Roots Institute of Financial Markets

RIFM

Practice Book

Financial Markets A Beginner Module

Forward

Welcome to RIFM

Thanks for choosing RIFM as your guide to help you in NCFM/CFP Certification.

Roots Institute of Financial Markets is an advanced research institute Promoted by Mrs. Deep Shikha CFP^{CM}. RIFM specializes in Financial Market Education and Services. RIFM is introducing preparatory classes and study material for Stock Market Courses of NSE , NISM and CFP certification. RIFM train personals like FMM Students, Dealers/Arbitrageurs, and Financial market Traders, Marketing personals, Research Analysts and Managers.

We are constantly engaged in providing a unique educational solution through continuous innovation.

Wish you Luck……………

Faculty and content team, RIFM

Our Team

Deep Shikha Malhotra CFP^{CM}

- M.Com., B.Ed.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- IRDA Certified for General Insurance
- PG Diploma in Human Resource Management

CA. Ravi Malhotra

- B.Com.
- FCA
- DISA (ICA)
- CERTIFIED FINANCIAL PLANNER^{CM}

Vipin Sehgal CFP^{CM}

- B.Com.
- NCFM Diploma in Capital Market (Dealers) Module
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

Neeraj Nagpal CFP^{CM}

- B.Com.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

NCFM Certification In:

- Capital Market (Dealers) Module
- Derivatives Market (Dealers) Module
- Commodities Market Module

Kavita Malhotra

- M.Com. Previous (10th Rank in Kurukshetra University)
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- Certification in all Modules of CFP^{CM} Curriculum (FPSB India)

Distribution of weights in the Financial Markets (Beginners) Module Curriculum

Chapter No.	Title	Weights (%)
1 & 2	Markets and Financial Instruments	30
3	Primary Market	15
4 to 8	Secondary Market	40
9 & 10	Financial Statement Analysis	15

Exam Pattern

Test Duration	60 Min.
No. of Questions	50
Maximum Marks	100
Pass %	50
Negative Marking %	No %

Financial Market A Beginner Module

Index

Contents **Page No**

Chapter 1
Investment Basics

1. An Investor needs to invest to _____________
   A. Earn return on your idle resources
   B. Generate a specified sum of money for a specific goal in life
   C. Make a provision for an uncertain future
   D. All of the above

2. _________ is the rate at which the cost of living increases
   A. Inflation
   B. Deflation
   C. Both of the above
   D. None of the above

3. It is important to consider ________ as a factor in any long-term investment strategy.
   A. Deflation
   B. Inflation
   C. Return
   D. All of the above

4. The golden rule for all investors are_________
   A. Invest early
   B. Invest regularly
   C. Invest for long term and not short term
   D. All of the above

5. Before making any investment, an Investor must ensure to ________
   A. Obtain written documents explaining the investment
   B. Read and understand such documents
   C. Verify the legitimacy of the investment
   D. All of the above

6. When we borrow money, we are expected to pay for using it this is known as ___________
   A. Investment
   B. Interest
   C. Inflation
   D. None

7. Interest is usually calculated as a percentage of the principal balance (the amount of money borrowed).
   A. True
   B. False

Answer Sheet Chapter 1							
1	D	11	D	21	C	31	B
2	A	12	C	22	A	32	D
3	B	13	A	23	B	33	C
4	D	14	B	24	C	34	A
5	D	15	B	25	A	35	C
6	B	16	D	26	A	36	D
7	A	17	A	27	B	37	B
8	D	18	A	28	A	38	D
9	D	19	B	29	B	39	B
10	A	20	A	30	A	40	A

Chapter- 3
Primary Market

1. Primary market may issue the securities ___________________.
    A. At face value
    B. At a discount
    C. At premium
    D. All of the above

2. Primary market may issue the securities in ________________.
    A. Domestic market
    B. International market
    C. Both
    D. None

3. It is the original cost of the stock shown on the certificate____________.
    A. Face value of share
    B. Face value of bond
    C. Both
    D. None

4. When a security is sold above its face value, it is said to be issued _______.
    A. At a premium
    B. At a discount
    C. At par
    D. None

5. Share is sold at less than its face value, then it is said to be issued___________.

    A. At a Discount
    B. At a premium
    C. At par
    D. None

6. The way to invite share capital from the public is through a *'Public Issue'.*
    A. True
    B. False

7. OTC refers to_____________

    A. On the counter
    B. Over the counter
    C. On the commission
    D. Over the commission

8. Issues can be classified as a ____________.
    A. Public
    B. Rights

C. Preferential issue
D. All of above

Answer Sheet Chapter 3							
1	D	16	B	31	A	47	A
2	C	17	C	32	D	48	A
3	B	18	A	33	B	49	D
4	A	19	A	34	A	50	B
5	A	20	C	35	B	51	C
6	A	21	B	36	A	52	B
7	B	22	D	37	C	53	A
8	D	23	B	38	A	54	B
9	C	24	A	39	B	55	B
10	A	25	B	40	B	56	B
11	B	26	B	41	C	57	A
12	B	27	C	42	A	58	C
13	D	28	A	43	B	59	B
14	A	29	D	44	A	60	A
15	A	30	B	45	C	61	B
				46	B	62	A

