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BUSINESS STUDIES

BOOKS - SHREE RADHEY PUBLICATION BUSINESS STUDIES (HINGLISH)

PART : B BUSINESS FINANCIAL MANAGEMENT

Case Study

1. Rohan inherited a very large area of agricultural land in Haryana after the death of his grand father. He plans to sell this piece of land and use the money to set up a small scale paper factory to manufacture all kind of stationery items from recycled paper. He consulted friends. Ramesh, who is working in a financial consultancy firm. Ramesh helped him to prepare a blue print of his future business operations. On the basis of sales forecast in next five years, based on these estimates he helped Rohan to assess the fixed and working

capital requirements of business.

In the context of above case-

(a) Identify the type of financial service that

Ramesh has offered Rohan.

(b) State any four importance of that service.

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2. A company's earnings before interest and tax is Rs 10 lac. It pays 10% interest on its debt.
Total investment of company is Rs. 50 lac.
(a) Advise company whenever it should include

debt or equity ot raise its capital.

(b) Name the concept related to this.

(c) Will the company's decision to raise funds

from debt or equity will change if

company'sEBIT becomes 4 lac.

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3. Pinnacle Ltd. Deals in the sale of stationery and office furniture. They source the finished products from reputed brands who give them four to six months credit. Seeing the demand for electronic items, they are also planning to market these items by opening outlets throughout India. For this, they have decided to join hands with a Japanese electronic goods manufacturer. Identify and state any two factors that would affect the fixed capital requirement of Pinnacle Ltd. as discussed above. two factors that would affect the fixed capital requirement of Pinnacle Ltd. as discussed above.

4. A businessman who wants to start a manufacturing concern, approaches you to suggest him whether the following manufacturing concern would require large or small working capital:

(a) Bread

(b) Coolers

(c) Sugar

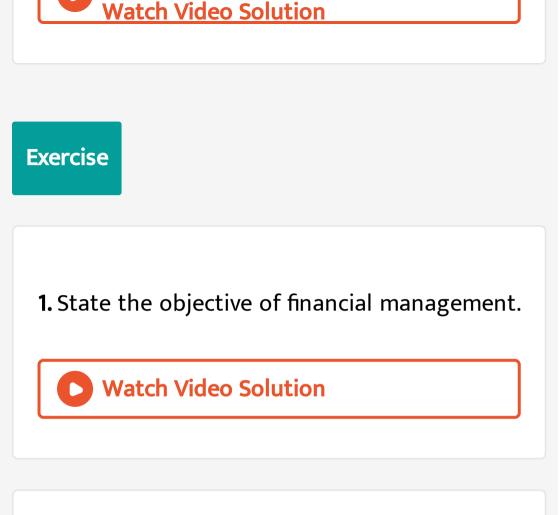
(d) Motor car

(e) Furniture manufactured against specific

orders

(f) Locomotives



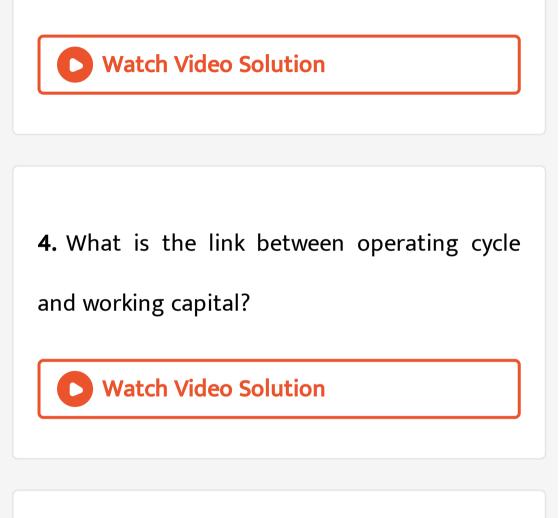


2. Enumerate three important decisions taken

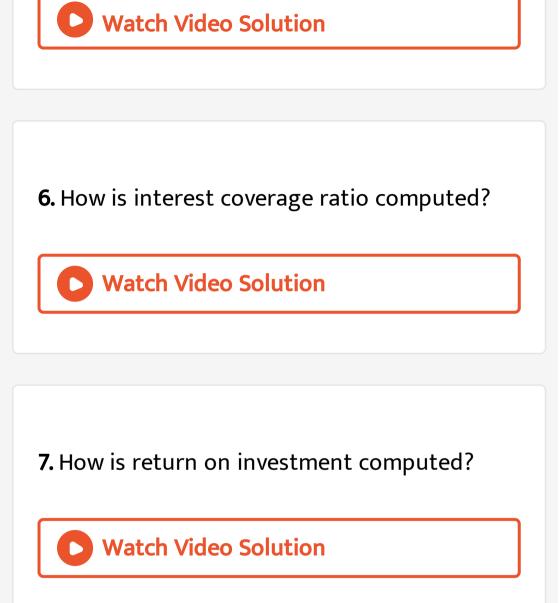
in financial management.



