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| **Answer Key** | | | | | | | | | | | | | |
| **Periodic Test 1 (2023 – 24 )** | | | | | | | | | | | | | |
| **Subject: Business Studies**  **Grade: XII** | | | | | | Max. Marks:35Time: | | | | | | | |
| **Name:** | | | | | | | | | | | **Section:** | **Roll No:** | |
| ***General Instructions:***   * This question paper contains 13 questions. * Marks are indicated against each question. * Answer should be brief and to the point. * Answers to the questions carrying 3 marks may be from 25 to 50 words. * Answers to the questions carrying 3 marks may be from 50 to 75 words. * Answers to the questions carrying 4 marks may be about 150 words. * Answers to the questions carrying 6 marks may be about 200 words. * Attempt all parts of the questions together. | | | | | | | | | | | | | |
| 1 | Ramesh is running a real estate construction company. He must meet clients on a regular basis in order to make deals. For every decision, he makes he must be cautious as he knows once he has made a decision, he can’t go back which will mean abandoning of the project. So, he evaluates every decision before he makes it. That is why he pays a lot of attention to what his clients are saying and figures out which portion of the deal is in his capacity and favor. Recently his company pumped an amount of Rs.50 crores in a project and he knows this project can affect the returns of the firms, in the long run, both positively as well as negatively. All this is a part of the business in which he has established himself. He knows that the funds invested are only likely to give returns in the future and impact the future prospects of his business. The chances of success in any business are more when one does a lot of research. He has to involve a considerable portion of his funds and block them in long-term projects. Thorough research is required to grow funds at the lowest cost possible. He is a very stable-minded entrepreneur. Which concept of management has been highlighted in the above case | | | | | | | | | | | | 1 |
|  | a | Factors affecting Fixed capital | | | | | b | | | **Importance of Fixed Capital** | | |  |
|  | c | Importance of Financial Planning | | | | | d | | | Objective of Financial Planning | | |  |
| 2. | An organization wanting to have more liquid assets would raise relatively more amount on a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | | | | | | | | | 1 |
|  | a | | **Long term Basis** | | | | b | | | Medium Term Basis | | |  |
|  | c | | Short Term Basis | | | | d | | | Long and Short Term Basis | | |  |
| 3 | A soft drink company has decided to run an advertisement campaign. It will hire many famous Bollywood celebrities for this purpose. The advertisement campaign could involve more than ‘150 crores. Every major newspaper is mentioning about it.Identify the type of decision | | | | | | | | | | | | 1 |
|  | a | | | **Investment decision** | | | | b | | Financing Decision | | |  |
|  | c | | | Working capital decision | | | | d | | All of the above | | |  |
| 4 | A long battle lies ahead for Adani Group Chief Financial Officer Jugeshinder Singh , who has been at the forefront of the group’s attempt at damage control amid the conglomerate’s deepest crisis yet. Right after Hindenburg Research published its damning report on Adani Group, accusing it of financial misdeeds, accounting fraud, and stock manipulation, Singh set out to correct the course. Mention the objective he is trying to achieve | | | | | | | | | | | | 1 |
|  | a | | | | Profit Maximization | | | | b | **Wealth Maximization** | | |  |
|  | c | | | | Growth Maximization | | | | d | Short Trading | | |  |
| 5 | In the following cases identify the type of decision. Also identify the factors affecting the decisions:  Utkarsh cooperative bank has decided to issue equity, but it is concerned about the control management will lose. So, after a lot of brainstorming the board of directors decided to take a loan from a bank and debt from other sources | | | | | | | | | | | | 2 |
|  | **Type of financial decision:** Financing decision **Factor affecting:** Control considerations | | | | | | | | | | | |  |
| 6 | ‘Mahindra and Mahindra’is producing 1,00,000 trucks and generating revenue of Rs.1,000 crores annually, has recently acquired the world’s second-largest truck manufacturing company. After this acquisition, ‘Mahindra and Mahindra ’ will become the world’s largest truck manufacturer. For financing the acquisition the company had to arrange about Rs.41,000 crores through debt and equity. State and explain the function performed by the company for arranging the funds through debt and equity. | | | | | | | | | | | | 2 |
|  | **Financing function or Financing decision.** Financing decision refers to the decision about the quantum of finance to be raised from various long-term sources. | | | | | | | | | | | |  |
| 7 | The cost of debt is less than the cost of equity. Still, a company cannot go with the entire debt. Why? | | | | | | | | | | | | 3 |
|  | Because debt is riskier for a business, since payment of interest and return principal amount is compulsory for the business. Any default in meeting these commitments may force the business to go into liquidation. That is, increased use of debt increases the financial risk of a business (the chance that a firm would fail to pay interest on debt and the principal amount | | | | | | | | | | | |  |
| 8 | There are two brothers: Shobhit and Mohit. Shobhit starts a tourist and travel agency. His idea is to take his business to great heights. Though he doesn’t have experience in this business yet he wants to give this business a try. He feels that if he gives the best quality services then his business will reach great heights.Mohit starts a thermometer manufacturing business. He too like his brother wants to take his business toward great success. He is new to this business and is busy getting to know about the technical side of the business as much as possible. He wants to make the best quality thermometers that are ultrasensitive to temperature changes and can resist shocks. Despite all these good ambitions in mind a sudden shock takes place for both brothers. The economy shows signs of recession and within a few months is totally engulfed by it. What will happen to the working capital requirement of the two businesses described in the above case? Which of the two businesses do you think will see greater impact of this change? | | | | | | | | | | | | 3 |
