SIDDHARTH GROUP OF INSTITUTIONS :: PUTTUR
Siddharth Nagar, Narayanavanam Road – 517583

QUESTION BANK (DESCRIPTIVE)

Subject with Code : MEFA(13A52701) **Course & Branch**: B.Tech - CIVIL

Year & Sem: IV-B.Tech & I-Sem **Regulation:** R13

UNIT – V

Capital and capital budgeting

1. Explain the types of Capital Budgeting methods. 10 M
2. Explain the major sources of Capital. 10 M
3. The cost of a project is Rs.50,000 which has an expected life of 5 years. The cash inflows for next 5 years are Rs.24,000; Rs.26,000; Rs.20,000; Rs.17000 and Rs.16,000 respectively. Determine the Payback period. 10 M
4. A business needs a new machine and has to make the choice between machine Y and Machine Z. The initial cost and net cash flow over five years to the business have been calculated for each machine as follows: 10 M

	Machine Y	**Machine Z**
Initial cost		
Net cash flow	20,000	28,000
1	8,000	10,000
2	12,000	12,000
3	9,000	12,000
4	7,000	9,000
5	6,000	9,000

Only one machine is needed, calculate : i) Pay Back Period
ii) Accounting rate of Return

5. A project involves initial outlay of Rs. 1,29,000. Its working life is expected to be 3 years. The cash inflows are likely to be as follows: 10 M

Year	Inflows
164000	
256000	
324000	

Compute the IRR.

6. Consider the case of the company with the following two investment alternatives each costing Rs.9 lakhs. The details of cash inflows are as follows: 10 M

Year	Project 1	Project 2
1	3,00,000	6,00,000
2	5,00,000	4,00,000
3	6,00,000	3,00,000

The cost of capital is 10% per year. Which are will you choose (A) NPV method.

(B) Under IRR method

7. What is the importance of Capital budgeting and its limitations? 10 M

8. How do the discounting models differ from non- discounting models? 10 M

9. What do you understand by time value of money? How is it helpful in Capital Budgeting? 10 M

10. Write a short notes on

a. Payback period 2 M
b. Net present Value method 2 M
c. Fixed capital 2 M
d. Internal Rate of Return 2 M
e. Working capital 2 M

UNIT - V

1. Internal Rate of Return (IRR) is the rate at which the difference between the present value of cash inflows and the original cost is [ ]

(A) greater than one (B) less than one

(C) equal to one (D) equal to zero.

2. If the------- is more than the cost of capital, the project is profitable [ ]

(A) ARR (B) payback period

(C) IRR (D) working capital.

3. Where there are two projects with different IRRs, the project with-------- IRR is selected

(A) lower (B) higher [ ]

(C) zero (D) negative.

4. The flow of money in the business is called? [ ]

(A) Capital formation (B) Cost cycle

(C) Working capital cycle (D) Capital cycle.

5. Which of the following are expected to be realized in cash or consumed during business operations? [ ]

(A) tangible fixed assets (B) intangible fixed assets

(C) fixed assets (D) current assets.

6. The difference between assets and liabilities is called [ ]

(A) overdraft (B) capital

(C) net purchases (D) sales.

7. Which of the following shows the firms planned operations or resource allocation for a given period in future [ ]

(A) Operating budgets (B) Capital budgets

(C) Accounting rate of return (D) Internal rate of return.

8. Where cash flows are------- computation of IRR is more by trial and error with respect to the discount factor [ ]

(A) even (B) uneven

(C) zero (D) negative

9. Net present value refers to the--------------- of present value of future cash inflows over and above the cost of original investment [ ]

(A) less (B) excess

(C) minimum value (D) maximum value.

10. Select always projects with [ ]

(A) lower NPV (B) negative NPV

(C) zero NPV (D) higher NPV.

