



INDIAN SCHOOL MUSCAT
SENIOR SECTION
DEPARTMENT OF COMMERCE AND HUMANITIES
CLASS XII
BUSINESS STUDIES
SAMPLE PAPER – 3 SOLVED



Date:

MARKS: 80

TIME ALLOWED: 3 Hrs.

General Instructions:

1. Attempt all parts of a question together.
2. Answer to questions carrying 1 mark may be from one word to one sentence
3. Answer to questions carrying 3 marks may be from 50-75 words
4. Answer to questions carrying 4-5 marks may be about 150 words
5. Answer to questions carrying 6 marks may be about 200 words.
6. All questions are compulsory.

1. Vikas Gupta is the Chairman of Teaching Point Tutorials Pvt. Ltd. Name the managerial level at which he is working.

Answer 1 Vikas Gupta is working at the top level of management. [1]

2. Define 'organising' as a function of management. [1]

Answer 2 Organising as a function of management refers to a structural framework in which an organisation operates to achieve its desired goals.

3. Name the organizational structure which helps in increasing managerial and operational efficiency. [1]

The organisational structure which helps in increasing the managerial & operational efficiency is referred as "Functional structure".

4. State the role of 'Inspector' in functional foremanship. [1]

Answer 4 In functional foremanship, the role of the inspector is to control the quality standards of production.

5. Name & state the aspect of financial management that provides a link between investment and financing decisions. [1]

Answer 5 The aspect of financial management that provides a link between investment and financing decision is referred as “Financial planning”. Financial planning aims to determine the decisive choices of an organisation regarding its investment avenues and also, the fund raising options.

6. ‘Best Bulbs Pvt. Ltd. was manufacturing good quality LED bulbs and catering to local market. The current production of the company is 800 bulbs a day. Sumit, the marketing manager of the company surveyed the market and decided to supply the bulbs to five-star-hotels also. He anticipated the higher demand in future and decided to buy a sophisticated machine to further improve the quality and quantity of the bulbs produced.

Identify the factor affecting fixed capital requirements of the company. [1]

Answer 6 In the given scenario, the decision of marketing manager is derived by the prospects of growth by expanding the supply of bulbs to five star hotels. To expand the production, the organisation would have to acquire more fixed machinery and inputs initially. This will require the organisation to generate higher amount of fixed investment for the business. An organisation with high prospects of growth requires a big amount in fixed investment and vice - versa.

7. Name the marketing function which is concerned with the important decision of managing inventory. [1]

Answer 7 Managing inventory involves taking steps to minimise fluctuation in the distribution lines of the inventory. Hence, managing inventory is concerned with “Physical distribution”

8. Manvendra always went to a specific shop to buy all consumable and non-consumable goods. In this shop variety of products of different brands were displayed nicely and the sales person available also gave good sales presentation if required. But this shop was quite far off from his residence. His friend Annant always wondered why Manvendra wastes so much time in going to that shop where as there were many big brand shops situated near his residence having consumable and non-consumable goods. Annant asked Manvendra the reason of going to that particular shop. Manvendra told that he was exercising one of his ‘Rights’ which he could not exercise in near-by big brand shops. State the consumer’s right which Manvendra had exercised. [1]

Answer 8 The consumer right being referred in the given scenario is “right to choose”. This right allows a consumer to choose from a catalogue of products available in the market. Manvendra purchases from that particular shop to exercise this right.

9. Explain any three limitations of ‘Planning’. [3]

Answer 9 Three limitations of planning:

i. **Inflexibility:** Since all the other steps in the process of management depend on planning, it becomes quite inflexible to alter a plan once it gets in the process of being implemented. In scenarios of unplanned external changes, it often becomes a cost and time burden on the organisation to change the course of a plan. It is therefore suggested to companies to keep a certain degree of flexibility in their plan to cooperate with unforeseen circumstances.

ii. **Inability to deal with potential business changes:** At times, planning fails to accommodate changes in business functioning due to its predefined assumptions about business. It therefore becomes a tedious task to alter the plan according to forthcoming changes.

iii. Hindrance to new initiatives: Planning often reduces the scope of new initiatives due to the required structural adjustments demanded by those initiatives. Hence, it sometimes becomes a hindrance in efficiency and effectiveness of organisational procedures. It is therefore advised to make necessary structural adjustments while formulating a plan every time to put new initiatives into action.

