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| **PT1/BSAK/1223/A 10-APR-2023** | | | | | | | | | | | |
| **PERIODIC TEST - I (2023-24)** | | | | | | | | | | | |
| **Subject: Business Studies (Answer key)**  **Grade: XII** | | | | | | Max. Marks:35Time: | | | | | |
| 1 | Vikrant joins his father’s business of Organic masalas, near kotgarh in Himachal after completing his MBA. In order to capture a major share of the market, he decided to sell the product in small attractive packages by using the latest packaging technology. His father suggested that they hire financial consultants to estimate the amount of funds that would be required for the purpose & timings when it would be required. The concept being discussed by Vikrant’s father, links which financial decision with the investment decision. | | | | | | | | | | 1 |
|  | a | Dividend decision | | | | | b | | | Financial Planning |  |
|  | c | capital structure decision | | | | | d | | | **Financing decision** |  |
| 2. | Temptation is a food joint in Imperial Mall in Bengaluru. It is becoming popular, so it has decided to open 2 more branches. Which financial decision | | | | | | | | | | 1 |
|  | a | | **Long term investment** | | | | b | | | Short term investment |  |
|  | c | | Dividend decision | | | | d | | | Financing decision |  |
| 3 | ABC Ltd. has a Debt Equity ratio of 3:1, whereas XYZ has a Debt Equity ratio of 1:1. Name the advantage ABC ltd. will have over XYZ Ltd. when the rate of interest is lower than the rate of return on investment of the company. | | | | | | | | | | 1 |
|  | a | | | **Trading on Equity** | | | | b | | Low Risk |  |
|  | c | | | Low cost of Equity | | | | d | | Greater Flexibility |  |
| 4 | Litty is planning to enter the business of Herbal Shampoo, in the beginning, she was thinking there are very few companies making herbal shampoo, but when she started selling her product she realized that many companies are already in the business of selling herbal shampoo. Identify the factor affecting working capital in the above para. | | | | | | | | | | 1 |
|  | a | | | | Growth Prospects | | | | b | Nature of business |  |
|  | c | | | | **Level of competition** | | | | d | Business Cycle fluctuations |  |
| 5 | Financial statements have direct or indirect impact on the financial health of a business. Keeping in view the above statement, discuss any two aspects being affected by financial management. | | | | | | | | | | 2 |
|  | 1. The size and composition of fixed asset 2. Current asset 3. Long term short term | | | | | | | | | |  |
| 6 | Vipul is engaged in ‘transport business’ and transports fruits and vegetables to different states. Stating the reason in support of your answer, identify the working capital requirements of Vipul. Vipul also wants to expand and diversify his transport business, explain any two factors that will affect his fixed capital requirements. | | | | | | | | | | 2 |
|  | **(Hint: Nature of Business, Growth opportunities)** | | | | | | | | | |  |
| 7 | What is the main objective of financial management? Briefly explain | | | | | | | | | | 3 |
|  | The primary aim of financial management is to maximize shareholders’ wealth, which is referred to as the wealth-maximization concept. The market price of a company’s shares is linked to the three basic financial decisions which you will study a little later. This is because a company funds belong to the shareholders and the manner in which they are invested, and the return earned by them determines their market value and price. It means maximization of the market value of equity shares. The market price of equity share increases, if the benefit from a decision exceeds the cost involved. All financial decisions aim at ensuring that each decision is efficient and adds some value. Such value additions tend to increase the market price of shares. | | | | | | | | | |  |
| 8 | Mr. Vaibhav Garg holds the designation of finance manager in “Jai shree Limited”. Last  year performance of his department was as per expectation. Currently, he is preparing  financial blue print of the next five years. To Begin with he tired to forecast the sales in  the next five years. It is so because it is the sales on which depends the need for the fixed  and working capital. Thus an estimate was made with regard to both these items.  Similarly he collected data in respect of possible profits in the coming years. In this way  one can know how much of capital will be available from within the business. The rest of  the funds will be arranged from outside the business. He is also thinking about the  sources of finance to be adopted outside the business.  Identify the concept referred to in the above paragraph. Write any two points of importance of the financial concept, so identified. | | | | | | | | | | 3 |
