INDIAN SCHOOL AL WADI AL KABIR

Class: XII	**Department: Commerce**
Subject:	**BST - 2025**
OTQs & DTQs	**Chapter 9: Financial Management**

QT NO	OBJECTIVE TYPE QUESTIONS
1	'Game of Clones', a reputed amusement company has decided to run an advertising campaign for which it is hiring various celebrities. The campaign involves an expenditure of ₹ 150 Crores. Identify the financial decision involved in the above case. a. Long term investment decision b. Financing decision c. Working capital decision d. Dividend decision
2	Arth Nivesh Limited has a high fixed operating cost. The Finance Manager informs the Chief Finance Officer that, in case the company decides to take a loan, for its future financial needs, its fixed financial cost will also increase leading to an overall increase in cost. Identify the factor affecting choice of capital structure discussed above. a) Cost of debt b) Floatation cost c) Risk consideration d) Control
3	Companies are required to ensure that the dividend does not violate the terms of loan agreement. Identify the relevant factor affecting dividend decisions being discussed above. a) a. Access to capital market b. Legal constraints c. Stock market reaction d. Contractual constraints
4	Read the following statements carefully: Statement I- The objective of financial management is to maximize the wealth of directors of the company Statement II- The financing decision of the company is unaffected by the extent of retained earnings. In the light of given statements, choose the correct alternative from the following: a. Both the statements are true. b. Both the statements are false. c. Statement I is true, Statement II is false. d. Statement II is true, Statement I is false.
5	Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below: Assertion(A): Financial Planning aims at enabling the company to tackle the uncertainty in respect of the availability and timing of the funds. Reason(R): Capital structure refers to the mix between owners' and borrowed funds Alternatives: a. Both Assertion (A) is false and Reason (R) are true.

	b. Both Assertion (A) and Reason (R) are false. c. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion. d. Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion.
6	Identify the incorrect statement with respect to 'Investment decision' a. Net working capital refers to excess of current assets over current liabilities b. Current assets are those assets which get converted into cash within one year c. Capital budgeting decisions are irreversible. d. Size of the assets, Profitability and competitiveness are not affected by capital budgeting decisions.
7	Identify the decision which is not taken under financial management. A. a. Dividend Decision b. Capital Budgeting Decision c. Pricing Decision d. Both B. and C.
8	What are the factors that affect financing decisions? (a) Cash flow position of the company (b) Stability of earnings (c) Degree of financial risk (d) Contractual constraints (e) State of capital market (f) Level of competition Choose the correct alternative from the following: a. (b), (c) and (f) b. (d), (e) and (f) c. (a), (c) and (d) d. (a), (c) and (e)
9	Read the following statements carefully: Statement I: Cost of debt is lower than cost of equity for a company. Statement II: The objective of financial management is to increase shareholder's wealth. In the light of given statements, choose the correct alternative from the following: a. Both the statements are true. b. Both the statements are false. c. Statement I is true, Statement II is false. d. Statement II is true, Statement I is false.
10	The Board of directors of Medex Pharma Ltd. decided to issue debentures worth ₹40 lakhs in order to finance a major Research and Development project. This would increase the Debt Equity ratio from 1:1 to 2:1. However, at the same time it would increase the Earnings per share. The reason that will justify the above situation is: a. Unfavourable financial leverage, as the financial risk will be higher. b. Unfavourable financial leverage, as return on investment is lower than the cost of debt. c. Favourable financial leverage as debt is easily available d. Favourable financial leverage, as return on investment is higher than cost of debt
	DESCRIPTIVE TYPE QUESTIONS
1	Satya Prakash has been successfully running a dry fruit wholesale business in Rajasthan for the past five years. He makes sufficient investments in current assets in order to facilitate smooth day-to-day operations of the business. The company has recently sold dry fruits worth ₹ 50 lakhs to one of its corporate customers, 'Deshmukh Pure Grains' on a strict credit policy. Satya Prakash then

	immediately placed an additional order for replenishment of stock. However, he received the dry fruits from his supplier after a large time lag. a. State the concept of Financial Management discussed above. b. Briefly explain the factors highlighted above that will affect the requirement of the concept identified in part a.
2	Dhaval Acharya, after acquiring a bachelor's degree in Hotel Management joined his father's chain of vegetarian restaurants in Ahmednagar. Being young and enterprising, he suggested his father to add a new section of vegetarian bakery items which required an investment of ₹ 5 crores. His father Mr. Aariketh Acharya suggested him to take the decision with caution and understood everything comprehensively as bad decision may damage the financial fortune of business. Identify the decision suggested by Mr. Aariketh Acharya. State by giving any three reasons as to why he must have advised his son to take decision with caution
3	Ashutosh Savarkar has recently opened a Tortilla base manufacturing unit in Pune. Processing time being short, as soon as the product is ready, it is dispatched to various outlets and restaurants, in order to keep it fresh. The restaurants are required to give their orders 24 hours in advance as there is no fixed consumption pattern in the city. a. Determine whether the working capital requirement of Ashutosh Savarkar's business is high/low? State the reason in support of your answer. b. State any three other factors, apart from the one identified above, that should be considered, while determining the working capital requirement of a business.
4	Gasex Fertilisers Ltd expected a growth of 10% in the sales in the previous quarter. However, due to the prevailing economic situation around the world, the actual growth in sales was only 5%. The company's Finance Manager was called for an urgent meeting, by the senior management of the company, in which he clarified that he was already prepared for the situation, as he had made a financial blueprint for the future operations. He also reassured the management that he knew how to control the expenses, in case the sales were lower than the expectation. a. Identify the concept that enabled the Finance manager to tackle the situation discussed above. b. State any five points highlighting how the concept discussed above can help in smooth functioning of the organisation.
5	State any four factors affecting the financial decision that is concerned with raising of finance using shareholders' funds and borrowed funds
6	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%
7	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.
8	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.
9	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.
10	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.