Chapter 4
Secondary Market

1. Secondary market comprises of ________ markets and the ______ markets
   A. Equity markets
   B. Debt markets
   C. Both of the above
   D. None of the above

2. _____________ could be either auction or dealer market
   A. Primary Market
   B. Secondary Market
   C. Both of the above
   D. None of the above

3. ____________ provide a trading platform, where buyers and sellers can meet to transact in securities.
   A. SEBI
   B. RBI
   C. NSE
   D. BSE

4. In a demutualised exchange, the three functions of ownership, management and trading are concentrated into a single Group
   A. True
   B. False

5. In a mutual exchange, the ______ functions of ownership, management and trading are concentrated into a single Group
   A. Two
   B. Three
   C. Four
   D. One

6. The broker members of the exchange are both the owners and the traders on the exchange
   A. True
   B. False

7. Currently there are demutualised as well mutual stock exchanges in India?

   A. True
   B. False

8. Stock exchanges in India are _____________
   A. National Stock Exchange (NSE)
   B. Over the Counter Exchange of India (OTCEI)
   C. Both of the above
   D. None of the above

Answer Sheet Chapter 4							
1	C	16	A	31	C	47	A
2	B	17	D	32	C	48	D
3	A	18	B	33	A	49	D
4	B	19	A	34	B	50	B
5	B	20	A	35	A	51	A
6	A	21	B	36	B	52	D
7	B	22	B	37	B	53	A
8	C	23	B	38	B	54	D
9	A	24	D	39	C	55	A
10	A	25	A	40	D	56	B
11	C	26	A	41	A	57	B
12	A	27	B	42	B	58	A
13	B	28	C	43	B	59	B
14	A	29	C	44	A	60	D
15	B	30	B	45	B	61	D
				46	A	62	D
						63	D

Chapter 7
Mutual Funds

1. What is the Regulatory Body for Mutual Funds?

   A. RBI
   B. SEBI
   C. AMC
   D. NONE

2. What are the benefits of investing in Mutual Funds?

   A. Small investments
   B. Professional Fund Management:
   C. Spreading Risk
   D. All of the above

3. Buying and selling into funds is done on the basis of NAV-related prices.

   A. True
   B. False

4. The NAV of an open end scheme should be disclosed on a _________ basis.

   A. Daily
   B. Weekly
   C. Monthly
   D. Quarterly

5. The NAV of a close end scheme should be disclosed at least on a ____________ basis.

   A. Daily
   B. Weekly
   C. Monthly
   D. Quarterly

6. Funds usually charge an entry load ranging between

   A. .75% and 1.75%
   B. .50% and 1.50%
   C. 1.00% and 2.00%.
   D. 1.25% and 2.25%

7. Exit loads vary between _______________.

   A. 0.25% and 2.00%
   B. .20% and 2.00%
   C. .30% and 2.25%
   D. .35% and 2.10

8. Mutual Funds invest in

   A. Shares
   B. Debentures
   C. Bonds
   D. All of the above

Answer Sheet Chapter 7							
1	B	16	A	31	D	46	D
2	D	17	B	32	C	47	C
3	A	18	C	33	D	48	D
4	A	19	A	34	A	49	B
5	B	20	D	35	A	50	A
6	C	21	B	36	B	51	C
7	A	22	C	37	B	52	B
8	D	23	D	38	B	53	C
9	B	24	B	39	D	54	D
10	B	25	C	40	A	55	A
11	D	26	C	41	A	56	D
12	C	27	D	42	B	57	A
13	C	28	D	43	B	58	B
14	D	29	B	44	C	59	B
15	B	30	C	45	A	60	C
						61	D

Chapter- 9
Concepts and Modes of Analysis

1. Simple Interest is the interest paid only on the principal amount borrowed.

   A. True
   B. False

2. Is any interest is paid on the interest accrued during the term of the loan.

   A. Yes
   B. No

3. There are components to calculate simple interest that is/are__________.

   A. Principal
   B. interest rate
   C. Time
   D. All of the above

4. Mr. X borrowed Rs. 10,000 from the bank to purchase a household item. He agreed to repay the amount in 8 months, plus simple interest at an interest rate of 10% per annum (year). His interest would be________.

   A. 2150
   B. 1150
   C. 1050
   D. 1250

5. Compound interest means that, the interest will not include interest calculated on interest.

   A. True
   B. False

6. If an amount of Rs. 5,000 is invested for two years and the interest rate is 10%, compounded yearly. At the end of the first year the interest would be__________.

