**Competency Based Questions**

**Business Studies**

**Class XII**

**Chapter 09 : Financial Management**

1. Arun is a successful businessman in the paper industry.  During his recent visit to his friend’s place in Mysore, he was fascinated by the exclusive variety of incense sticks available there.  His friend tells him that Mysore region in known as a pioneer in the activity of Agarbathi manufacturing because it has a natural reserve of forest products especially Sandalwood to provide for the base material used in production.  Moreover, the suppliers of other types of raw material needed for production follow a liberal credit policy and the time required to manufacture incense sticks is relatively less.  Considering the various factors, Arun decides to venture into this line of business by setting up a manufacturing unit in Mysore.

In context of the above case:

Identify the three factors mentioned in the paragraph which are likely to affect the working capital requirements of his business.

2. Wooden Peripheral Pvt. Ltd. is counted among the top furniture companies in Delhi.  It is known for offering innovative designs and high quality furniture at affordable prices.  The company deals in a wide product range of home and office furniture through its eight showrooms in Delhi.  The company is now planning to open five new showrooms each in Mumbai and Bangalore.  In Bangalore it intends to take the space for the showrooms on lease whereas for opening showrooms in Mumbai, it has collaborated with a popular home furnishing brand, ‘Creations.’

Identify the factors mentioned in the paragraph which are likely to affect the fixed capital requirements of the business for opening new showrooms both in Bangalore and Mumbai separately.

3. ‘Sarah Ltd.’ is a company manufacturing cotton yarn.  It has been consistently earning good profits for many years.  This year too, it has been able to generate enough profits.  There’re is availability of enough cash in the company and good prospects 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 discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion identify and explain and four such factors.

4. Manoj is a renowned businessman involved in export business of leather goods.  As a responsible citizen, he chooses to use jute bags for packaging instead of plastic bags.  Moreover, on the advice of his friends, he decides to use jute for manufacturing aesthetic handicrafts, keeping in view the growing demand for natural goods.  In order to implement his plan, after conducting a feasibility study, he decides to set up a separate manufacturing unit for producing varied jute products.

In context of the above case, identify the type of investment decision taken by Manoj by deciding to set up a separate manufacturing unit for producing jute products.

5. Jiten, has come to inherit a piece of land in Guwahati after his father’s demise. He wants to set up a readymade garment factory for children’s clothing there. Being new to business, he takes help from his friend Ram who works as a finance manager in a corporate house. Ram suggests an outline for his business operations based on sales forecast for the next 5 years. He also guides him in the estimation of the quantity and type of funds to be raised.

This process linked two important decisions Mahesh needed to take. Name them.

6. Identify the incorrect statement:

a. Debt has high financial risk from the point of view of business

b. Equity has Lower financial risk from the point of view of business

c. Interest on Debt is a deductible expense for calculation of tax liability

d. Equity has a lower risk as compared to Debt for an investor

7. The financial management is concerned with

a) Efficient acquisition of finance  
b) Efficient utilisation of finance  
c) Efficient disposal of surplus  
d) All of the above

8. PNG Ltd earned a high profit in the current year. However, Rohit, Finance Manager of the company thinks that it is better to declare a smaller dividend as he is unsure about the earning potential of the company in the coming years. Rohit’s choice of dividend decision is based on which of the factor affects it?

a) Growth Opportunities  
b) Stability of Dividend  
c) Stability of Earnings  
d) Amount of Earnings

9. Financial leverage is called favourable if:

a) Return on Investment is lower than the cost of debt  
b) ROI is higher than the cost of debt  
c) Debt is nearly available  
d) If the degree of existing financial leverage is low

10. Megha 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 realised that many companies are already in the business of selling herbal shampoo. Identify the factor affecting working capital in the above para.

a) Growth prospects  
b) Nature of business  
c) Level of Competition  
d) Business cycle fluctuation

11. Harsh is engaged in Transport Business and transports fruits and vegetables to different states. His business requires:

a) More Working Capital  
b) Less Working Capital  
c) No Working Capital  
d) More Fixed Capital

12. Net Working Capital will be \_\_\_\_\_\_\_ if current assets are of ₹ 5,00,000 and current liabilities are of ₹ 1,00,000.

a) ₹ 6,00,000  
b) ₹ 5  
c) ₹ 4,00,000  
d) None of these

13. ‘Temptations’ is a food joint in Imperial Mall in Bengaluru. It is becoming popular among students and working people due to healthy, on-the-go dishes on its menu like ‘Paneer Wrap’ ‘Chickpeas Salad’, ‘Grilled Sandwiches’, etc. It has now decided to open two new branches in other parts of Bengaluru. Which financial decision has been discussed in the above case?

a) Long term Investment Decision  
b) Short term Investment Decision  
c) Dividend Decision  
d) Financing Decision

14. A decision to acquire a new and modern plant to upgrade an old one is known as \_\_\_\_\_ decisions

a) Financial decision  
b) Working Capital Decision  
c) Investment Decision  
d) Dividend Decision

15. Return on Investment is computed as:

a) Total Investment/EBIT \* 100  
b) EBIT/EBT \* 100  
c) EBIT/Total Investment \* 100  
d) EBT/Total Investment \* 100