

UNIT TEST-4

SET B

Class 12 - Business Studies

Time Allowed: 1 hour and 30 minutes

Maximum Marks: 40

Section A

1. Under financial management, a forecast of receipts and payments is made and the shortage or sufficiency of _____ is ensured. [1]
a) Capital
b) Stocks
c) Human resource
d) Material
2. Which of the following sources of capital should not be selected by a business if its fixed cost is high? [1]
a) Debentures
b) All of these
c) Equity shares
d) Preference shares
3. Name the factor due to which a petro chemical company requires much higher investment in fixed capital than an information technology company. [1]
a) Growth aspects
b) Scale of operations
c) Nature of business
d) Technology of production
4. REI Agro Food Ltd 'is a famous multinational company. Mr. S.K.Nagi is its finance manager. He is making efforts to increase the market value of capital invested by the equity shareholders. He already knew it could be possible only when price of the shares increases and price of shares increase only if Financing, Investment and dividend decisions are taken optimally. He did the same and achieved success. Which objective of financial management has been referred here? [1]
a) Long term growth
b) Diversification
c) Wealth maximisation
d) Scale of Operations
5. Cars Udyog Ltd. plans to manufacture solar cars in its new plant. It has an offer from Toyota for collaboration. [1]
What impact will the collaboration have on the requirement of fixed capital for Cars Udyog Ltd.?
a) Decrease the requirement for fixed capital
b) None of these
c) No change in fixed capital needed
d) Increase the requirement for fixed capital
6. Instruments deals in the capital market are: [1]
a) equity shares
b) zero-coupon bond
c) call money
d) commercial Bill
7. Secondary market deals with the _____ of existing securities. [1]
a) Purchase
b) Purchase sale
c) Sale
d) Stock
8. Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that [1]

as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share market jumps up. Considering it, Charu purchased large number of company's share before this news reached the public. Identify the type of malpractice used by Charu.

- a) theft
- b) Insider trading
- c) Forged transfer
- d) Demutualisation

9. Liquidity states of the certificate of deposit which is more negotiable are considered as: [1]

- a) team liquidity
- b) certified liquidity
- c) less liquid
- d) more liquid

10. **Assertion (A):** With rising prices, larger amounts are required even to maintain a constant volume of production and sales. [1]

Reason (R): The working capital requirement of a business becomes higher with higher rate of inflation.

- a) Both A and R are true and R is the correct explanation of A.
- b) Both A and R are true but R is not the correct explanation of A.
- c) A is true but R is false.
- d) A is false but R is true.

Section B

11. Vinod 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 Vinod. [3]

Vinod also wants to expand and diversify his transport business, explain any two factors that will affect his fixed capital requirements.

12. State the protective functions of the Securities and Exchange Board of India. [3]

13. What is meant by 'Financing Decision'? State any four factors affecting the financing decision. [4]

OR

Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise. Explain its three points of importance.

14. Harish is engaged in the warehousing business and his warehouses are generally used by businessmen to store fruits. Identify the working capital requirements of Harish giving reasons in support of your answer. Further, Harish wants to expand and diversify his warehousing business. Explain any two factors that will affect his fixed capital requirements. [4]

15. Aditya Khosla, the Managing Director of 'D.L.W. Ltd.' and Rajesh Puri, the Finance Manager were discussing about avenues of investing the idle funds of the company. Aditya Khosla was of the opinion that money should be invested in the capital market whereas Rajesh Puri, being more conservative, felt that it would be better if the investment was made in the money market. Since the economy was buoyant, the Managing Director convinced Rajesh that they should take advantage of it and invest in the capital market to get good returns. Ultimately it was decided to invest the idle funds in the capital market. [4]

- i. What kind of instruments should the company buy?
- ii. Why is the capital market expected to give a better return in a buoyant economy? State the reason.
- iii. Why and how safe are the securities in this market as compared to the money market?

16. A company uses a financial instrument for bridge financing. The instrument here is short-term, low risk, unsecured and highly liquid. It needed to buy machinery for which it issued equity. This turned out to be [6]

expensive as this issue involved floatation costs. The company is a large and creditworthy and this method has come up as a great help to it.

- a. Identify the financial instrument highlighted in the above case.
- b. The instrument highlighted in (a) above is of which market?
- c. Name any two types of floatation costs which are generally involved.
- d. State the purpose for which this instrument can be used.
- e. Name two instruments of that market which is for the short-term funds, which are issued at discount and redeemed at par.

17. Explain the meaning of Fixed Capital. Briefly explain any five factors that determine the fixed capital of a company. **[6]**

OR

Explain the following as factors affecting the requirements of working capital

- i. Business cycle
- ii. Operating efficiency
- iii. Availability of raw material
- iv. Level of competition