   A. 500
   B. 5500
   C. 50
   D. 6500

7. For any loan or borrowing unless simple interest is stated, we should always

assume____________.

A. Simple interest
B. Compound interest
C. Principal
D. None

8. The first term we must understand in dealing with compound interest is__________.

A. Conversion period
B. Loan
C. Investment
D. Calculation

Answer Sheet Chapter 9									
1	A	16	C	31	D	46	B	61	A
2	B	17	D	32	B	47	A	62	C
3	D	18	C	33	B	48	D	63	B
4	D	19	D	34	A	49	A	64	C
5	B	20	A	35	C	50	C	65	A
6	A	21	B	36	A	51	B	66	C
7	B	22	A	37	C	52	D	67	C
8	A	23	D	38	A	53	B	68	C
9	C	24	C	39	D	54	D	69	A
10	B	25	D	40	C	55	C	70	B
11	B	26	C	41	A	56	C	71	B
12	B	27	D	42	A	57	B	72	B
13	B	28	B	43	C	58	A		
14	C	29	A	44	C	59	A		
15	A	30	C	45	B	60	C		

Solutions
Answer 57
The correct option is B
PRESS CMPD
SET : END
N = 7
I = 9
PV = SOLVE = -54703.42
FV = 100000

Answer 58.
SET = END
N = 10
I =8.7
PV= SOLVE = -7815.8
FV = 18000
Since the present value of Rs. 18000 after ten years hence is less than Rs. 8000. Therefore we prefer Rs. 8000 now. Hence option A is correct.

Answer 68.
SET = END
N = 10
I = SOLVE = 6.0
PV = -10000
FV = 17910

Answer 69.
SET = END
N = 18
I = SOLVE = 13.646
PV = -5000
FV = 50000

Answer 70.
SET = END
N= 2
I= SOLVE = 1.5
PV = -77650
FV = 80000

Answer 71.
SET = END
N=7
I= SOLVE= 15.37
PV = -11.15
FV= 30.34

Answer 72.
SET = END
N= 10

I= SOLVE = 11.248
PV = -1300
FV = 22000

Chapter 10
Ratio Analysis

1. Financial ratios are classified into groups, they are ______________
   A. Liquidity ratios
   B. Leverage/Capital structure ratio
   C. Profitability ratios
   D. All of the above

2. ____________ Ratio refers to the ability of a firm to meet its financial obligations in the short-term which is less than a year.
   A. Liquidity ratios
   B. Leverage/Capital structure ratio
   C. Profitability ratios
   D. All of the above

3. Ratios, that indicate the liquidity of a firm, are _____________
   A. Current Ratio
   B. Acid Test Ratio
   C. Turnover Ratios
   D. All of the above

4. Current Ratio is $= \frac{\text{Quick Assets}}{\text{Current Liabilities}}$
   A. True
   B. False

5. _____________ measures the ability of the firm to meet its current liabilities from the current assets.
   A. Current Ratio
   B. Acid Test Ratio
   C. Turnover Ratios
   D. All of the above

6. Acid Test Ratio $= \frac{\text{Quick Assets}}{\text{Current Liabilities}}$
   A. True
   B. False

Answer Sheet Chapter 10							
1	D	13	B	25	A	37	D
2	A	14	A	26	A	38	D
3	D	15	A	27	B	39	D
4	B	16	B	28	B	40	C
5	A	17	A	29	B	41	B
6	A	18	D	30	C	42	A
7	C	19	A	31	C	43	B
8	B	20	B	32	D	44	C
9	A	21	A	33	D	45	D
10	D	22	B	34	C	46	B
11	A	23	A	35	A	47	A
12	C	24	B	36	D		

Solutions

Answer 40

Purchase of goods on credit results in an increase in stock and this lead to an increase in current assets. On the other hand, it will result in an increase in creditors which is an item of current liabilities. Hence, after the purchase of goods Rs. 50,000 on credit:

