-return trade off implies_____.
- Increasing the portfolio of the firm through increased production
 - Not taking any loans which increases the risk
 - Not granting credit to risky customers
 - Taking decision in such a way which optimizes the balance between risk and return.
13. Which of the following statements is correct regarding profit maximization as the primary goal of the firm?
- Profit maximization considers the firm's risk level
 - Profit maximization will not lead to increasing short-term profits at the expense of lowering expected future profits
 - Profit maximization does consider the impact on individual shareholder's EPS
 - Profit maximization is concerned more with maximizing net income than the stock price.
14. The _____ decision involves determining the appropriate make-up of the right-hand side of the balance sheet.
- Asset management
 - Financing
 - Investment
 - Capital budgeting
15. Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.
- Present value
 - Simple interest
 - Future value
 - Compound interest.
16. _____ is the minimum required rate of earnings or the cut off rate of capital expenditure.
- Cost of capital
 - Working capital
 - Equity capital
 - None of the above
17. The term _____ refers to the period in which the project will generate the necessary cash flow to recoup the initial investment.
- Internal return
 - Payback period
 - Discounting return
 - Accounting return.
18. Financial risk perception is an influencing factor of _____.
- Equity structure
 - Preference structure
 - Debt structure
 - Capital structure.
19. _____ bonds are again superior to ordinary bonds in terms of sale ability.
- Redeemable
 - Irredeemable
 - Convertible
 - Non-convertible.
20. The risk averse prefers debt instruments, while the risk seekers go for _____.
- Equity investments
 - Preference investments
 - Debt investments
 - None of these.
21. A method of budgeting that estimates today's value of money to be received in the future; It is discounted due to the uncertainty of its true value in the future and for the cost of the capital is_____.
- Cash inflow
 - Cash outflow
 - Discounted cash flow
 - Payback period
22. Rate of tax on capital gain and current income may influence form of _____.
- Equity
 - Preference
 - Debt
 - Capital.

23. In deciding the appropriate level of current assets for the firm, management is confronted with _____.
- A trade-off between profitability and risk
 - A trade-off between liquidity and marketability
 - A trade-off between equity and debt
 - Trade-off between current assets and profitability
24. How much amount should an investor deposit in an account earning a continuously compounded interest rate of 8% for a period of 5 years so as to earn Br2,238?
- Br1500
 - Br1523
 - Br1541.
 - none of the above
25. The present value of Br10,000 to be received five years from today, assuming a discount rate of 9% compounded monthly, is closest to,:
- Br6,387
 - Br6,499
 - Br6,897
 - None of the above
26. The present value of Br10,000 to be received five years from today, assuming a discount rate of 9% compounded monthly, is closest to,:
- Br6,387
 - Br6,499
 - Br6,897
 - None of the above
27. Which of the following is most likely to increase as the frequency of compounding increases?
- Interest rate
 - Present value
 - Future value
 - All of the above
28. How long will it take an investment of Br2,500 to grow three times in value to Br7,500? Assume that the interest rate is 6 percent per year compounded annually.
- 11.9 years
 - 18.9 years
 - 21.3 years
 - None of the above
29. Evan Hubbard estimates he needs Br100,000 to travel around the world. He plans to deposit Br800 every month starting one month from today to meet this goal. The interest rate is 7 percent compounded monthly. How many months will it take for Hubbard to achieve his goal?
- 95 months
 - 225 months
 - 250 months
 - None of the above
30. Comparison of financial variables of a firm over a period of time is known as-----
- Comparative
 - Common-size
 - Trend analysis
 - None of the above
31. When ratios are calculated from the financial statements of one year, it is known as -----
- Horizontal analysis
 - Vertical analysis
 - Internal Analysis
 - External analysis
32. The ratio which depicts the relationship between two items, one of which is drawn from the Balance Sheet and the other from the revenue account
- Current ratio
 - Equity Ratio
 - Net Profit ratio
 - Debtors Turnover Ratio
33. Long term solvency of a firm can be measured by
- Current ratio
 - Net profit ratio
 - Gross profit ratio
 - Debt equity ratio
34. The index of efficiency and profitability of the business
- Operating ratio
 - Operating profit ratio
 - Expense ratio
 - Net profit ratio

