

**AJA Commerce Academy**  
**CA - Intermediate**  
**Test Series – FINANCIAL MANAGEMENT**

**Time Allowed – 1.5 Hours | Maximum Marks – 50**

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**Section A – Multiple Choice Questions (10 Marks)**

**Case Scenario: Financial Planning at XYZ Pvt. Ltd. (6 Marks)**

**Scenario:**

XYZ Pvt. Ltd., a logistics company, is planning to expand operations and requires ₹50 crores in funding. It can choose between issuing equity shares, debentures, or a term loan. The CFO is focused on wealth maximization and is considering the cost of capital, risk factors, and potential dilution of control.

**Questions:**

1. The CFO is primarily addressing which financial decision?
  - (a) Dividend Decision
  - (b) Financing Decision
  - (c) Investment Decision
  - (d) Risk Management
2. Which of the following is the most likely disadvantage of issuing equity shares?
  - (a) Fixed interest obligations
  - (b) Dilution of ownership
  - (c) Increased risk of insolvency
  - (d) High tax obligations
3. What is the primary factor to consider when choosing between debt and equity financing?
  - (a) Liquidity requirements
  - (b) Cost of capital
  - (c) Dividend payout policy
  - (d) Profit maximization
4. If the company issues debentures, which of the following will occur?
  - (a) Ownership is diluted.
  - (b) Interest expense is tax-deductible.
  - (c) It increases equity capital.
  - (d) Shareholder risk decreases.
5. Wealth maximization focuses on:
  - (a) Time value of money and cash flows.
  - (b) Achieving high short-term profits.
  - (c) Increasing debt to reduce equity.
  - (d) Allocating all profits to dividends.
6. Which tool should the CFO use to evaluate funding options?
  - (a) Net Present Value (NPV)

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- (b) Payback Period
  - (c) Accounting Profit Analysis
  - (d) Gross Profit Ratio
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**General MCQ (4 Marks)**

7. Which of the following is not a primary objective of financial management?
    - (a) Profit Maximization
    - (b) Wealth Maximization
    - (c) Ensuring compliance with tax laws
    - (d) Maintaining liquidity
  8. The relationship between risk and return is:
    - (a) Inverse
    - (b) Linear
    - (c) Positive
    - (d) Unrelated
  9. Which of the following is a short-term financial decision?
    - (a) Dividend Distribution
    - (b) Capital Budgeting
    - (c) Working Capital Management
    - (d) Deciding the Debt-Equity Ratio
  10. An increase in working capital leads to:
    - (a) Decreased liquidity
    - (b) Improved solvency
    - (c) Increased profitability
    - (d) Higher fixed asset turnover
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**Section B – Practical and Descriptive Questions (40 Marks)**

**Question 1: Financial Decision Analysis (10 Marks)**

**Scenario:**

ABC Ltd. is considering two investment options:

- **Project A:** Requires ₹40 lakhs and generates annual cash flows of ₹15 lakhs for 4 years.
- **Project B:** Requires ₹50 lakhs and generates annual cash flows of ₹18 lakhs for 4 years.

Assume a discount rate of 10%.

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- (a) Calculate the **Net Present Value (NPV)** of each project. (6 Marks)  
(b) Advise which project the company should choose, based on NPV. (4 Marks)
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**Question 2: Theory – Role of Finance Manager (10 Marks)**

- (a) Discuss the key responsibilities of a Finance Manager in ensuring financial stability and growth. (6 Marks)  
(b) How does the cost of capital influence financial decisions? Provide examples. (4 Marks)
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**Question 3: Working Capital Management (10 Marks)**

**Scenario:**

XYZ Ltd. has the following working capital details (in ₹ lakhs):

- Current Assets: 120
- Current Liabilities: 80

- (a) Calculate the **current ratio** and interpret the result. (4 Marks)  
(b) Suggest two strategies to improve working capital efficiency. (6 Marks)
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**Question 4: Financing Decisions (10 Marks)**

- (a) Differentiate between equity financing and debt financing in terms of risk, cost, and control. (6 Marks)  
(b) Why is maintaining an optimal capital structure critical for a company? (4 Marks)
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