INDIAN SCHOOL AL WADI AL KABIR

Class: XII	**Department: Commerce**
Subject: BST	**Chapter: 9 Financial Management**
Worksheet: 1	**MCQs and DTQs**

Q. No.	
1	Financial management is primarily concerned with: a) Efficient procurement and utilisation of funds b) Minimising costs c) Preparing accounting reports d) Investment in inventories
2	The objective of financial management is to: a) Maximize sales b) Minimize cost c) Maximize shareholder's wealth d) Maximize profit
3	Statement I: Financial planning is essentially the preparation of financial blueprint of an organisation's future operations. Statement II: Financial planning is done only for long-term and focuses on capital expenditure programmes only. Choose the correct option from the options given below: (a) Statement I is true and Statement II is false. (b) Statement II is true and Statement I is false. (c) Both the statements are true. (d) Both the statements are false.
4	Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from the options given below: Assertion (A): While taking dividend decision, the extent of retained earnings also influences the financing decision of the firm. Reason (R): The firm does not require funds to the extent of re-invested retained earnings. (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). (C) Assertion (A) is true, but Reason (R) is false. (D) Assertion (A) is false, but Reason (R) is true
5.	Statement I: Shareholders' funds involve commitment regarding the payment of returns or the repayment of capital. Statement II : Debt is considered to be the cheapest of all the sources of funds and tax deductibility of interest makes it still cheaper. Choose the correct option from the following: (A) Statement I is true and Statement II is false. (B) Statement II is true and Statement I is false. (C) Both the Statements are true. (D) Both the Statements are false..

6	The number of times earnings before interest and taxes of a company cover the interest obligation is referred to as: (A) Capital structure (B) Financial leverage (C) Interest Coverage Ratio (D) Debt-Service Coverage Ratio
7	Bright Appliances Ltd.' plans to launch a new product line of energy-efficient air purifiers. To ensure a smooth launch of the air purifiers, the company needs to arrange adequate funds. For this, the Finance Manager estimates the fund requirements and specifies the source of funds the company should use. The process followed by the Finance Manager is called: (A) Financial planning (B) Financial management (C) Financial leverage (D) Investment decision
8	Tangy Beverages Ltd.' was known for its popular tangy fruit drinks. It had recently introduced a new range of fruit drinks that became an instant hit among consumers and led to a significant increase in the company's profits. As a result, the Board of Directors wanted to declare a higher dividend for the year. The Chief Finance Officer suggested that they should evaluate the impact of dividend on the share price of previous years before taking a decision. An analysis was done, which showed how the company's share price had risen in previous years whenever the dividend was increased. On the other hand, even a small decrease in dividend had led to a noticeable dip in the share price. Which of the following factors affecting dividend decision was suggested by the Chief Finance Officer to the Board of Directors in the above case? (A) Access to capital market (B) Stock market reaction (C) Shareholders preference (D) Cash flow position
9	Which of the following is not a factor affecting capital structure of a company? (A) Cash flow position (B) Return on investment (C) Financing alternatives (D) Stock market conditions
10	'Ratan Ltd.' and 'Lara Ltd.' are two companies with each having a capital employed of ₹ 20,00,000. 'Ratan Ltd.' had raised funds by issuing shares whereas 'Lara Ltd.'s' capital has 60% equity (in shares of ₹ 100 each) and 40% debt (comprising of 8% debentures). Both the companies have a Return on Investment of 10% and the tax rate is 40%. State with reason which company will be able to give a better return to the shareholders. Show your calculations clearly.
11	Read the following statements: Assertion (A) and Reason (R). Assertion (A): The cost of debt is higher than the cost of equity for a firm. Reason (R): The lender's risk is lower than the equity shareholder's risk, since the lender earns an assured return and repayment of capital. Choose the correct alternative from the options given below: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