35. The ratios that shows that capacity of the business unit to meet its short term obligation out of its short term resources is known as -----
- A. Solvency ratio
 - B. Leverage ratio
 - C. Liquidity ratio
 - D. Trend Ratio
36. Operating ratio establishes the relationship between ----- and net sales
- A. Cost of goods sold
 - B. Cost of sales
 - C. Cost of production
 - D. Operating cost
37. Current ratio is 4:1, the amount of current liabilities is Br12000 the amount of working capital is---
- A. Br48,000
 - B. Br36000
 - C. Br30000
 - D. Br60000
38. The efficiency of the management can be measured with the help of -----
- A. Activity ratio
 - B. Leverage ratio
 - C. Liquidity ratio
 - D. Profitability ratio
39. The term "Capital structure" refers to the relationship between:
- A. Debentures, preference share and equity share capital.
 - B. Current assets and current liabilities
 - C. Sum of all non-current assets
 - D. Sum of all outsider's liabilities
40. Which of the following is not true about capital structure?
- A. Proportion of various types of securities is known as capital structure.
 - B. Capital structure is also known as capitalization.
 - C. Capital structure and financial structure are different.
 - D. All of the above
41. Which of the following is not a pattern of capital structure?
- A. Equity shares and Preference shares
 - B. Equity shares, preference shares and debentures
 - C. Equity shares only
 - D. Equity shares and short term borrowing
42. A firm with high operating leverage is characterized by _____ while one with high financial leverage is characterized by _____.
- A. low fixed cost of production; low fixed financial costs
 - B. high variable cost of production; high variable financial costs
 - C. high fixed costs of production; high fixed financial costs
 - D. low costs of production; high fixed financial costs
43. The XYZ Company relies on preferred stock, bonds, and common stock for its long-term financing. Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax component costs of the XYZ Company's long-term financing.
- A. Bonds; common stock; preferred stock.
 - B. Bonds; preferred stock; common stock.
 - C. common stock; preferred stock; bond
 - D. Preferred stock; common stock; bonds.
44. If a firm has a DOL of 5 at Q units, this tells us that:
- A. If sales rise by 5%, EBIT will rise by 5%.
 - B. If sales rise by 1%, EBIT will rise by 1%.
 - C. If sales rise by 5%, EBIT will fall by 25%.
 - D. If sales rise by 1%, EBIT will rise by 5%.
45. Trout Ltd. produces a single product that has a contribution margin of 60% per unit and sold 500,000 units last year. Trout has a degree of operating leverage of 1.60 and a degree of financial leverage of 1.20 for the current year. If the sales volume were to increase by 10% this coming year, what would be the expected percentage increase in earnings per share (rounded to the nearest percent)?
- A. 16%
 - B. 12%
 - C. 6%
 - D. 19.2%
46. Is a payment of additional shares to shareholders in lieu of cash?
- A. stock split
 - B. stock dividend
 - C. extra dividend
 - D. regular dividend

47. A payment as dividend when the market price of stock are overvalued
- A. stock split
 - B. stock dividend
 - C. extra dividend
 - D. regular dividend
48. Which of the following is not a reason that a firm would prefer to pay a stock dividend rather than a regular cash dividend?
- A. It decreases the supply of shares and enhances shareholder wealth.
 - B. It may conserve cash for other firm needs.
 - C. It will reduce the stock price into what management perceives as a more beneficial trading range.
 - D. It may convey information about the firm to investors that it cannot convey credibly otherwise.
49. If a firm adheres strictly to the residual dividend policy, a sale of new common stock by the company would suggest that
- A. The dividend payout ratio has remained constant.
 - B. The dividend payout ratio is increasing.
 - C. No dividends were paid for the year.
 - D. The dividend payout ratio is decreasing.
50. Petersen Co. has a capital budget of Br800,000. The company wants to maintain a target capital structure that consists of 60 percent debt and 40 percent equity. The company forecasts that its net income this year will be Br600, 000. If the company follows a residual dividend policy, what will be its payout ratio?
- A. 0%
 - B. 20%
 - C. 60%
 - D. 80%
51. Brock Brothers wants to maintain its capital structure that consists of 30 percent debt and 70 percent equity. The company forecasts that its net income this year will be Br1,000,000. The company follows a residual dividend policy and anticipates a dividend payout ratio of 40 percent. What is the size of the company's capital budget?
- A. Br600,000
 - B. Br 857,143
 - C. Br1,428,571
 - D. Br2,000,000
52. In stock dividend:
- A. Authorized capital always increases
 - B. Paid up capital always increases
 - C. Face value per share decreases
 - D. Market price for share decreases
53. Which of the following generally not result in increase in total dividend liability?
- A. Share-split
 - B. Right Issue
 - C. Bonus Issue
 - D. All of the above
54. All of the following are true of stock splits **EXCEPT**:
- A. Market price per share is reduced after the split
 - B. The number of outstanding shares is increased.
 - C. Retained earnings are changed.
 - D. Proportional ownership is unchanged.
55. On May 7, Melbourne Mining declared a \$.50-per-share quarterly dividend payable June 28 to stockholders of record on Friday, June 7. What is the latest date by which you could purchase the stock and still get the recently declared dividend?
- A. June 3
 - B. June 4
 - C. June 5
 - D. June 6

