SmartKalike

CBSE Class 12 · Business Studies

Financial Management

10 most probable questions for Boards 2027

Q1. 0.5 marks · Very short answer

Which generally requires a lower investment in fixed assets: a trading concern or a manufacturing organisation?

Answer

A trading concern generally requires lower investment in fixed assets because it does not need to purchase plant and machinery.

Q2. 1 mark · Multiple choice

A company's strong cash-flow position may make which financing option more viable?
(A) Debt financing
(B) Equity financing
(C) Retained earnings only
(D) Short-term borrowing only

Answer

(A) Debt financing — a stronger cash flow position may make debt financing more viable than funding through equity.

Q3. 2 marks · Short answer

What do short-term investment decisions concern? State one reason why efficient management of these items is important.

Answer

Short-term investment decisions concern a firm's investment in current assets, such as inventory, debtors and cash, and are called working-capital decisions. Efficient management is important because it affects the firm's profitability and liquidity.

Q4. 3 marks · Medium answer

A firm has several investment proposals and must decide which one to accept. State how expected returns guide the selection or rejection of proposals, including how a sole project may be assessed.

Answer

1. Each investment proposal is evaluated carefully by assessing its expected returns and the risk involved. A proposal is selected or rejected according to the returns it is expected to generate.
2. If only one project is available, its viability is assessed through its rate of return, the investment required, and comparison of its return with the industry's average.

Q5. 4 marks · Long answer

Explain why a long-term investment decision is called a capital-budgeting decision. State its effects on a firm and why such a decision needs to be taken with utmost care.

Answer

A long-term investment decision determines how a firm commits funds to fixed assets and other long-term projects.

1. It is called a capital-budgeting decision because it involves committing finance for a long period and assessing the costs and expected benefits of investment alternatives.
2. It determines the scale and composition of the firm's assets and influences its earning capacity over time.
3. These decisions often involve huge amounts of funds and may be difficult to reverse, affecting the firm's profitability and business risk.
4. Careful evaluation is essential because a poor investment can cause losses and weaken the firm's financial position. The firm should select an alternative whose benefits exceed its cost and add value.

Capital budgeting therefore helps a firm use its scarce resources efficiently and support shareholders' wealth.

Q6. 5 marks · Long answer

Explain how fixed-capital decisions contribute to long-term growth, why they require analysis of substantial funds, and how they affect a firm's business risk and returns.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/business-studies/financial-management

Q7. 6 marks · Very long answer

Explain how each of the following can affect a company's financing choice: high fixed operating costs, the possibility of dilution of management control, and the state of the capital market.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/business-studies/financial-management

Q8. 0.5 marks · Very short answer

How do higher growth prospects generally affect a firm's working-capital requirement?

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/business-studies/financial-management

Q9. 1 mark · Multiple choice

The dividend decision determines how a company's after-tax profit is divided between:
(A) Share capital and debt
(B) Distribution to shareholders and retention in the business
(C) Fixed assets and current assets
(D) Operating expenses and taxes

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/business-studies/financial-management

Q10. 2 marks · Short answer

Two projects carry the same risk but offer different rates of return. Which project should normally be selected, and why?

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/business-studies/financial-management

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