	(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). (C) Assertion (A) is true, but Reason (R) is false. (D) Assertion (A) is false, but Reason (R) is true.
12	Alka Motors is one of the leading automobile companies in India. Due to growing demand for electric vehicles, Alka Motors planned to expand its business and for this, it wanted to raise funds. The finance manager suggested that it should raise funds through equity as the market was bullish. As per the suggestion of finance manager, the company decided to raise ₹3,500 crore from equity for its expansion plan for electric vehicles. The factor that the finance manager took into consideration to raise funds through equity was: (A) Cash flow position (B) Flexibility (C) Cost of debt (D) Stock-market conditions
13	The risk related to inability to meet fixed financial charges like interest payment and other repayment obligations is known as: (A) Operating risk (B) Financial risk (C) Business risk (D) None of the above
14	There are two Statements, Assertion (A) and Reason (R). Assertion (A): Larger the lead time, larger is the quantity of material required to be stored and larger shall be the amount of working capital required. Reason (R): If the raw material do not have a record of un interrupted availability, higher stock levels may be required. Choose the correct alternative from the alternatives given below: (A) Assertion (A) is false and Reason (R) is true. (B) Both Assertion (A) and Reason (R) are false. (C) Assertion (A) is true and Reason (R) is false. (D) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
15	KJ Ltd. is a tile manufacturing company in Udaipur having its own stores in various cities of Rajasthan. Instead of having its own trucks, the company decides to use trucks on lease to transport its tiles to various stores. Identify how the company's decision to lease trucks will affect its capital requirements. (A) Decrease the fixed capital requirements (B) Increase the fixed capital requirements (C) Will not affect the fixed capital requirements (D) Decrease the working capital requirements
16	Kanand Ltd.' is an automobile manufacturing company started in 2014 under 'Make in India' initiative of the Government of India. Expecting higher growth in future, it developed higher capacity in the current year taking advantage of the subsidies provided by the government. This would enable 'Kanand Ltd.' to meet anticipated higher demand quickly, For this, 'Kanand Ltd.' invested large amounts in fixed assets leading to higher requirements of fixed capital. Identify the factor affecting fixed capital requirements which 'Kanand Ltd.' kept in mind to meet higher anticipated demand quicker. (A) Scale of operations (B) Nature of business (C) Diversification (D) Growth prospects

17	'Mudro Infratech' got a short-term contract for building two villas within a period of ten months with the expectation to earn a huge amount of profit. The Works Manager accepted this challenge and completed the work within the given time period. The profit of the company went up by 40% due to this temporary order. The Finance Manager was aware that the company would not earn this huge profit in the near future. So, he decided not to increase dividend per share as earnings for the year had gone up, but not the earning potential of the company. He also knew that this increase in earnings was temporary in nature. The factor affecting Dividend Decision being highlighted above is: (A) Cash flow position (B) Shareholders' preference (C) Growth opportunities (D) Stability of dividends
18	Which of the following statements is not highlighting the importance of financial planning: (A) It helps in forecasting what may happen under different business situations. (B) It helps in avoiding business shocks and surprises and helps the company in preparing for the future. (C) It provides a link between investment and financing decisions on a continuous basis. (D) Detailed plans of action prepared under financial planning increases waste, duplication of efforts and gaps in planning.
19	Read the following statements: Assertion (A) and Reason (R). Assertion (A): The dividend in growth companies is smaller than that in the non-growth companies. Reason (R): Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment. Choose the correct alternative from the options given below: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). (C) Assertion (A) is true, but Reason (R) is false. (D) Assertion (A) is false, but Reason (R) is true.
20	Which of the following factors affects the working capital requirement of a business? A) Capital budgeting B) Investment planning C) Nature of business D) Dividend policy
	Descriptive type Questions
1	‘Quality Foods Ltd.’, a company manufacturing packaged snacks has been in business for the last 10 years. It enjoys a good reputation and has a loyal customer base. This financial year, the profits of the company increased manifold as the company introduced a new range of baked snacks that became very popular. As the year came to an end, the company had to decide how much dividend to pay to its shareholders. In view of the above and with the understanding that investors, in general, view an increase in dividend as good news and stock prices react positively to it, the Board of Directors were keen on declaring a high dividend. However, the Chief Finance Officer of the company pointed out that they need to keep many considerations in mind before declaring dividend. He drew the attention of the Board of Directors to the loan that the company has taken, containing a clause that imposes restriction on the payment of dividend. Further, he pointed out that even though the profits were high, a large amount of money was tied to

