



**B.V. Patel Institute of Business Management, Computer & Information
Technology, Uka Tarsadia University**

Question Bank

030030304: Fundamentals of Financial Management

Unit: 1 Introduction

Fill in the blanks with appropriate word(s):

1. Maximization of **Shareholders Wealth** is the main goal of financial management.
2. The proportion of profit distributed as dividend is called the **Dividend Payout Ratio**.
3. **Traditional** phase was only outsiders looking approach, due to its over emphasis on episodic events and lack of importance to day-to-day problems.
4. The relationship between finance and economics can be studied under **Micro Economics** and **Macro Economics** areas of economics.
5. The transition phase is almost similar to that traditional phase but more emphasis was given to the **day-to-day (Working Capital)** problem faced by the finance manager.
6. Financial Managers and accountants perform the same functions in a firm. *False*
7. The decision function of financial management can be broken down into the **investment, financing, and asset management** decisions.
8. "Shareholder wealth" in a firm is represented by: **The market price per share of the firm's common stock.**
9. The focal point of financial management in a firm is **the creation of value for shareholders.**
10. **Profit** and **Wealth** maximizations are the goals of financial management.
11. The financial decisions are not **Independent**, but they are **Inter related** to each other.
12. Financial management is that managerial activity, which is concerned with the **Planning** and **Controlling** of the firm's financial resources.
13. Modern financial management is concerned with proper **anticipating, Acquisition** and **allocation** of fund effectively.
14. Financial Managers and accountants perform the same functions in a firm. *False*
1. **Sale of shares and bonds** are not the daily activities of financial management?



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15. The controller's responsibilities are primarily **accounting** in nature, while the treasurer's responsibilities are primarily related to **financial management**.
16. **Preparation of the firm's accounting statements** is not the responsibility of financial management.
17. Modern Approach for financial management is superior to the traditional approach of financial management. **TRUE**
18. **Financial planning** seeks to quantify various financial resources available and plan the size and timing of expenditures.
19. A **financial manager** is a person who is responsible, in a significant way, to carry out the finance functions.
20. Agency problem suggest that managers may **try to maximize their personal gains rather than maximizing the wealth of the shareholders**.

Answer the following. (1 mark)

1. Process of Financial Management associated with.
2. Which are the two major area of financial management?
3. What is profit planning?
4. Which objective of financial management is superior?
5. What is wealth maximization?
6. What is meant by financial control?
7. List the stages of evolution of financial management.
8. What is the main emphasis placed in transitional phase?
9. State the key difference between finance and accounting.
10. State the agency cost to prevent agency problem.



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Briefly answer the following. (2 marks)

1. Define Financial Management?
2. What is Agency Problem?
3. Enlist the shortcoming of the profit maximization objective of a firm.
4. State the advantages of wealth maximization objective.
5. What are the major areas covers under dividend function?
6. Which are the things required to be remember while financing decision?
7. State the limitation of traditional phase of financial management.
8. How the finance and economics related each other?

Answer the following (limit 250 words). (5 marks)

1. Write a short note on modern phase of financial management.
2. Explain the functions of finance manager.
3. State and discuss the role of finance department.
4. Describe the relationship of financial management with economics and accounting.
5. “Financial Management is an integral part of general management process in most companies”. Examine the statement.
6. ‘Wealth maximization objective is superior to the profit maximization’ - explain.
7. Write a short note on agency problem.



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Unit: 2 Sources of Long Term Finance

Fill in the blanks with appropriate word(s):

1. The type of stock that gets its dividend before the common stock gets its dividend is called **Preference Share** stock.
2. The holders of **Equity Share** stock elect the corporation's board of directors.
3. How many days available for exercise right by the investors? **30 days**
4. Dividends in arrears occur only on **Cumulative** preference stock.
5. In case of debenture issued by the company the **Trustee** is responsible to ensure that company fulfills its contractual obligation.
6. Retained earnings are **Free** source of finance.
7. A rights issue is offered to all **Existing Shareholders** individually on the basis of pre-emptive rights.
8. GDR is issued by international bank, which can be subject of **Worldwide** circulation on capital markets.
9. GDR stand for **Global Depository Receipt**.
10. Preference share also called **Hybrid** security.
11. Retained earnings can enhance and maintain the **Operating** efficiency.
12. Equity share also known as **Variable** income security.
13. A **Term Loan** has a specific amount that has a specified repayment schedule.
14. Venture capital is usually in the form of equity **Participation**.
15. A venture capitalist invests financial capital in the enterprises as **Third-Party** investors.
16. A company may opt to issue a **GDR** to obtain greater exposure and raise capital in the world market.
17. Investment is usually made in small and medium scale enterprises as well as in high risk but high growth potential projects by **Venture Capitalist**.
18. GDR to obtain greater exposure and raise capital in the world market. **True**
 - a. True
 - b. False
19. Term loan provided by commercial, corporate and co-operative banks. **True**