3. State steps involved in financial planning.



5. Why is dividend decision called residual decision?



8. What is the meant by gross working capital

and net working capital?

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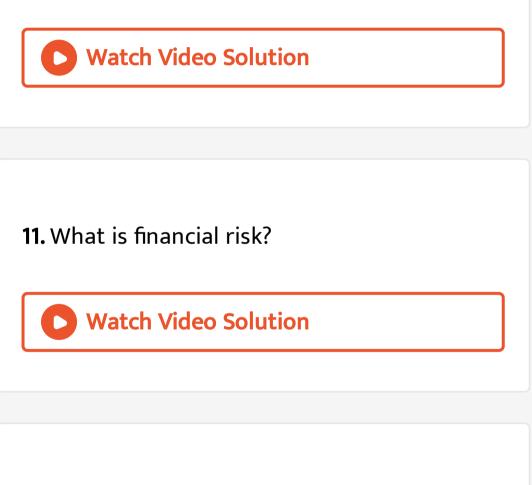
9. How do growth opportunities affect

Dividend Decision?



10. How does control of existing sharesholders

affect financing decisions?



12. What is the another name for long term investment decision?



13. Give two factors affecting financing decision.

Watch Video Solution

14. Give two factors affecting dividend decision.

15. Give two factors affecting investment decision.



16. There are three important decisions which an organisation has to take in respect of financial management. Enumerate and explain in brief these three decisions.

17. How do loan components or debentures in

the capital structure act as level to raise the

return on equity share capital?

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18. These directions of a manufactering company are thinking of issusing Rs20 crore worth additional debentures expansion of their production capacity. This will lead to an increase in debt equity ratio from 2:1 to 3:1 What are the risks involved in it ? Explain any

four factors other than risk do yo think the

direcations should keep in view.



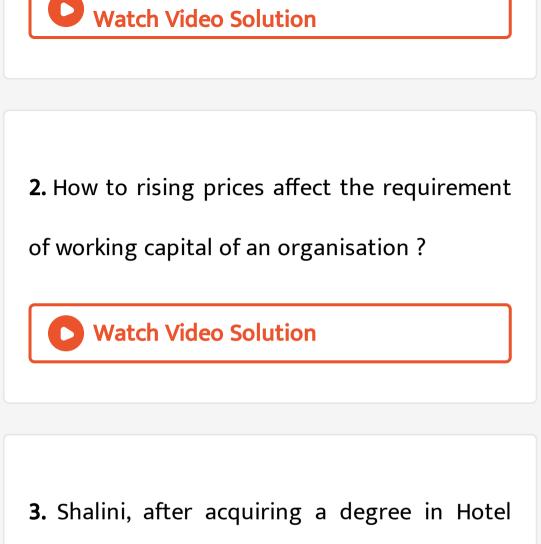
19. You are the finance manager of a company. The board of directors has asked you to determine the working capital requirement for the company. State the factor that you would take in consideration while determining the requirement of working capital for the company.



Hots Higher Orders Thinking Skills And Case Studies

1. Tata international Ltd. Earned a net profit of Rs. 50 crores. Ankit, the finance manager of Tata International Ltd. Wants to decide how to appropriate these profits. Identify the decision That Ankit will have to take and also dicsuss any five factors which help him in taking this decision.





management and Business Administration took over her familiy food processing company of manufacturing pickless, jams and squashes. The business was established by her great grandmother and was doing reasonably well. However the fixed operating costs of the business were high and the cash flow position was week. She wanted to undertake modernisation of the existing business to introduce the latest manufacturing processes and diversify into the market of chocolates and candies. She was very enthusiastic and approached a finance constultant, who told her that approximately Rs. 50 lakh would be required for undertaking the modernization and expansion programme. He also informed her that the stock market was going through a

builish phase.

(i) Keeping the above considerations in mind, name the source of finance shalini should not choose for financing the modernization and expansion of her food processing business. Give one reason in support fo your answer. (ii) Explain any two other factors, apart from those stated in the above situation, which Shalini should keep in mind while taking this decision.