	the amounts receivables from the debtors. Without enough cash in hand, announcing a high dividend may not be practical. He also reminded the Board of Directors that 'Quality Foods Ltd.' was planning to expand into the breakfast cereal market. Since this new project will require a huge investment, the company will need to retain more money out of their earnings to finance it. (a) Identify and explain any two factors affecting dividend decision that would have influenced the decision of the Board of Directors to pay a high dividend. (b) Identify and explain any two factors to which the Chief Finance Officer drew the attention of the Board of Directors.
2	Explain how the following factors affect the requirements of fixed capital of a company: (i) Nature of the business (ii) Technology upgradation (iii) Level of collaboration
3. (i)	Freshju' is a trading company, selling bottled juices made by other manufacturers. Now, it planned to sell its juices across India. For this, 'Freshju' decided to enter into 'Juice manufacturing'. It also has ambitious plans to export its juices to other countries in the future. To meet anticipated higher demand in future, the company set-up a larger manufacturing unit. The Chief Executive Officer, Ravinder, ordered automatic juice-filling and bottling machines to increase speed, improve hygiene and for consistency in production. Since the investment was huge, instead of buying all new machinery 'Freshju' took some expensive machines on lease. They also collaborated with a nearby packaging unit to use their packing machines during peak-season. This helped 'Freshju' to manage seasonal surges in demand without investing in additional equipment that would remain underutilized during off season. Quoting lines from the above, identify and explain any four factors that will affect the fixed capital requirements of 'Freshju'
4.	Abhishek Engineering Ltd., a leading manufacturer of steel rods wants to enter into the business of manufacturing trucks. For this, the Finance Manager has to ensure the availability of funds whenever required and its possible sources. He has to see that the company does not raise funds unnecessarily. In this way he has to match the funds requirement and their availability. (i) Identify and give the meaning of the concept discussed in the above para which will help the Finance Manager to achieve his objectives. (ii) Also, state any three points of importance of the concept. identified in (i) above.
5	Zenith Mall' is a famous shopping mall in Mumbai, owned by Pinnacle Group'. It is very popular for its international and national brands of fashionable clothes, restaurants, cinema halls and food courts. The management of Pinnacle Group has decided to open a new branch of the mall in Pune. This decision was very crucial for the management as it involves huge amounts. (i) Identify and state the financial decision involved in the above cane. (ii) State any two factors affecting the decision identified in (a) above.
6	Vedansh Limited has a share capital of 10,00,000 divided into shares of 100 each For expansion purpose, the company requires additional funds of 5,00,000. The management is considering the following alternatives for raising funds: Alternative 1: Issue of 5000 Equity shares of 100 each Alternative 2: Issue of 10% Debentures of Rs. 5,00,000 The