10. Mr. Mohan Kumar, is the owner of Jason's Enterprises, carrying on the business of manufacturing sanitary items. There is a lot of discontentment in the organization and the targets are not being met. He asked his son Ritesh, who has recently completed his MBA, to find out the reason. Ritesh found that his father did not have confidence in the competency of employees and was not seeking their advice or opinion. There was also lack of transparency in the operations of the business. Thus, the employees were not happy.

a. Identify any two communication barriers because of which 'Jason's Enterprises' was not able to achieve its targets.

b. State one more barrier each of the type identified in part (a) above.

[3]

Answer 10

a. Two communication barriers due to which Jason Enterprises was unable to accomplish their targets are as follows.

i. Barriers at personal level – Clear lines of communication are hindered by personal barriers present in an organization. This happens when management does not entrust its confidence in employees. Managers should conduct discussions and ask employees for inputs to ensure that such barriers are resolved.

ii. Barriers at organizational level – Policies that suppress the initiatives to empower employees such as centralization of all decisions, high attrition rates, low perks etc results in dissatisfaction among employees. This dissatisfaction hinders their performance.

b. i. One barrier at organizational level is "Rigid code of conduct". If an organization follows extremely rigid rules and regulations, all its employees remain suppressed and dissatisfied. Organizations should promote good communication lines with their employees.

ii. One barrier at personal level is "Disregard and fear". When managers do not appreciate employees for their contribution, employees lose their motivation to perform. Also, fear blocks all lines of their communication with managers. This results in personal barriers.

11. Vinod The Human Resource Manager, Umesh The Assistant manager and Ashok The Marketing Head of Hitashi Enterprises Ltd. decided to leave the company. The Chief Executive Officer of the company called the Human Resource Manager, Vinod and requested him to fill-up the vacancies before leaving the organization. Vinod suggested that his subordinate Rajesh is very competent and trustworthy. If he could be moved up in the hierarchy, he would do the needful. The Chief Executive Officer agreed for the same. Rajesh contacted 'Zenith Recruiters' who advertised for the post of marketing head for 'Hitashi Enterprises Ltd.'. They were able to recruit a suitable candidate for the company. Umesh's vacancy was filled-up by screening the database of unsolicited applications lying in the office.

a. Name the internal/external sources of recruitment used by 'Hitashi Enterprises Ltd.' to fill-up the above stated vacancies.

b. Also, state any one merit of each of the above identified source of recruitment.

[3]

Answer 11

Following are the internal/external recruitment sources used by 'hitashi enterprises ltd' to fill various positions

- a.
 - i. Promotion – The human resource manager was recruited using promotion. Promotion is an internal source of recruitment.
 - ii. Placement consultants – The marketing head was recruited through external source of placement consultants.
 - iii. Casual callers – Assistant manager was recruited using existing applications.
- b. The following are the merits of above listed sources of recruitment.
 - i. Promotion: It creates employee engagement and inspires the employee to perform better
 - ii. Placement Consultants: Placement consultants assist an organisation to acquire the necessary talent by providing their expertise in searching and attracting new talent.
 - iii. Casual Callers: Casual callers are already existing in the database of company and hence, it involves least cost to hire them as compared to other methods.

12.Mr. Aditya Gupta was the chairman of 'Vandan Bank'. The Bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their shares was also steadily rising. The bank announced taking over of 'Karur Bank'. Aditya Gupta knew that the share price of Vandan Bank would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of his rich friends Nimesh and asked him to invest Rs 6 crores in the shares of his bank promising him the capital gain. As expected, the share prices went up by 40% and the market price of Nimesh's shares was now Rs 8.4 crores. He had earned a profit of Rs 2.4 crores. He gave Rs 1.2 crore to Mr. Aditya Gupta and kept Rs 1.2 crore with him. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity. SEBI imposed a heavy penalty on Aditya Gupta. By quoting the lines from the above para identify and state any two functions that were performed by SEBI in the above case.

[3]

Answer 12. In the given scenario, the two functions performed by SEBI are

- i. 'Regulatory Functions', and
- ii. 'Protective Functions'. The lines indicating these functions are given as follows. The line 'On regular inspection and by conducting enquires of the brokers involved' implies regulatory functions And, the line 'SEBI imposed a heavy penalty on Adity Gupta' implies protective functions.

13.State any three directions which can be issued by the consumer court to the opposite party if it is satisfied about the genuineness of the complaint.

[3]

Answer 13 If satisfied by the genuineness of the complaint, the consumer court can issue following three directions to the opposite party.