56. MM (irrelevant) Theory in perfect market suggests that dividend payment:
- A. Has a positive impact on the value of firm
 - B. Has no impact on the value of a firm
 - C. Has a negative impact on the value of firm
 - D. Has negligible impact on the firm
57. _____ is a nonrecurring dividend paid to shareholders in addition to the regular dividend.
- A. A stock split
 - B. A stock dividend
 - C. An extra dividend
 - D. A regular dividend
58. Which one of the following dates is the determination made as to which shareholder will receive the dividend payment
- A. Date of record
 - B. Payment date
 - C. Ex – divided date
 - D. Declaration date
59. Assume this morning bout 10,000 of its outstanding shares in the open market, this indicates
- A. Stock payout
 - B. Stock distribution
 - C. Stock dividend
 - D. Stock repurchase
60. Which dividend policy affects the company's future growth negatively?
- A. Dividend irrelevant theory
 - B. Bird in hand theory
 - C. Tax preference theory
 - D. All of the above
61. Decreasing dividend from previous period implies that?
- A. Increasing stock price
 - B. Increasing current value of shareholders
 - C. Decreasing reinvestment
 - D. Increasing future growth
62. Retained earnings lead to long-term capital gains, which are taxed at lower rates than dividends:
- A. Dividend irrelevant theory
 - B. Tax preference theory
 - C. Dividend relevant theory
 - D. None of the above
63. Factors Favoring a High Payout, except
- A. legal benefit
 - B. Flotation cost
 - C. Dividend restrictions
 - D. All of the above
64. Mr Abay is certain that for next year February 20,2015 he will receive Br 100,000 from Alpha corporation as dividend. What type of dividend policy Alpha Corporation follows?
- A. Constant dividend policy
 - B. Stable dividend policy
 - C. Residual dividend policy
 - D. None of the above
65. If Ian O'Connor Enterprises, Inc., repurchased 50 percent of its outstanding common stock from the open (secondary) market, the result would be;
- A. A decline in EPS.
 - B. An increase in cash.
 - C. A decrease in total assets.
 - D. An increase stockholder.
66. ___ is a process of evaluating the capabilities of the customers and decision to grant credit to a customer as well as the quantum of credit would be taken.
- A. Credit policy
 - B. Credit analysis
 - C. Collection policy
 - D. Credit monitoring
67. XYZ manufacturing business is operating in a high competitive industry area. If you are manager of XYZ business, which credit policy you will develop?
- A. Liberal credit policy
 - B. Stringent credit policy
 - C. Conservative policy
 - D. Optimum credit policy
68. Which one of the following is true regarding about float?
- A. Disbursement float is negative
 - B. Collection float is positive
 - C. Net float might be positive or negative
 - D. All are correct answers