Current Assets = Rs. 4,00,000 + Rs. 50,000 = Rs. 4,50,000

Current Liabilities = Rs. 1,00,000 + Rs. 50,000 = Rs. 1,50,000

Current Ratio = $\frac{\text{Rs. 4,50,000}}{\text{Rs. 1,50,000}}$ = 3:1

Answer 41

Current Liabilities are Rs. 60,000 and Current Ratio is 2.5:1,

Therefore, Current Assets = Rs. 60,000 *2.5 = Rs. 1,50,000

After the payment of Rs. 20,000

Current Assets = Rs. 1,50,000 – Rs. 20,000 = Rs. 1,30,000

Current Liabilities = Rs. 60,000 – Rs. 20,000 = Rs. 40,000

Current Ratio = $\frac{\text{Rs. 1,30,000}}{\text{Rs.40,000}}$ = 3.25:1

Answer 42

Current liabilities = Total Debt – Long term debt

= Rs. 1,00,000 – Rs. 70,000 = Rs. 30,000

Current Assets = Working Capital + Current Liabilities

= Rs. 45000 + Rs. 30,000 = Rs. 75, 000

Current Ratio = $\frac{\text{Rs. 75000}}{\text{Rs. 30,000}}$ = 2.5:1

Answer 43

Quick Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

1.8 (given) = $\frac{\text{Liquid Assets}}{\text{Rs. 30,000 (given)}}$

Liquid Assets = Rs. 30,000 * 1.8 = Rs. 54,000

Stock = Current Assets –Liquid Assets

= Rs. 80,000 – Rs. 54, 000 = Rs. 26000

Answer 44

Gross Profit is 25% on cost. Therefore goods costing Rs. 100 is sold for Rs. 125.

Hence, If sales are Rs. 125, Cost of sales = Rs. 100

If sales are Rs. 2,00,000 , Cost of Sales = $\frac{100}{125}$ * 2,00,000 = Rs. 1,60,000

Closing stock is 30% of sales

Closing Stock = $\frac{30}{100}$ * 2,00,000 = Rs. 60,000

Opening Stock = $\frac{1}{3}$ * 60,000 =Rs. 20,000

Average Stock= $\frac{\text{Opening Stock + Closing Stock}}{2}$

$= \frac{20,000 + 60,000}{2}$ = Rs. 40,000

Stock Turnover Ratio = $\frac{\text{Cos of sales}}{\text{Average Stock}} = \frac{1,60,000}{40,000}$ = 4 times

Answer 45

Cost of sales = Sales- Gross Profit

= Rs. 3,20,000 – 25% of 3,20,000

= Rs. 3,20,000 – 80,000 = Rs. 2,40,000

Average Stock = $\frac{\text{Rs. 29,000 + Rs. 31,000}}{2}$ = Rs. 30,000

Inventor Turnover Ratio = $\frac{\text{Cost of Sales}}{\text{Average Stock}} = \frac{\text{Rs. 2,40,000}}{\text{Rs. 30,000}}$ = 8 times

Average Age of Inventory (or Inventor y Holding Period)

= $\frac{\text{Days in a years}}{\text{Inventory Turnover Ratio}} = \frac{365}{8}$ = 46 days

Answer 46

Debtors Turnover Ratio = $\frac{\text{Credit Sales}}{\text{Average Debtors}}$

9 = $\frac{\text{Rs. 5,40,000}}{\text{Average Debtors}}$

Average debtors = $\frac{\text{Rs. 5,40,000}}{9}$ = Rs. 60,000

Opening Debtors = Rs. 60,000 – ½ of Rs. 8,000 = Rs. 56,000

Closing Debtors = Rs. 60,000 +1/2 of Rs. 8,000 = Rs.64,000

Answer 47

Gross Profit Ratio = $\frac{\text{Rs. 30,000}}{\text{Rs. 1,20,000}}$ *100 = 25%

Roots Institute of Financial Markets (RIFM)

Helpful Books from RIFM

NCFM Modules Practice Books (about 500 Questions per Module)
Cost Rs. 800 Per Module

1. *FINANCIAL MARKETS: A BEGINNERS MODULE*
2. *SECURITIES MARKET (BASIC) MODULE*
3. *CAPITAL MARKET (DEALERS) MODULE*
4. *DERIVATIVES MARKET (DEALERS) MODULE*
5. *COMMODITIES MARKET MODULE*
6. *INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT*
7. *OPTION TRADING STRATEGIES*

NISM Modules Practice Books (about 500 Questions per Module)
Cost Rs. 800 Per Module

1. *MUTUAL FUND DISTRIBUTORS CERTIFICATION EXAMINATION*
2. *CURRENCY DERIVATIVES CERTIFICATION EXAMINATION*

CFP Certification Modules ---Study Notes (Detailed Study notes as per FPSB syllabus) Cost Rs. 1000 Per Module

1. *INTRODUCTION TO FINANCIAL PLANNING*
2. *INVESTMENT PLANNING*
3. *RISK ANALYSIS OF FINANCIAL PLANNING*
4. *RETIREMENT PLANNING*
5. *TAX PLANNING*

CFP Certification Modules ---Practice Books (about 800 Questions per Module)
Cost Rs. 1000 Per Module

1. *INTRODUCTION TO FINANCIAL PLANNING*
2. *INVESTMENT PLANNING*
3. *RISK ANALYSIS OF FINANCIAL PLANNING*
4. *RETIREMENT PLANNING*
5. *TAX PLANNING*

Advance Financial Planning Module---

Practice Book & Study Notes (Cost Rs. 5000/-)

Roots Institute of Financial Markets (RIFM)
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Web: www.rifm.in