4. A business that does'nt grow dies' says Mr Shah, the owner of Shah Marbie Ltd. With glorious 36 months of its grand success having a capital base Rs. 80 crores. Within a short span of time, the company could generate cash flow which not only covered fixed cash payment obligations but also create sufficient buffer. The company is on the growth path and a new breed of consumers in eager to buy the Ilatian marbie sold by Shah Marbie Ltd.

To meet the increasing demand, Mr Shah decided to expand his business by acquiring a

mine, This required an investment of Rs.120 crores. To seek advice in this matter, he called his financial advisor Mr Seth who advised him about the judicious mix of equity(40%) and Debt (60%). Mr Seth also suggested him to take loan from a financial institution as the cost of raising funds from financial institution is low. Though this will increase the financial risk but will not dilute the control of equity sharesholders. At the same time, the interest on loan is a tax deductible expense for liabilty. After due computation tax deliberations with mr seth, Mr Shah decided

to raise funds a financial institution.

(a) Identify and explain the concept of Financial Mangement as advised by Mr seth in the above situation.

(b) State the four factors affecting the concept

as identified in part (a) above which have been

discussed between Mr Shah and Mr Seth.



5. Avik is the finance manager of mars Ltd. In the current year. The company earned high

profit. However, Avik thinks that it is better to declare smaller dividend as he is unsure about the earning potential of the company in the coming years.

Avik's choice of dividend decision is based on

which of the factor that affect it?



6. When is financial leverage favorable?

7. HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved.

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8. Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over bajaj.

9. Dabur India has decided to increase credit limit and duration of credit to its customers to boost its sales. Name the type of decision involved.

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10. Bharti Ltd. Is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth Rs. 1,000 crore.

Which financial decision is involved in it?

Explain it.



11. Your are the finance maanger of a company your board of directors have asked you to decided the dividend policy of a company . Explain the factors which you will consider while determining the dividend policy.



12. Pankaj is engaged in Warehousing-Business Identify the woking capital requirements of Pankaj stating the reason is support of your answer. Pankaj is also planning to start his Transport business.

Explain any two factors that will affect his fixed capital requirments.

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13. Name the factor due to which a petro chemical company requires much higher

investment in fixed capital than an information technology company. However both may generate same amount of revenue. Explain any two factors affecting fixed capital requirement.

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14. "Ranbaxy Ltd. Has been earning handsome profits since last 15 years. Company enjoy fair goodwill in the market, so company can easily arrange as well equity from the market,

Whenever needed. Therefore company decided

to declare dividend with a hike of 15% from last year."

Which two components affecting dividend

decision have been highlighted in the above

paragraph.



15. "During annual general meeting of prakesh Ltd. CEO. Mr. Rajnesh put the expansion plan for the coming year before sharesholderss and asked for suitable sources of finance to finance manager. Finance manager Mr. Kant proposed issue of debentures than equity with a plan that they can be paid back whenever requirement fo funds is over. " In the above paragraph, which component affecting financing decision has been highlighted? Explain the component.

16. How does 'Trading on Equity affect the

Capital structure of a company?

Explain with the help of a suitable example.



17. " Tax benefits is available only in case of payment of interest and not on the payment

of preference dividend. " Why?

18. REI Agro Food Ltd. Is a famous multinational company. Mr. S.K. Nagi is its finance manager. He is making efforts to increase the market value of capital invested by the equity sharesholders. He already knew it could be possible only when price of the shares increases and price of shares increases only if financing, investment and dividend decisions are taken optimally. He did the same and achieved success.

Which objective of financial management has

been refered here? Explain.



19. Jai Bharat Company Ltd. Is an autopart supplier company in Guru Gram, Haryana. Its business is spread over several cities. The CEO of company wants to open a factory in Gujarat near Tata motors Ltd. But due to recession for the last two years, its business is facing slow down. Company needs capital. Rakesh Gupta is CA and financial advisor of the company. He opines that during recession profit falls and investors prefer to invest in debentures to

earn fixed income. Therefore, the company should issue debentures.

In this paragraph, which factor affecting financing has been highlighted? Explain state

of capital market.

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20. Canara Bank wants to open a new branch

of his bank. What is this decision called?

21. A decision is taken to distribute certain part of profit to sharesholders after paying tax. What is this decision called? Explain any three factors affecting such decisions.

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22. Name types of capital which are part of

capital structure.

23. A decision is taken to raise money for long terms capital needs to business from certain sources. What is this decision called? Explain the three factors affecting such decision.