	company's present Earnings Before Interest and Tax (EBIT) is 4,00,000 p.a. Assuming that the rate of Return of Investment remains the same after expansion, which alternative should be used by the company in order to maximise the returns to the equity shareholders. The Tax rate is 50%. Show the working.
7	Kaveri is busy in preparing the financial blueprint for her organisation's future operations. She feels that detailed plans of action reduce waste and duplication of efforts. However, her friend, Sana feels that in an uncertain and dynamic world, this type of planning may not work. Kaveri again stresses on her statement and explains why this financial blueprint is important. Identify the concept and state three points of its importance in addition to those explained in the above para.
8	VK Ltd. is a fast moving consumer goods company. It has shareholders spread all over India. Most of its shareholders depend upon a regular income from their investment. VK Ltd. has been earning consistent profits. The management of the company keeps in mind the preference of the shareholders regarding payment of dividend. Since its shareholders, in general, desire that at least a certain amount is paid as dividend to them every year, the company declares dividend every year. Atul, the Finance Manager of the company identified promising growth opportunities. IHe suggested to the Chief Executive Officer to retain the earnings to finance the required investments instead of declaring dividend every year. For this, the Chief Executive Officer decided to call a General Body Meeting of the shareholders. (i) Identify two factors affecting dividend decision discussed above. (ii) State two other factors that affect the dividend decision of a company.
9	A company, 'SK Energy Ltd.' is providing solar energy solutions in some states of the country. Now it wants to expand its operations in some other states also. It needs ₹ 30,00,000 for its expansion. The Chief Financial Officer suggested two options for this. Option 1: To raise the entire funds through issue of shares of ₹ 10 each. Option II: To raise ₹ 10,00,000 through issue of shares of ₹10 each and ₹ 20,00,000 by raising debt @ 10% p.a. The return on investment of the firm is 12% and tax rate is 30% (i) Which of the two options will maximise shareholders' wealth? Give reason in support of your answer. (ii) Will the earning per share improve if return on investment of the company is 8%? Give reason in support of your answer. Show your working clearly.
10	From the following information regarding Aditya Ltd. which is in the business of manufacturing green tea, calculate the Return on Investment and Interest Coverage Ratio of the company: (Show working) Earning before interest and tax (EBIT) = ₹ 15,00,000 10% debentures ₹ 12,00,000 Equity Share Capital (₹10 each) ₹ 18,00,000 Tax Rate 40%.
11	Booms Ltd. is a company engaged in production of organic foods. Presently, it sells its products through indirect channels of distribution. But, considering the sudden surge in the demand for organic products, the company is now inclined to start its online portal for direct marketing. The financial managers of the company are planning to use debt in order to take advantage of trading on equity. In order to finance its expansion plans, it is planning to raise a debt capital of Rs. 40 lakhs through a loan @ 10% from an industrial bank. The present capital base of the company comprises of Rs. 9 lakh equity shares of Rs.10 each. The rate of tax is 30%. In the context of the above case:

	a. What are the two conditions necessary for taking advantage of trading on equity? b. Assuming the expected rate of return on investment to be same as it was for the current year i.e. 15%, do you think the financial managers will be able to meet their goal. Show your workings clearly.
12	Yiyo Ltd.' is a company manufacturing textiles. It has a share capital of Rs.60 lakhs. The earning per share in the previous year was Rs.0.50. For diversification, the company requires additional capital of Rs40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned a profit of Rs.8 lakhs on capital employed. It paid tax @ 40%. a. State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly. b. Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.
13	Krish limited is in the business of manufacturing and exporting carpets and other home décor products. It has a share capital of ₹ 70 lacs at the face value of ₹ 100 each. Company is considering a major expansion of its production facilities and wants to raise ₹ 50 lacs. The finance manager of the company Mr. Prabhakar has recommended that the company can raise funds of the same amount by issuing 7% debentures. Given that earning per share of the company after expansion is ₹ 35 and tax rate is 30%, did Mr. Prabhakar give a justified recommendation? Show the working.
14	AB Limited has a share capital of ₹10,00,000 divided into shares of ₹100 each. For expansion purpose, the company requires additional funds of ₹5,00,000. The management is considering the following alternatives for raising funds: Alternative 1: Issue of 5000 Equity shares of ₹100 each Alternative 2: Issue of 10% Debentures of Rs. 5,00,000. The company's present Earnings Before Interest and Tax (EBIT) is ₹4,00,000 p.a. Assuming that the rate of Return of Investment remains the same after expansion, which alternative should be used by the company in order to maximise the returns to the equity shareholders. The Tax rate is 50%. Show the working.