- i. An order to repay the price paid by consumer for the good.
- ii. An order to replace the faulty good with another unit of the good
- iii. An order to remove/repair the fault from the good or correct any service deficiency.

14. Explain any four features of management.

[4]

Answer 14 Four features of management:

- i. **Universal applicability:** The management phenomenon is common across all kinds of organisations in terms of size and operations. This is because management serves the very basic purpose of creating better value for the organisation as well as its stakeholders and employees. Without management, determining and achieving targets become a daydream and all valuable resources of the organisation get wasted.
- ii. **Result driven:** Management is result driven as it focuses on key tasks required to be accomplished in an organisation through planning, organising, staffing, directing and controlling its operations. Management primarily ensures that the basic purpose of existence of an organisation is accomplished.
- iii. **Perpetual:** The practice of management is not limited to a particular time period in an organisation. It is a process which takes place throughout the life of an organisation. However, the activities which management pursues on a day-to-day basis differ across different time periods.
- iv. **Flexible:** Management attempts to remain flexible in times of big economic, political and internal fluctuations in the business. It ensures that the interest of the organisation is given supreme priority among all other mundane matters. Without management, an organisation would wind up in the initial stages of its operations easily due to its inability to tackle the above fluctuations.

15. 'Accent Electronics Ltd.' was operating its business in Malaysia. The company started exporting its products to India when the Prime Minister announced relaxation in import duties on electronic items. The company appointed retailers in India who had direct on-line links with the suppliers to replenish stocks when needed. Identify and explain the dimensions of business environment discussed in the above case. [4]

Answer 15 Following are the dimensions of business environment that are being referred in the given case.

- 1. **Economic environment-** "Company started exporting its products to India" Explanation- Economic environment includes the effect of changes in the interest rates, levels of income, stock market fluctuations etc. Example- An increase in imports leads to a fall in the price of domestic currency and vice-versa
- 2. **Legal environment –** "Prime minister allowed relaxation in import duties on electronic items" Explanation- Legal environment refers to all the legal rules and procedures set up by the government to monitor the business activities of an enterprise. To cope with the dynamic business environment, management must know the ways to deal with different fluctuations in legal environment.

16. 'Panda Trucks Ltd.' decided to set-up its new truck manufacturing factory in the backward area of Bihar where very less job opportunities were available. People of that area welcomed this effort of 'Panda Trucks Ltd.'. To attract people to work in its factory it also decided to provide many other facilities like school, hospital, market etc. in the factory premises 'Panda Trucks Ltd.' started earning huge profits. Another competing company asked its production manager 'Sanjay' to investigate the reasons of earning huge profits

by 'Panda Trucks Ltd'. Sanjay found out that in both the companies there was systematic co-ordination among the various activities to achieve organizational goals. Every employee knew who was responsible and accountable to whom. The only difference was that in his organization communication took place only through the scalar chain, whereas 'Panda Trucks Ltd.' was allowing flow of communication in all the directions as per the requirement which lead to faster spread of information as well as quick feedback.

- a. Identify the type of organization which permits 'Panda Trucks Ltd.' the flow of communication in all the directions.
- b. State an advantage of the type of organization identified in (a) above.
- c. State any two values which 'Panda Trucks Ltd.' wanted to communicate to the society. [4]

Answer 16

- a. "Informal Organisation" allows the communication to flow in all directions.
- b. One another advantage of informal organization is that it allows employees to feel sociable, interactive and competitive. This results in better employee- engagement and work culture. All these factors result in better productivity for the organization by the employees.
- c. "steelo ltd" wanted to communicate following two values to the organization
 - i. A socially responsible corporation
 - ii. An employee centric organization

17. 'K.S. Energy Ltd.' was a energy efficiency consultancy company. To get the business the team leader and his team used to travel to different states to give presentation to their clients. As per the policy of the company, the team leader used to travel by air, whereas his team travelled by road/train. It was not only time consuming but also at times forced female team members to travel alone. As a result, the subordinates were not acting in a desired manner to achieve organizational goals. The CEO came to know about it. He called the team leader, discussed the matter with him and changed the travel policy of the company. It was decided that all the members including the leader would travel together in future and would usefully utilize the travelling time in discussion with the subordinates about the presentation to be given to the clients. This made a positive impact and every member of the team started acting in a manner as desired by the team leader.

