**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: Financing Decisions at ABC Ltd. (6 Marks)

**Scenario:**
ABC Ltd. is planning to expand its operations and needs ₹100 crores. The CFO evaluates multiple financing options, including equity shares, preference shares, debentures, and loans from financial institutions. The choice depends on the company's financial structure, cost of funds, and risk tolerance.

**Questions:**

1. Which financial decision is ABC Ltd. primarily addressing?
   (a) Investment Decision
   (b) Financing Decision
   (c) Dividend Decision
   (d) Working Capital Management
2. What is the primary advantage of raising funds through equity shares?
   (a) Fixed interest payment obligation
   (b) Non-dilution of control
   (c) Permanent source of finance
   (d) Tax-deductible dividends
3. If the CFO chooses preference shares, which of the following is **not true**?
   (a) Preference shareholders have priority over equity shareholders for dividends.
   (b) Preference shares are generally more expensive than debt financing.
   (c) Preference shareholders have full voting rights.
   (d) Preference shares are often redeemable after a specified period.
4. What is the main characteristic of debentures as a financing source?
   (a) Dividend payment is not compulsory.
   (b) Fixed interest payment regardless of profit.
   (c) Provides ownership rights to investors.
   (d) Cannot be issued for long-term financing.
5. Loans from financial institutions are typically categorized as:
   (a) Internal sources of finance
   (b) External sources of finance
   (c) Short-term financing only
   (d) Capital market instruments
6. Which type of bond allows the issuer to redeem it before maturity?
   (a) Puttable Bond
   (b) Callable Bond

(c) Convertible Bond
(d) Zero-Coupon Bond

**General MCQs (4 Marks)**

7. Which of the following is **not** an internal source of finance?
   (a) Retained Earnings
   (b) Loans from Banks
   (c) Sale of Assets
   (d) Depreciation
8. Venture capital financing typically supports:
   (a) Established businesses only
   (b) High-risk, high-growth startups
   (c) Only public limited companies
   (d) Companies in the declining stage
9. Securitization involves:
   (a) Issuing equity shares to raise capital
   (b) Pooling illiquid assets into marketable securities
   (c) Borrowing funds from international markets
   (d) Raising funds through internal accruals
10. Lease financing is most advantageous when:
   (a) The asset is likely to appreciate significantly
   (b) A company requires long-term ownership of the asset
   (c) Immediate cash flow is required without owning the asset
   (d) The company plans to sell the asset shortly



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## Section B – Practical and Descriptive Questions (40 Marks)

**Question 1: Long-Term Financing Options (10 Marks)**

**Scenario:**
XYZ Ltd. is evaluating two financing options:

1. Issue of ₹50 lakhs debentures at 10% interest per annum.
2. Preference shares worth ₹50 lakhs with a fixed dividend of 12% per annum.

Corporate tax rate: 30%.

**(a)** Calculate the annual cost of both financing options after tax. (6 Marks)
**(b)** Advise XYZ Ltd. on which option to choose, considering the cost of capital. (4 Marks)

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**Question 2: Venture Capital and Securitization (10 Marks)**

(a) Explain the concept and characteristics of venture capital financing. How does it differ from traditional financing? (6 Marks)
(b) Discuss the process of securitization with an example. Highlight its advantages for the lender and borrower. (4 Marks)

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**Question 3: Lease Financing Evaluation (10 Marks)**

**Scenario:**
ABC Ltd. is considering acquiring machinery through lease financing. The cost of the machinery is ₹10 lakhs, and the lease rentals are ₹2.5 lakhs annually for 5 years. Alternatively, the company can borrow funds at an interest rate of 10% per annum and buy the machinery.

**(a)** Calculate the total cost under both options. Assume straight-line depreciation with zero residual value. (6 Marks)
**(b)** Advise ABC Ltd. on whether to lease or buy the machinery. (4 Marks)

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**Question 4: Short-Term Financing Instruments (10 Marks)**

(a) Compare Commercial Paper and Treasury Bills as short-term financing options. (6 Marks)
(b) Explain the role of trade credit as a source of finance. Discuss its advantages and limitations. (4 Marks)