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24. What is considered the cheapest source of

finance?

25. What is financial leverage? Explain with the

help of an example.



26. What is favourable financial leverage?

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27. What is the cost of raising funds called?

28. What determine overall financial risk?

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29. In case of high fixed operating cost,

company should prefer debt or equity?



30. What is the another name for long term

investment decision?

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31. A sound financial plan is the key to success of sound financial management of the company. Discuss.

32. Amit is running as 'Advertising agency' and earning a lot by providing this service to big industries. State whether the working capital requirement of the firm will be 'less' or ' more'. Give reason in support of your answer.

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33. Satnam Singh wons a fruits or chit in shimla where finest quality of apples are grown. He plans to start 15 juice stations. Ind

different localities in Shimla, Chandigarh, Solan, etc. In partnership with his friend Gurpreet Singh. Instead of buying he plans to take shops on rent us he needs money for other inputs.

Indentify and explain two factors affecting fixed capital requirements of Satnam's business discussed in above para by quoting the lines.

34. PVR is a renowned multiplex operators in India. It own 254 screens in 52 properties at 24 locations in the country. Considering the fact is more growing trend among the people to spend more of their disposable income on entertainment, company planned to add more screen at existing locations and start at new locations also they also plan to add food chain also at their locations. The company planned to float equity shares in market to raise the desired capital. The issue was fully subscribed and paid. Over the years the sale and the profit of the company have icreased tremendously and it has been declaring higher dividend and the market price of its share has increased manifolds.

(a) Name the different kinds of financial decisions taken by PVR Ltd. by quoting lines from para.

(b) Do you think the financial management team of the company has been able to achieve its prime objectivies why or why not.

35. Healthcare Ltd. Is a company engagged in production of organic food. Presently It sells It products through indirect channels of distribution. The company is planning to start its own show rooms and online portals. The financial manager suggested to use debt to ivest in own showrooms and online protals. Company plans to raise debt. capital of Rs. 40 lakhs a loan from ICICI bank of 10% interest. The present capital base of the company is 9 lakhs equity shares of Rs. 10 each. The rate of tax is 30%

In the context of above case-

(a) Assuming expected rate of return same as current year i.e., 15% do you think the decision to use debt is justified.

Show your working clearly.



Multiple Choice Questions

1. What is considered the cheapest source of

finance?

A. (a) Debenture

B. (b) Equity share capital

C. Preference share

D. Retained earning

Answer:

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2. A decision to acquire a new and modern

plant to upgrade and old one is a

- A. (a) Financing decision
- B. (b) Working capital decision
- C. (c) Investment decision
- D. (d) Dividend decision

Answer:

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3. Other things remaining the same, an increase in the tax rate on corporate profits

will

A. Make debt relatively cheaper

B. Make debt relatively less cheap home

C. No impact on the cost of debt

D. We can't say

Answer:

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4. Compaines with a higher growth pattern are likely to :

(a) pay lower dividends

(b) pay higher dividends

(c) dividends not affected by growth considersattions

(d) None of the above.

A. (a) Pay lower dividends

B. Pay higher dividends

C. Dividends are not affected by growth

considerations

D. None of the above

Answer:





5. When is financial leverage favorable?

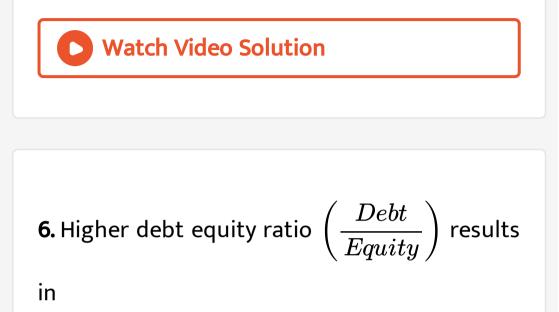
A. (a) Return on Investment is lower than

cost of debt

- B. (b) ROI is higher than cost of debt
- C. (c) Debt is nearly available
- D. (d) If the degree of existing financial

leverage is low

Answer:



- A. (a) Lower financial risk
- B. (b) Higher degree of operating risk
- C. (c) Higher degree of financial risk
- D. (d) Higher EPS

Answer:



7. Higher working capital usually results in

A. (a) Higher current ratio, higher risks and

higher profits

B. (b) Lower current ratio, higher risk and

profits

C. (c) Higher equitably, lower risk and lower

profits

D. (d) Lower equitably, lower risk and

higher profits

Answer:

