CBSE CLASS X

Introduction to Financial Markets (405)

ANSWER KEY

From previous CBSE Board Exam questions

Code: ZS3HFX	Questions: 11	Maximum Marks: 17	Generated: 2026-06-15 13:05

SELECTIONS USED

Source	Previous-year board
Subject	Financial Market Management
Lessons	Ratio Analysis
Year	2023-2026
Questions selected	11

Composition — Types: 6 Short · 4 MCQ · 2 Very short

Q1. § What is Investment? § What is a Mutual Fund? **[1]**

A part of the profit is retained by the company for meeting fund requirements in future.

(a) Dividend
(b) Interest
(c) Reserves and Surplus
(d) Revenue

Previously asked in: 2023 92 Q5 (vi)

◆ **Investment Basics** | Reserves and Surplus | Retained Earnings / Ploughing Back of Profits

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Model Answer

(c) Reserves and Surplus — A part of the profit retained by the company for meeting future fund requirements is called **Reserves and Surplus**.

Explanation

The key phrase is "retained by the company for future fund requirements," which directly defines Reserves and Surplus. Dividend is profit distributed to shareholders; Interest is paid on borrowed funds; Revenue is income earned — none of these involve retention of profit for future use.

Q2. § What is a Balance Sheet and a Profit and Loss Account Statement? What is the difference between Balance Sheet and Profit and Loss Account Statements of a company? § How is balance sheet summarized? **[2]**

List two 'applications of funds' and two sources of funds.

Previously asked in: 2025 92 Q15

◆ **Concepts & Modes of Analysis** Applications (Uses) of Funds Balance Sheet - Liabilities Side Sources of Funds

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Model Answer

Applications of Funds (uses):

1. Fixed Assets (purchase of machinery, land, buildings, etc.)
2. Investments (long-term investments made by the firm)

Sources of Funds:

1. Shareholders' Funds (Share Capital contributed by owners)
2. Secured/Unsecured Loans (borrowed funds from creditors/financial institutions)

Explanation

In Fund Flow analysis, **sources of funds** are inflows (liabilities side of Balance Sheet — share capital, loans, reserves) and **applications/uses of funds** are outflows (assets side — fixed assets, investments). The Balance Sheet visual in the question directly shows these heads. Examiners expect you to name specific items from the Balance Sheet, not vague terms. Pairing one from each side is sufficient for 1 mark each.

Q3. § (I) Liquidity Ratios § (iii) Turnover Ratios § (II) Leverage/Capital structure Ratios **[1]**

What is the formula of P/E Ratio?

(a) Market price of a share / Earning per share.
(b) Net profit / No. of outstanding share.
(c) Net profit after tax / Total capital employed.
(d) Net profit after tax / Net worth.

Previously asked in: 2023 92 Q3 (vi)

◆ **Ratio Analysis** P/E Ratio Formula

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Model Answer

(a) Market price of a share / Earning per share.

P/E Ratio = Market Price per Share / EPS (Earnings Per Share).

Source: Profitability Ratios, Chapter 10

Explanation

The P/E Ratio is a stock market-related ratio under Profitability Ratios. Examiners expect you to directly identify option (a) and optionally state the formula. Options (b) gives EPS, (c) gives Return on Capital Employed, and (d) gives Return on Shareholders' Equity — common distractors.

Q4. § (I) Liquidity Ratios § (iii) Turnover Ratios § (II) Leverage/Capital structure Ratios **[2]**

What do mean by Current Ratio ? Also write the formula of Current Ratio.

Previously asked in: 2025 92 Q16

◆ **Ratio Analysis** Current Ratio – Definition and Formula

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Model Answer

Current Ratio: Current Ratio is a liquidity ratio that measures the ability of a firm to meet its current liabilities using its current assets. A higher current ratio indicates greater short-term solvency.

Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Source: Liquidity Ratios, Chapter 10

Explanation

- For 2 marks: one mark is for the definition and one for the formula.
- Always mention that it measures the firm's ability to meet **short-term/current liabilities** — this is the key phrase examiners look for.
- Writing the formula clearly in fraction form is essential; do not just state it in words.

Q5. § (iii) Turnover Ratios **[1]**

Write the formula of Stock Turnover Ratio.

Previously asked in: 2023 92 Q11

◆ **Ratio Analysis** Stock Turnover Ratio Formula

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Model Answer

$$\text{Stock (Inventory) Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Source: Turnover Ratios, Chapter 10

Explanation

- "Stock Turnover Ratio" and "Inventory Turnover Ratio" are the same; either name is accepted.
- Cost of Goods Sold = Net Sales – Gross Profit; Average Inventory = (Opening Stock + Closing Stock) ÷ 2.
- For 1 mark, writing just the formula is sufficient — no further explanation needed.

Q6. § (II) Leverage/Capital structure Ratios **[1]**

Long term solvency of a firm can be judged by using which ratios ?

Previously asked in: 2023 92 Q12

◆ **Ratio Analysis** Long Term Solvency Ratios

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Model Answer

Long-term solvency of a firm can be judged by using **Leverage/Capital Structure Ratios** (e.g., Debt-Equity Ratio, Interest Coverage Ratio).

Source: Chapter 10, Leverage/Capital Structure Ratios

Explanation

The examiner expects you to name the ratio category — **Leverage or Capital Structure Ratios** — not individual ratios. Mentioning one example is a good habit for a 1-mark answer but not strictly required. Avoid writing about liquidity ratios; those measure *short-term* solvency.