|  | 1) Financial planning is the concept referred in the above paragraph.  Importance of financial planning are:-  1) It ensures availability of funds at right time  2) It helps to avoid sudden shocks and surprises in the business | | | | | | | | | |  |
| 9 | What is meant by capital structure? Explain any two factors that affect the capital structure of a company. | | | | | | | | | | 3 |
|  | Capital structure refers to the mix between owners and borrowed funds.   1. Cash Flow Position 2. Interest Coverage Ratio (ICR) 3. Debt Service Coverage Ratio (DSCR): | | | | | | | | | |  |
| 10 | Dheeraj wants to start a business of selling N-95 masks after the outbreak of the global pandemic of COVID-19. Due to the uncertain market conditions he wants to make a low investment in fixed capital. Suggest how the decisions related to the choice of technique and financing alternatives can help Dheeraj in ensuring a low investment in fixed capital requirements. | | | | | | | | | | 4 |
|  | Choice of Technique: As he wishes to stick to a low investment model, we may suggest him to go with the labour-intensive approach to manufacture N95 masks. Since better technology would cost him much and his risk appetite is not conducive for capital intensive techniques of production.  Financial Alternatives: As he wishes to stick to a low investment model, we may suggest him to go with the lease option for fixed assets like building, heavy machinery etc. as this may reduce his investments requirement in the business. | | | | | | | | | |  |
| 11 | From last many years in the month of november, due to sudden rise in the pollution level in delhi and other parts of northern india, there has been an increase in the demand for air purifiers. inderprastha technologies ltd., a manufacturer of air purifiers wants encash this opportunity and wants to raise its investment in stock. it is expected that this decision would increase the rate of profitability of the business. due to this many competitors have recently entered in the industry. in order to increase the sales, the company has started selling air purifiers on liberal credit terms. it is not affecting the profits of the company since the production cycle of the product is short. identify and state any four factors that inderprastha technologies ltd., will keep in mind before deciding it's working capital requirement​ | | | | | | | | | | 4 |
|  | * Availability of raw materials: Inderprastha technologies will have to keep in mind the availability of raw materials and thus maintain flow of working capital in the organisation. * Scale of operations: Small scale operations will require less amount of working capital on the other hand large scale of operations need huge amount. * Business cycles: Business cycles may also mean economic conditions of the market. For example-In case of market slow down less working capital as demand tends to be low. * Production cycle: Production cycle means the period/time duration for production of goods. thus working capital requirements depends on the production cycle of the goods. | | | | | | | | | |  |
| 12 | There are two companies B and D. Total contribution of capital is Rs.40 lakh each. The ratio of equity to total capital in company B is Rs.10 lakh and debt is Rs. 30 lakh while in company D, the total equity capital is Rs. 40 lakh, sourced through equity. EBIT is Rs.8 lakh, the interest rate on debt is @ 10% and the tax rate is 30%. Which company enjoys favorable financial leverage? | | | | | | | | | | 5 |
|  |  | | | | | | | | | |  |
| 13 | Saraha Ltd is a company manufacturing cotton yarn. It has been consistently earning good profit for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospectus for growth in future. It is a well-managed organization and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments. It has taken a loan of Rs 40 Lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement. The above discussions about the company lead to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.  Quoting lines from the above discussion identify and explain any five such factors | | | | | | | | | | 5 |
|  | 1) Earnings:- This year too, it has been able to generate enough profits  2) Stability of earnings : - It has been consistently earning good profit for many years  3) Growth opportunities:- It is a well managed organization and believes in quality,  equal employment opportunities  4) Cash flow position.:- There is availability of enough cash in the company  5) Shareholders preference:- It has many shareholders who prefer to receive a regular income from their investments | | | | | | | | | |  |

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