State the features of the element of the function of management used by the CEO. [4]

Answer 17

"Motivation" is the element of function of management used in the given scenario. A variation in travel policies changes the perspective of employees towards organization and resulted in better utilization of time by the employees. All employees started feel equal and this increased their belongingness with the organization. Features of motivation can be highlighted using following points.

- i. Motivation is an invisible force – Motivation is a feeling of belongingness inside and employee. It cannot be seen or touched. But, its results can clearly be felt among the employees through their performance.

ii. Motivation helps in achieving goals- Motivation is a positive awakening force that increases the productivity and quality standards of work done by employees.

iii. Motivation can also be negative- A positive motivation can take the form of appraisal or promotion. On the other hand, negative motivation can take the form of pay-cut, demotion etc.

iv. Motivation is not a simple process – All employees get motivated for different reasons at different times. Some employees get motivated by appreciation whereas some employees get motivated by appraisals.

18. Diksha Ltd. was marketing 'Dish-Washers' which were very popular due to their quality and after-sale services provided to the customers. The company was a leading company in the market and earning huge profits. Because of huge profits the company ignored its after-sale services. As a result its relations with the customers got spoiled and the image of the company was damaged in the eyes of the public. Top management became concerned when the profits for the current quarter fell steeply. On analysis it was revealed that ignoring after-sale services was its reason. Therefore, the company took all possible measures to protect and promote its image. As a result the goodwill of the company improved in the society.

a. Name and state the communication tool used by the marketer in the above case to improve its images.

b. Also explain role of the tool as identified in part (a).

[4]

Answer 18

a. In the given scenario, 'public relations' is the communication tool used by the company to restore its good image. The sole purpose of 'public relations' is to create and maintain cordial relationship of the company with its stakeholders, customers, lenders etc. Such positive public relations of company are key foundations for its survival and growth.

b. Importance of "public relations" can be highlighted as follows.

- i. It allows organization to attain its goals in a hassle free manner without constantly worrying about its public image.
- ii. It assists the organization in creating and maintaining a market for its product among the consumers and hence, to increase its brand loyalty among those consumers.
- iii. Public relations among the stakeholders and consumers also allow an organization to survive in the business in long run and deal with its new potential competitors effectively.
- iv. It also complements the promotional ventures undertaken by the organization to increase its customer base.

19. State any four methods of floatation of new issues in the primary market.

[4]

Answer 19

Four methods of floatation of new issues are explained below:

i. Prospectus issue: The primary market allows companies to invite potential investors through the issue of a document called 'prospectus'. The prospectus aims to provide all relevant information to the investors including the motive of the issue of securities, the upcoming projects of the company, the recent benchmark reached by the company etc. The prospectus is advertised in various forms of print media to gain the attention of investors.

It is compulsory for a prospectus to follow the guidelines provided by SEBI and the Companies Act and have a listing in one stock exchange at least.

ii. Issue through intermediaries: Under this method, companies issue their shares to intermediaries such as broking houses, issuing agents etc. who sell the securities thereafter to the general public. This makes it easier for the company to raise funds and the cost of raising funds also gets minimised. This method can be considered one of the indirect methods of the issue of securities.

iii. Private placement: The securities are offered for sale to some predetermined individuals and institutional investors with high net worth. The company can make such an offer on its own or by taking the assistance of intermediaries. Such an offer allows the company to raise funds quickly as the involvement of issuing agents is minimised, and hence, the charges of brokerage, underwriting commission etc. are not borne by the company.

iv. Rights issue: Under rights issue, the company offers its new shares to its existing shareholders. Each existing shareholder is provided with a right to buy a certain number of shares. The shares offered to buy are proportionate to the existing shareholding of the investor in the company.

20. Two years ago Nishant, completed his degree in Textile Engineering. He worked for sometime in a company manufacturing readymade garments. He was not happy in the company and decided to have his own readymade garments manufacturing unit. He set the objectives and the targets and formulate action plan to achieve the same. One of his objectives was to earn 80% profit on the amount invested in the first year. It was decided that raw materials like cloth, thread, buttons etc. will be purchased on two months credit. He also decided to follow the steps required for marketing the products through his own outlets. He appointed Ritesh as a production manager, who decides the exact manner in which the production activities are to be carried out. Ritesh also prepared a statement showing the requirement of workers in the factory throughout the year. Nishant informed Ritesh about his sales target for different products area wise for the forthcoming quarter. A penalty of Rs 200 per day was announced for the workers who found smoking in the factory premises.