Q7. § (II) Leverage/Capital structure Ratios **[1]**

Which of the following is the formula of Debt-Equity ?

(A) Total Debt/Total Equity
(B) Total Debt/Total Assets
(C) Net Sales/Net Fixed Assets
(D) Current Assets/Current Liability

Previously asked in: 2025 92 Q3 (vi)

◆ **Ratio Analysis** Debt-Equity Ratio Formula

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Model Answer

(A) Total Debt/Total Equity

The formula for Debt-Equity Ratio is: $\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$

Source: Leverage/Capital Structure Ratios, Chapter 10

Explanation

The examiner expects direct identification of the correct option. Debt-Equity Ratio measures relative contributions of creditors and owners. Option (B) is Debt-Asset Ratio, (C) is Fixed Assets Turnover, and (D) is Current Ratio — common distractors students must distinguish.

Q8. § (II) Leverage/Capital structure Ratios **[2]**

Explain the Debt-Asset Ratio.

Previously asked in: 2023 92 Q16

◆ **Ratio Analysis** Debt-Asset Ratio

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Model Answer

Debt-Asset Ratio is a leverage ratio that measures the proportion of a firm's total assets financed by total debt (long-term debt + current liabilities).

$$\text{Debt-Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

It indicates long-term solvency. A higher ratio means greater financial risk, as more assets are funded by borrowed funds.

Source: Chapter 10, Leverage/Capital Structure Ratios

Explanation

- Examiners expect: **definition**, **formula**, and a brief **interpretation** — all three for full 2 marks.
- Remember: Total Debt = Long-term debt + Current liabilities; Total Assets = Permanent capital + Current liabilities.
- Don't confuse this with Debt-Equity Ratio — that compares debt to equity, not to assets.

Q9. § (II) Leverage/Capital structure Ratios **[2]**

The long-term financial strength of a firm is assessed by its capacity to consistently pay interest and to repay principal amounts on specified due dates or at maturity. Identify such ratios and give two examples of these ratios.

Previously asked in: 2026 92 Q16

◆ **Ratio Analysis** Solvency Ratios (Debt-Equity, Interest Coverage)

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Model Answer

The ratios described are **Leverage/Capital Structure Ratios**. They measure a firm's long-term solvency — its ability to pay interest regularly and repay principal on due dates.

Two examples:

1. **Debt-Equity Ratio** = Total Debt / Total Equity
2. **Interest Coverage Ratio** = EBIT / Interest

Source: Chapter 10, Leverage/Capital Structure Ratios

Explanation

- The question has two parts: *identify* the ratio type (1 mark) and *give two examples* (1 mark). Name the category clearly, then list two distinct ratios with their formulas for full credit.
- Examiners accept any two from: Debt-Equity Ratio, Debt-Asset Ratio, Interest Coverage Ratio, DSCR. Formulas are expected for examples in this context.

Q10. § (III) Profitability Ratios **[1]**

__________ measures the profit available to the equity shareholders per share, that is, the amount that they can get on every share held.

(A) Earning Per Share (EPS)
(B) Return on Equity
(C) Price to Earning Ratio (P/E Ratio)
(D) Net Profit Ratio

Previously asked in: 2026 92 Q3 (vi)

◆ **Ratio Analysis** | Earnings Per Share (EPS)

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Model Answer

(A) Earning Per Share (EPS)

EPS measures the profit available to equity shareholders per share — the amount they can get on every share held.

Explanation

The passage directly states: *"EPS measures the profit available to the equity shareholders per share, that is, the amount that they can get on every share held."* This is a straight definition-based MCQ; option (A) is the only correct match.

Q11. § (III) Profitability Ratios § Illustration **[2]**

Calcualte the Gross Profit Ratio from the following information :

Previously asked in: 2023 92 Q18

◆ **Ratio Analysis** | Gross Profit Ratio

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Model Answer

Given:

- Gross Profit = ₹30,000
- Net Sales = ₹1,00,000

Formula:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$= \frac{30,000}{1,00,000} \times 100 = \mathbf{30\%}$$

Source: Profitability Ratios, Chapter 10

Explanation

- The examiner awards **1 mark for the formula** and **1 mark for the correct calculation/answer**.
- Gross Profit (₹30,000) and Net Sales (₹1,00,000) are directly read from the Trading Account — no further calculation needed.
- Always express Gross Profit Ratio as a **percentage**; forgetting the "× 100" or the "%" sign can cost a mark.

Q12. § (II) Leverage/Capital structure Ratios § Illustration **[2]**

What do you mean by 'Reserves and Surplus' ?

Previously asked in: 2023 92 Q17

◆ **Ratio Analysis** Reserves and Surplus

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Model Answer

Reserves and Surplus refers to the accumulated profits and retained earnings of a company that have not been distributed as dividends to shareholders. It includes general reserves, specific reserves, and the balance in the Profit & Loss Account. It appears on the liabilities side of the Balance Sheet and represents the owners' stake beyond the original share capital.

Source: Chapter 10, Balance Sheet illustration

Explanation

- Examiners expect a **definition + components + position in Balance Sheet** for 2 marks.
- Key terms to include: *accumulated profits*, *retained earnings*, *not distributed as dividends*, and *liabilities side of Balance Sheet*.
- The illustration shows Reserves & Surplus of Rs. 22 crore alongside Share Capital of Rs. 16 crore — use this context if asked for an example.
- Avoid writing a long paragraph; two to three crisp sentences are sufficient.

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