

BUSINESS STUDIES

Read the following text and answer the following questions on the basis of the same:

Sunrises Ltd. dealing in readymade garments, is planning to expand its business operations in order to cater to international market. For this purpose, the company needs additional Rs.80,00,000 for replacing machines with modern machinery of higher production capacity. It involves committing the finance on a long-term basis.

These decisions are very crucial for any business since they affect its earning capacity in the long run. The company wishes to raise the required funds by issuing debentures. The debt can be issued at an estimated cost of 10%. The EBIT for the previous year of the company was Rs. 8,00,000 and total capital investment was Rs. 1,00,00,000. Instead of issuing 10% Debenture the Company can issue Equity Shares for raising the fund. The financial manager of the company would normally opt for a source which is the cheapest.

1) What is the other name of a long term decision?

A) Capital Budgeting B) Gross working capital c) Financial management d) Working Capital

Ans a

2) A decision for replacing machines with modern machinery of higher production capacity is a:

A) Financing decision B) Working capital decision C) Investment decision D) None of the above

Ans.c

3) A decision for raising fund of Rs. 80,00,000 either from 10% Debenture or Equity Shares is a:

a) Financing decision b) Dividend decision c) Investment decision D) None of the above

ans a

4) The financing decisions are affected by various factors. Which one of the following factor is discussed in the above case? Choose the correct option.

A) Cash Flow Position of the Company b) Cost C) Amount of Earnings D) Taxation Policy

Ans b