Class XII Business Studies

October 2023 Months CBT Answer Key

Question 1. Reliance Ltd. is a company with a decreasing EBIT. The company has a significant amount of debt in the form of debentures, and further borrowing through debentures could exacerbate the situation. Which factor determining the Capital Structure is the CFO of Reliance Ltd. primarily concerned about?

Ans. (c) interest coverage ratio

Feedback for correct answers

It refers to the no. of times a company can cover its interest and repayment obligations (Debt) from the profit.

QUESTION NO.2. Which of the following statements accurately represents one of the protective functions of SEBI in real-life scenarios?
Ans. (d) It monitors and regulates the securities market to protect investors and maintain market integrity.

Feedback for correct answers

The protective functions of SEBI in real-life scenarios - It monitors and regulates the securities market to protect investors and maintain market integrity.

QUESTION NO 3. The Board of directors of Lupin 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:
Ans.(d) Favourable financial leverage, as return on investment is higher than cost of debt.

Feedback for incorrect answers

If we are using more Debt (debentures) in capital structure up to the level when Return on Investment is more than rate of interest on Debt. The trading on equity enjoys by shareholders it would increase the earning of equity shareholders.

QUESTION NO 4. The allocative function of Financial market helps in ________
Ans. (b) Earning higher rate of return to household sector.

Feedback for correct answers

Householders are investing their savings & mobilising in the most productive area it would increase the earning of householders.

QUESTION NO 5. STATEMENT I: Electronic holdings can be converted into physical certificates with the process of dematerialisation.
STATEMENT II: There is no danger of theft, loss or forgery of share certificates in dematerialisation.
Choose the correct option from the following:

Ans. (b) Statement II is true and I is false

Feedback for correct answers

STATEMENT I: Electronic holdings can be converted into physical certificates with the process of dematerialisation. - No, this is wrong it converts softcopy of the shares in to physical form Hardcopy) (in Demat Form)
STATEMENT II: There is no danger of theft, loss or forgery of share certificates in dematerialisation. Yes this is right to convert shares in softcopy to hold any where without any fear. Of such types of activity.

Question 6. Aman had 55 shares of Vani Ltd. He wanted to sell 30 shares, so he went for a specific market to sell them through online portal. He went for which of following markets?
Ans. (b) Secondary market

Feedback for correct answers
Because it is a market of existing issued security those are already issued in the market.

QUESTION N0 7. One of the functions of Securities and Exchange Board of India is 'promotion of fair practices and code of conduct in securities market'. Identify the category to which this function belongs.
Ans. (a) Protective function
Feedback for correct answers

promotion of fair practices and code of conduct in securities market'

QUESTION NO. 8. When the .... is greater than the rate of interest, a company can increase its debt to increase its earning per share (EPS).
Ans. (a) Return on investment

Feedback for correct answers

When return on Investment is more than the rate of interest, a company can increase its debt to increase its earning per share (EPS) & Equity shareholders enjoy the trading on equity.

QUESTION NO.9. Mr. A. Bose is running a successful business. Mr. Bose is the owner of R. K. Cement Ltd. Mr. Bose decided to expand his business by acquiring a Steel Factory. This required an investment of Rs. 60 crores. To seek advice in this matter, he called his financial advisor Mr. T. Ghosh who advised him about the judicious mix of equity (40%) and Debt (60%). Employ more of cheaper debt may enhance the EPS. Mr. Ghosh also suggested him to take loan from a financial institution as the cost of raising funds from financial institutions is low. Though this will increase the financial risk but will also raise the return to equity shareholders. He also apprised him that issue of debt will not dilute the control of equity shareholders. At the same time, the interest on loan is a tax deductible expense for computation of tax liability. After due deliberations with Mr. Ghosh, Mr. Bose decided to raise funds from a financial institution.

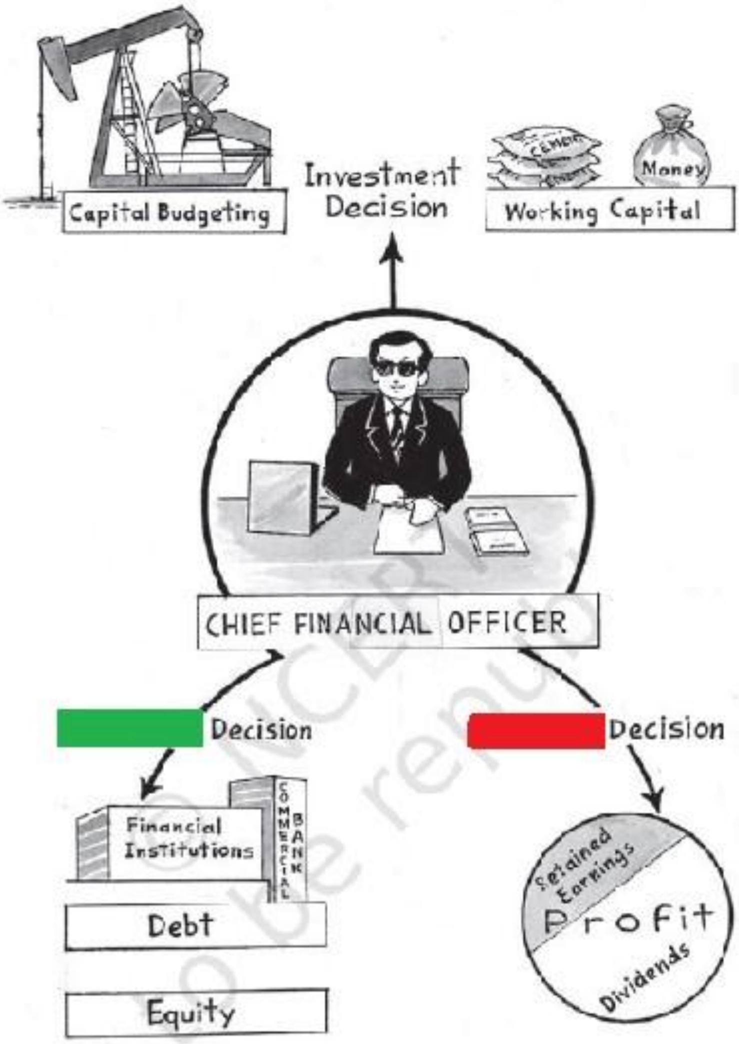
In the above case Mr. Ghosh suggested to raised more fund from debt. Higher debt-equity ratio results in:

Ans. (c) Higher degree of financial risk.

Feedback for correct answers

It increases the interest obligation as charge against profit and reduce the profit of equity shareholders as dividend.

QUESTION NO.10. **Which decisions have been marked by Green and Red colours in this picture?**



Ans. (a) Green-Financing , Red-Dividend

Feedback for correct answers

(a) Green-Financing -it is indicating that the Financing Decisions how we can raise the funds from Debt or Equity, to maintain Debt Equity Ratio.
(b) Red-Dividend-It indicate how much part of profit retained for future as retained earnings & how much distributed to shareholders as dividend.

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