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8. Current assets are those assets which get

converted into cash

- A. (a) Within six months
- B. (b) Within one year
- C. (c) Between one and three years
- D. (d) Between three and five years

Answer:

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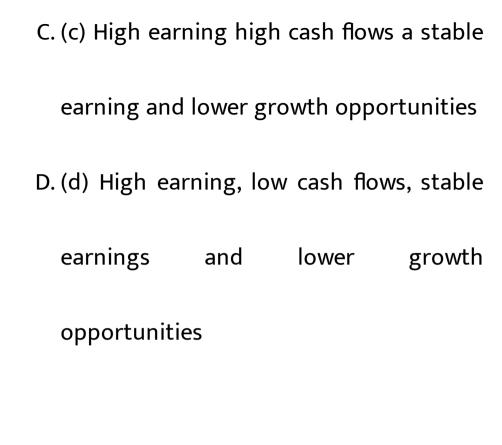
9. Financial planning arrives at

A. Minimising the external borrowing by resorting to equity issues. B. Entering that the firm always have significantly more fund than required so that there is no paucity of funds. C. ensuring that the firm paces neither a shortage nor a glut of unusable funds. D. Doing only what is possible with the funds that the firms has at its disposal.



10. Higher dividends per share is associated with

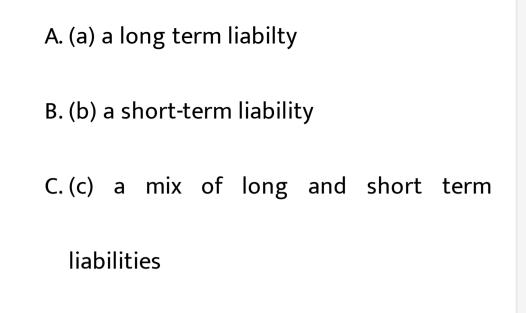
A. (a) High earning, high cash flows unusable earnings and higher growth opportunities B. (b) High earning, high cash flows suitable earnings and high growth opportunities



Answer:

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11. A fixed asset should be financed through



D. (d) None of these

Answer:



12. Current assets of a business firm should be

financed through

A. (a) Current liability only

B. (b) long-term liability only

C. (c) Partly from both types, i.e., long and

short-term liabilities.

D. (d) None of these

Answer:





1. What is meant by capital structure?

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Discuss the two objectives of financial planning.



Watch Video Solution
4. Define a 'current assets' and give four examples.
Watch Video Solution

5. Financial management is based on three

broad financial decisions. What are these?

6. What are the main objectives of financial

management? Briefly explain.

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7. Discuss about working capital affecting both

the liquidity as well as profitability of a business.



 What is meant by working capital? How is it calculated? Discuss five important determinants of working capital requirements.

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 Capital structure decisions is essentially optimisation of risk-return relationship.
 Comment.

3. A capital budgeting decision is capable of changing the financial fortune of a business. Do you agree? Why or why not?

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4. Explain factors affecting the dividend decision.

5. Explain the term 'trading on equity'. Why. When and how can it be used by a business organisation?



Test Yourself Very Short Answer Questions

1. State the objective of financial management.

2. Explain the concept of wealth maximisation

as an objective of financial management.