Quoting lines from the above Para identify and explain the different types of plans discussed.

[5]

Answer 20

Types of plans being discussed in the given paragraph are as follows. i. Objective – An objective broadly outlines the key task or target to be reached at the end of a certain time period by the organization. In the given case, the objective is highlighted in the words “One of her objectives was to earn 80% profit on the amount invested in first year.

- i. Policy – A policy is a code of conduct to be followed by a particular organization in a particular scenario. It is not specific in nature and hence, is interpreted according to the situation. In the given case, the lines “It was decided that raw materials like cloth, thread, buttons etc, will be purchased on two months credit”
- ii. Procedure- A procedure comprises of guidelines to be followed in a specific order to make a policy decision to come into reality. In the given case, the line” Decided to follow the steps required for marketing of the products through her own outlets” highlights the procedure to be followed.
- iii. Method- A method is a specific process to be conducted to carry out a desired task. In the given case, the method is highlighted in the words “ the exact manner in which the production activities are to be carried out” highlight the type of plan called “method”.

- iv. Rule- A rule is the type of plan that mentions the exact way of completing a particular task and its degree of compulsion. A rule can also be negative and guide the employees about not doing a particular thing. In the given case, the line “A Penalty of Rs 200 per day was announced for the workers who found smoking in the factory premises” highlights a rule.
- v. Budget- A budget is usually a number that specifies the financial constraints and targeted achievements on an organization. It mentions the upper limit of the expenditure of resources. In the given case, the line "Ritesh also prepared a statement showing the requirement of workers in the factory throughout the year” implies a budget.

21. Yash is working in a multinational company in Noida. He was running temperature for the last many days. When his blood was tested, he found positive for chickengunia. He was admitted in the hospital and a blood transfusion was advised by the doctors as his condition was very serious. One of his colleagues sent a text message to his immediate superior ‘Vineet’. Vineet immediately sent a text message to the employees of the organization requesting them to donate blood for Yash. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.

- a. From the above Para quote lines that indicate formal and informal communication.
- b. State any two features of informal communication.
- c. **Identify** any two values that are being communicated by Vineet to the society. [5]

Answer 21

- a. The following lines from the para highlight the use of informal communication in the organization.
 - i. “Colleague sent a text message to his immediate superior”
 - ii. "Vineet immediately sent a text message to the employees of the organization requesting them to donate blood for Yash." This is because sending text messages is an informal means to communication. The following line highlights the use of formal communication in the organization. “When the general manager came to know about it, he ordered for fumigation in the company premises and cleanliness of surroundings”
- b. Two features of informal communication are listed below.
 - i. It does not follow any specific formally determined path. It flows in all directions.
 - ii. It is the result of personal contact among the employees of an organization.
- c. The values of the organization that the society would monitor would be.
 - i. Hygiene in the work place for employees by the organization.
 - ii. Employee centric policies of organization.

22. State the relationship between ‘planning’ and ‘controlling’ functions of management. [5]

Answer 22

Relationship between planning and controlling:

Planning and controlling are two complementary functions in the process of management. Planning is the process of providing an organisation with a concrete structure to deliberately achieve organisational goals and face challenges.

Controlling, on the other hand, focuses on comparing targeted performance with actual performance and maintaining quality standards. Planning attempts to create benchmarks which thereafter are actually compared with actually achieved targets by controlling. Without planning, controlling cannot be undertaken as the standards of performance would be undetermined.

Similarly, without controlling, planning serves no purpose at all because if the management does not look back to its plans to see whether it has achieved its goals or not, then the purpose of planning is not served at all. While formulating a plan, organisations should keep the performance measurement as a key to follow up the structure of the plan. This performance measurement is undertaken by controlling.

Controlling primarily determines whether the purpose of a plan has been served or not. Both these steps ensure that the resources of the organisation are being used optimally and determine whether the organisation is performing according to its expectations or not. Hence, it can be concluded that both these functions complement each other. If an organisation eliminates any one of them, then its performance will suffer to a great extent.

23.Explain any four points that highlight the importance of principles of management.