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6. Why equity share has higher cost?
7. Which condition preference share holders get voting right?
8. What is call and put feature in debenture?
9. Write the main features of debenture.
10. Retained earnings are a free source of Finance for company-Explain.
11. What is right issue?
12. State the condition for right issue.
13. What is venture capital?
14. What is Global Depository Receipt?
15. What are eligibility criteria for listed company to issuing GDR?

Answer the following (limit 250 words). (5 marks)

1. Explain the features of equity share. Discuss the advantages from company and investors' point of view.
2. What is equity share? State the disadvantage from and investors' point of view.
3. Explain features of preference shares and evaluate from companies point of view.
4. What is preference share? Evaluate from investors' point of view.
5. What is debenture? Explain features of a debenture.
6. Evaluate the debenture from companies' point of view and investors' point of view.
7. "Retained earnings are free source of finance" – explain from companies' point of view.
8. Explain the features of term loan and evaluate from the companies' point of view.
9. Explain the features and procedure of right issue.
10. Explain the features and scope of venture capital.
11. "Venture capitalists prefer investing in a great team"—explain.
12. Discuss the importance of venture capital.
13. Explain the importance of GDR.



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Unit-3a Capitalization

Answer the following. (1 mark)

1. Write Gersten Berg's definition of capitalization.
2. State the types of capitalization.
3. What is over capitalization?
4. What is under capitalization?
5. How over capitalization can be rectified?

Briefly answer the following. (2 marks)

6. Define capitalization.
7. State remedial measures of over capitalization.
8. State remedial measures of under capitalization.

OR

State the effect of under capitalization.

9. Explain proper capitalization.
10. Discuss how over capitalization differ from under capitalization.
11. State how over capitalization differ from under capitalization.

Answer the following (limit 250 words). (5 marks)

12. Write short note on capitalization.
13. What is Over Capitalization? Discuss the symptoms of over capitalization.
14. Explain the advantages and disadvantages of over capitalization.
15. What is Under Capitalization? Discuss the cause of under capitalization.
16. Explain the advantages and disadvantages of under capitalization.
17. Write a short note on proper capitalization.

Answer the following (limit 200 words). (10 marks)

18. Diversion of short term funds towards acquiring fixed assets will result in a state of undercapitalization. Explain how?
19. "Under capitalization is creating the healthy environment in business compare to over capitalization"—give comments.



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Unit 3b Leverage

Answer the following. (1 mark)

1. Write definition of leverage according to Christy and Roden.
2. What is operating leverage?
3. What is financial leverage?
4. Write the formula of operating leverage and degree of operating leverage.
5. Write the formula of financial leverage and degree of financial leverage.

Briefly answer the following. (2 marks)

6. Define leverage.
7. What is application of operating leverage?
8. What is application of financial leverage?



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Unit 4 Capital Budgeting

Answer the following. (1 and 2 marks)

1. Briefly explain the concept of capital rationing.
2. Define Capital Budgeting.
3. How do you calculate the ARR?
4. What is independent project?
5. State the steps of capital budgeting process.
6. Explain mutually exclusive project.
7. Write a note on internal rate of return.
8. State 2 points of difference between the Net Present Value and pay back periods methods of investment appraisal.
9. Write formula of net present value.
10. List the importance of capital budgeting.
11. State the methods of project appraisal.
12. Which is a scarce economical resource available for any organization?
13. State different types of capital budgeting projects.
14. Compare NPV and IRR.

Answer the following (limit 250 words). (5 marks)

1. Explain the process of capital budgeting.
2. Explain the concept of capital rationing.
3. Why capital budgeting is required?
4. What is IRR? How it differs from NPV
5. Write Short note on IRR.



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6. Discuss the significance of capital budgeting.
7. Explain Importance of Capital Budgeting.