69. Amount of cash is needed to meet an opportunity to purchase raw materials at a reduced price or make purchase at favorable prices is
- A. Transaction motive
 - B. Speculative motive
 - C. Precautionary motive
 - D. Compensating motive
70. Which one of the following are different from others regarding cost of working capital
- A. Transaction cost
 - B. Loss of customer
 - C. Shutdown of production
 - D. Storage cost
71. A method forecasting in which gathering data through multiple rounds are there and the analysis of data is done at every stage is called
- A. Sales force Polling
 - B. Delphi Method
 - C. Market Research
 - D. Executive Opinion
72. Time consumed in clearing a check through the banking system.
- A. Processing float
 - B. Deposit float
 - C. Collection float
 - D. Availability float
73. Net working capital refers to
- A. Total assets minus fixed assets.
 - B. Current assets minus current liabilities.
 - C. Current assets minus inventories.
 - D. Current assets.
74. Permanent working capital
- A. Varies with seasonal needs.
 - B. Includes fixed assets.
 - C. Current assets required for long-term minimum needs
 - D. Includes accounts payable.
75. Spontaneous financing includes
- A. Accounts receivable.
 - B. Accounts payable.
 - C. Short-term loans.
 - D. A line of credit
76. In deciding the appropriate level of current assets for the firm, management is confronted with
- A. A trade-off between profitability and risk.
 - B. A trade-off between liquidity and marketability.
 - C. A trade-off between equity and debt.
 - D. A trade-off between short-term versus long-term borrowing.
77. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- A. Short-term assets financed with long-term liabilities.
 - B. Permanent working capital financed with long-term liabilities.
 - C. Short-term assets financed with equity.
 - D. All assets financed with a 50 percent equity, 50 percent long-term debt mixture.
78. Which of the following would be consistent with a more aggressive approach to financing working capital?
- A. Financing short-term needs with short-term funds.
 - B. Financing permanent inventory buildup with long-term debt.
 - C. Financing seasonal needs with short-term funds.
 - D. Financing some long-term needs with short-term funds.
79. If demand in units is 18000, relevant ordering cost for each year is Br150 and an order quantity is 1500 then annual relevant ordering cost would be
- A. Br200
 - B. Br190
 - C. Br160
 - D. Br180

- 80.** Decision model to calculate optimal quantity of inventory to be ordered is called
- A. Efficient order quantity
 - B. Economic order quantity
 - C. Rational order quantity
 - D. Optimized order quantity
- 81.** If purchase order lead time is 35 minutes and number of units sold per time is 400 units then reorder point will be
- A. 14000 units
 - B. 14500 units
 - C. 15000 units
 - D. 15500 units
- 82.** If an average inventory is 2000 units and annual relevant carrying cost of each unit is Br5 then annual relevant carrying cost will be
- A. Br5,000
 - B. Br4,500
 - C. Br5,500
 - D. Br6,000
- 83.** A cycle in which they purchase inventory, sell goods on credit, and then collect accounts receivable referred to as
- A. The cash conversion cycle
 - B. Inventory conversion period
 - C. Receivables Collection Period
 - D. Payables deferral period
- 84.** Which of the following function is required to be performed by the finance manager in relation to proper management of receivables?
- A. To obtain optimum (not maximum) value of sales.
 - B. To adopt relaxed policy for administrative expense.
 - C. To increase opportunity cost of funds blocked in the receivables.
 - D. To make more purchases at bigger discounts
- 85.** An important means to get an insight into collection pattern of debtors is the preparation of their
- A. List of proposed discount
 - B. Discount schedule
 - C. Schedule of personal information of debtors
 - D. Ageing Schedule.
- 86.** Making a credit decision is based upon all of the following except which?
- A. Character
 - B. Capital
 - C. Complaint
 - D. Collateral
- 87.** Which one of the following describes the procedures a firm follows in attempting to collect its accounts receivables
- A. Collection policy
 - B. Credit analysis
 - C. Credit period
 - D. Credit policy
- 88.** A policy under which relatively large amounts current assets are carried and under which sales are stimulated by a liberal credit policy, resulting in a high level of receivables is:
- A. Relaxed fixed Investment Policy
 - B. Restricted Current Asset Investment Policy
 - C. Moderate Current Asset Investment Policy
 - D. Relaxed Current Asset Investment Policy

89. The comparison of financial data of same time period of different organizations engaged in similar business.

- A. Time series analysis
- B. Cross sectional analysis

- C. Industry analysis
- D. Performance analysis

90. Inventory turnover ratio evaluates.

- A. The potential ability to meet current obligations..
- B. the efficiency which the firm uses asset to generate sales
- C .measure the overall performance of a firm and its efficiency in managing assets
- D. It measures the speed with which inventory is converted in to sales by the firm