[6]

Answer 23

Principles of management serve as a guiding light in the decision-making process of an organisation. Managers refer to principles of management while making difficult business choices in real-world situations. The importance of the principles of management can be explained using the following points:

- i. Developed through practical experimentation: The management principles are developed by notable management alumni of the past as well as the present. This makes them practical and implementable in complex business problems without any chance of error.
- ii. Factually verifiable: Since the principles of management also explain the key logic behind the decisive judgments written in them, they are factually verifiable and understandable my most managers. This makes it easier for managers to implement them.
- iii. Guidelines for new managers: Management principles are taught primarily in all business schools to students to make sure that all upcoming managers know the foundations of management and to help them follow the best management practices when solving business problems.
- iv. Efficiency: Principles of management assist in judicious allocation of productive resources in the formulation of end product. They synchronise all resources to develop a cost and time efficient production system. It therefore helps the organisation to grow faster and outperform its potential competitors.

24. Pooja purchased a packet of juice from the local grocery shop. The information provided on the packet was not clear. She fell sick on consuming it. She filed a case in the District Forum under Consumer Protection Act and got the relief. a. Identify the important aspect which has been neglected by the marketer in the above case. b. Explain briefly the functions of the aspect identified in (a) above.

[6]

Answer 24

‘labelling’ is the important aspect that is being ignored by the marketer in the given scenario. Functions of labelling are as follows.

- i. Providing information about product – Label of a product provides targeted consumers with all the relevant information regarding the ingredients used in the product. It also informs consumers about the procedure to use the product in its best manner. Various safety guidelines are also provided on a label to make sure consumers do not end up hurting themselves or damaging their health.
- ii. Brand building – A well designed label assists in building a positive brand value of the product in the minds of consumers. Consumers can recognize their desired product from its label in the supermarket and be assured about the quality standards.
- iii. Legal compliance – label mentions relevant information that is required to be displayed as per various consumer laws. This makes a company socially responsible in the eyes of law. It also saves the company from being sued under various consumer laws.
- iv. Increasing sales – A product with an attractive label catches attention of a higher number of consumers than a product with a poorly designed label. This implies that labelling also helps in increasing sales by increasing the market reach of the product.
- v. Monitoring quality – Labels assigned to different products allow an organization to check quality standards and hence, to rectify any variations from the standard quality thereof. Rating the products is also an option if quality of different units of same product varies substantially in production.

25. Sakshi Ltd. is a company manufacturing electronic goods. It has a share capital of Rs 120 lakhs. The earnings per share in the previous years was Rs 0.5. For diversification the company requires additional capital of Rs 80 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of Rs 16 lakhs on capital employed. It paid tax of 40%.

a. State whether the shareholders gained or loss in respect of earning per share on diversification. Show your calculations clearly.

b. Also state any three factors that favour the issue of debentures by the company as part of its capital structure.

a. Answer. a. Let the face value of the equity share be Rs 10 each.

Profit Before Interest and Tax	Rs. 16,00,000
(-) Interest on Debentures	<u>8,00,000</u>
Profit after Interest Before Tax	8,00,000
(-) Tax 40%	<u>3,20,000</u>
Profit After Tax	4,80,000
No. of share holders	12,00,000
EPS	0.4

Let the face value of the equity share be Rs 10 each.

Profit before Interest & Tax Rs 16,00,000 Interest on 10% debentures Rs 8,00,000

Profit before Tax Profit before Interest and Tax Interest Profit before Tax 16,00,000 8,00,000 Rs 8,00,000 Tax @ 40% $8,00,0 \times 40$ 00 Rs 3,20,000 100 Profit available to shareholders 8,00,000 3,20,000 Rs 4,80,000 Profit after Tax 4,80,000 Earning Per Share(EPS) 0.4 Number of Equity Share 12,00,000 Thus, shareholders have incurred loss after the issue of debentures as Earning Per Share (EPS) has fallen from Rs 0.5 to Rs 0.4. b. Three factors which favour the issue of debentures by the company as part of its capital structure: i. Good Cash Flow Position: If the company has a good cash flow position, then issuing debentures is more favourable as compared to the issue of shares. ii. High Tax Rate: It is beneficial for the company to issue debentures if the tax rate is higher. This is because the interest paid by the company to its debenture holders is tax deductible. iii. Control: If the company does not want to dilute the control of management, then issuing debentures is the best for the company.

b. Three factors which favour the issue of debentures by the company as part of its capital structure:

i. Good Cash Flow Position: If the company has a good cash flow position, then issuing debentures is more favourable as compared to the issue of shares.

ii. High Tax Rate: It is beneficial for the company to issue debentures if the tax rate is higher. This is because the interest paid by the company to its debenture holders is tax deductible.

iii. Control: If the company does not want to dilute the control of management, then issuing debentures is the best for the company.