11. NPV formula [ ]

(A) cash inflow –cash outflow (B)cash flow

(C) cash inflow (D)none

12. Profitability index 1= [ ]

(A) break even (B) profit

(C) loss (D) none

13. Average investment formula [ ]

(A) investment /2 (B) investment *2

(C) cash/2 (D) none

14. For the profitable projects, the profitability index is [ ]

(A) less than 1 (B) Greater than 1

(C) equals to 0 (D) none of the above

15. The main idea of providing is to raise enough funds for replacement when the asset is exhausted [ ]

(A) Dividend (B) depreciation

(C) reserves (D) pricing.

16. The letter issued by the company under its common seal acknowledging the receipt of loan is called [ ]

(A) Loan document (B) Debenture

(C) Secured debentures (D) Redeemable debentures.

17. Which of the following includes offering the shareholding in public institutions to employees and general public? [ ]

(A) Investment (B) Divestment

(C) Mutual funds (D) Policy

18. The circulating capital is also called [ ]

(A) Fixed capital (B) Working capital

(C) Tangible fixed capital (D) None of the above.

19. Which of the following is not a current asset? [ ]

(A) Cash (B) Creditors

(C) Prepaid expenses (D) Stock of raw materials

20. Which one of the following is not a form of long-term finance? [ ]
    (A) Own capital (B) Share capital
    (C) Hand loans (D) Debentures.
21. Which concept is used to compare cash inflows occurring at different points time with the corresponding cash flows [ ]
    (A) IRR (B) Accounting Rate of Return
    (C) Time value of money (D) Net Present Value
22. If the rate of return is more than the cost of capital, then the project is [ ]
    (A) Accept (B) Reject
    (C) Denied (D) Postponed
23. Cash inflows refer to [ ]
    (A) Cash incomes (B) Future incomes
    (C) Past incomes (D) Cash receipts
24. The diminution or reduction in the values of asset due to wear and tear is called [ ]
    (A) Appreciation (B) Paid up capital
    (C) Depreciation (D) Capital budgeting
25. The difference between the present value future cash inflows and the original investment is called [ ]
    (A) NPV (B) IRR
    (C) ARR (D) PI
26. A unit of capital is called as [ ]
    (A) Profit (B) Share
    (C) Dividend (D) All of the above
27. The circulating capital is also called [ ]
    (A) Fixed capital (B) Working capital
    (C) Tangible fixed capital (D) None
28. The excess of current assets over current liabilities are called [ ]
    (A) Fixed capital (B) Working capital
    (C) Lon-term capital (D) All of the above

29. Hire purchase is the ______source of finance [ ]
    (A) Long-term (B) Short-term
    (C) Medium term (D) Very short term

30. In leasing, the company, who owns asset is called [ ]

(A) Lessee (B) Lesser

(C) Banker (D) Owner

31. Present value factor is also called [ ]

(A) Time value of money (B) Discount factor

(C) Liquidity factor (D) None of these

32. It is good to select always the projects wit [ ]

(A) Lower NPV (B) Negative NPV

(C) Zero NPV (D) Higher NPV

33. Which one of the following should not be more than the rate of return? [ ]

(A) accounting period (B) cost of capital

(C) paid-up capital (D) reserves

34. If NPV____then the project earns less than the discount rate [ ]

(A) > 1 (B) = 1

(C) < 1 (D) = 0

35. For the profitable projects, the profitability index is [ ]

(A) Less than one (B) Greater than one

(C) Equals to 0 (D) None

36. The Working capital is also called [ ]

(A) Fixed capital (B) circulating capital

(C) Tangible fixed capital (D) None

37. Leasing is the ______source of finance [ ]

(A) Long-term (B) Short-term

(C) Medium term (D) Very short term

38. Cash outflows refer to [ ]

(A) Cash incomes (B) Future incomes

(C) Past incomes (D) Cash receipts

39. Which one of the following is not a form of short-term finance? [ ]

(A) Own capital (B) Cash credit

(C) Hand loans (D) Banks

40. From the following methods, which are traditional methods? [ ]

(A) NPV (B) P.I

(C) ARR (D) IRR