|  | Shobhit is doing a trading business and Mohit a manufacturing business. Whenever recession hits an economy both trading and manufacturing businesses see fall in working capital requirements.However the manufacturing business is hit more severely by recession. It is hit early by recession and bears a greater impact so the working capital requirement of Mohit’s business will fall rapidly than that of Shobhit | | | | | | | | | | | |  |
| 9 | Explain briefly “Availability of Raw Material “ that affect the working capital requirement of a company | | | | | | | | | | | | 3 |
|  | Availability of Raw Material: If the raw materials and other required materials are available freely and continuously, lower stock levels may suffice. If, however, raw materials do not have a record of un-interrupted availability, higher stock levels may be required. In addition, the time lag between the placement of order and the actual receipt of the materials (also called lead time) is also relevant. Larger the lead time, larger the quantity of material to be stored and larger shall be the amount of working capital required. | | | | | | | | | | | |  |
| 10 | How do ‘Choice of Technique’ and ‘Nature of Business’ affect the ‘Fixed Capital’ requirements of a company? Explain. | | | | | | | | | | | | 4 |
|  | Choice of Technique: Some organisations are capital intensive whereas others are labour intensive. A capital-intensive organisation requires higher investment in plant and machinery as it relies less on manual labour. The requirement of fixed capital for such organisations would be higher. Labour intensive organisations on the other hand require less investment in fixed assets. Hence, their fixed capital requirement is lower.  Nature of Business: The type of business has a bearing upon the fixed capital requirements. For example, a trading concern needs lower investment in fixed assets compared with a manufacturing organisation; since it does not require to purchase plant and machinery, etc | | | | | | | | | | | |  |
| 11 | Suzlon Ltd. is thinking to modernize its Plant and Machinery. It would require a huge expenditure. Mr. Reuben, the Finance Manager of the company has to estimate how much funds would be required and also from where to raise these funds. Mr. Reuben wants that the funds should be available at just the right time. The profits of the company are high and the cash flows of the company were very stable even though the economy is in a bearish phase. The management has asked Mr. Reuben to decide the source of raising the funds however they want to retain control over the business.  (a) Name the process which will help in estimating the fund requirements at the right time.  (b) Which source should the company opt for, debt or equity? Justify your answer by giving three reasons in support of your answer | | | | | | | | | | | | 4 |
|  | (a) The process of Financial Planning will help in estimating the fund requirement at the right time.  (b) The company should raise funds through debt as:  (i) Cash flows of the company were very stable.  (ii) The economy is in a bearish phase.  (iii) The management wants to retain control over the business | | | | | | | | | | | |  |
| 12 | TTIL. earned a net profit of Rs. 50 crores. Ankit the finance manager of TTIL wants to decide how to appropriate these profits. Identify the decision that Ankit will have to take and discuss any five factors which help him in taking this decision. | | | | | | | | | | | | 5 |
|  | Dividend decision  Factors affecting dividend decision.  1. Earnings:  2. Stability of earnings:  3. Stability of dividends:  4. Growth opportunities:  5. Cash flow position: | | | | | | | | | | | |  |
| 13 | An organization is busy preparing its financial blueprint for its future operations. The idea is to create a satisfactory amount of money that should be there in the reach of the organization at the right time.   1. Which concept of financial management has been highlighted in the above case? 2. Explain any four importance of the concept mentioned in point (a) | | | | | | | | | | | | 5 |
|  | 1. The concept of financial management highlighted is **‘Financial Planning’.** 2. The financial plans made for a year are known as **‘Budgets’.** 3. (i) It helps in forecasting what may happen in future under different business situations. By doing so, it helps the firms to face the eventual situation in a better way. In other words, it makes the firm better prepared to face the future. For example, a growth of 20% in sales is predicted. However, it may happen that the growth rate eventually turns out to be 10% or 30%. Many items of expenses shall be different in these three situations. By preparing a blueprint of these three situations the management may decide what must be done in each of these situations. This preparation of alternative financial plans to meet different situations is clearly of immense help in running the business smoothly.   (ii) It helps in avoiding business shocks and surprises and helps the company in preparing for the future.  (iii) If helps in co-ordinating various business functions, e.g., sales and production functions, by providing clear policies and procedures.  (iv) Detailed plans of action prepared under financial planning reduce waste, duplication of efforts, and gaps in planning.  (v) It tries to link the present with the future. (  vi) It provides a link between investment and financing decisions on a continuous basis.  (vii) By spelling out detailed objectives for various business segments, it makes the evaluation of actual performance easier | | | | | | | | | | | |  |