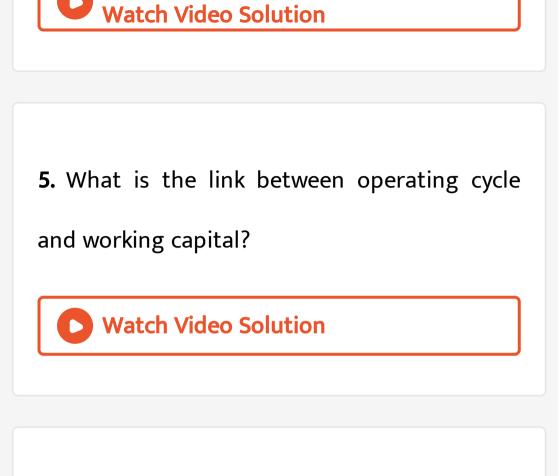


3. Discuss the two objectives of financial planning.

Watch Video Solution

4. What is financial risk and how does it arise?

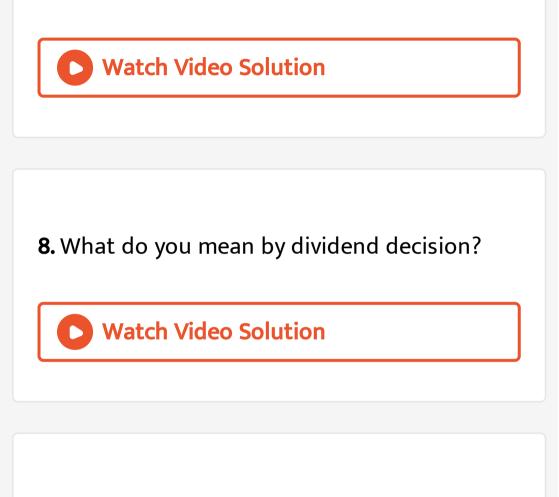




6. What do you mean by negative working capital?

7. Why is the dividend decision treated as a

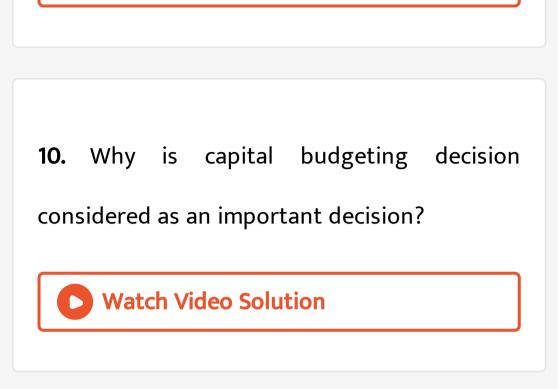
residual decision?



9. What do you mean by management of fixed

capital?





11. Define a 'current assets' and give four examples.

1. How are the shareholders likely to gain with loan components in capital employed ? Explain with suitable example.

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2. Explain the factors affecting the dividend

policy of a company.

3. Explain the meaning and nature of financial

planning.

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4. Explain the meaning and nature of capital

budgeting.



5. Give two factors affecting financing decision.

Test Yourself Long Answer Questions

 State whether the working capital requirement of business manufacturing the following items are big or small. Justify your answer:
 Bread

(ii) Coolers

(iii) Sugar

(iv) Furniture

(v) Motor car

(vi) Locomotives



Capital structure decisions is essentially optimisation of risk-return relationship.
 Comment.



3. Explain the term 'trading on equity'. Why. When and how can it be used by a business organisation?



Previous Years Examination Question 2014 2018 One Mark Questions

1. What is meant by 'financial management'?

2. How does 'level of competition' affect the working capital requirements of an organisation? State.



3. In the paint industry, various raw materials are mixeds in different proportions with petromleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly availble to the paint readily and regularly available to the paint manufacturing companies. Bonler paints company is also facing this problem and because of this there is a time lag between placing the order and the acutal receipt of the amterial.But, once it receives the raw materials, it takes less time in converting it into finsihed goods.

Identify the factor affecting the working capital requirements of this industry.



5. Sika Ltd., a reputed industrial machine manufacturer, needs Rupees twenty crores as additional capital to expand the business. Mr. Amit Joshi, the chief Exceutive officer (CEO) of the company wants to raise funds through equity. The finance Manager, Mr. Narender Singh, suggested that the shares may be sold to investing public through intermediaries, as

the same will be less expensive.

Name the method through which the company decided to raise additional capital. Watch Video Solution 6. What is meant by 'Trading on Equity'? Watch Video Solution

7. Name and state the aspect of financial management that enables to foresee the fund

requirements both in terms of 'the quantum'

and 'the timings'.



8. Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company wiht his son. His son was keen that the company may start manufacturing of Mobilephones with some unique featurs. Rizal Bhattacharya felt that the mobile-phones are prone to quick obsolencence and a heavy fixed capital investment would be required regularly in this business.Therefore, he convinced his son to start a furniture business. Identify the factor affecting fixed capital requirements which made Rizul Bhattacharya to choose furniture business over mobile phones.

Watch Video Solution

9. Meca Ltd. A reputed auotmobile manufacturer needs Rupees ten crores as

additional capital to expand its business. Atul Jalan, the CEO of the company wanted to raise funds through equity. On the other hand the Finance Manager, Nimi sahdev said that the public issue may be expensive on account of various mandatory and non- mandatory expenses. Therefore, it was decided to allot the securities to institutional investors. Name the method through which the company decided to raise additional capital.

10. Reliable Transport Service Ltd. ' specialises in transporting fruits and vegetables. It has a good reputation in the market as it delivers the fruits and vegetables at the right time and at the right place. State with reason whether the workingh capital requirements of 'Reliable Transport

Services' will be high or low.



11. Explain how' cost of debt' affects the choice

of capital structure of a company.

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12. The size of assets, the profitability and competitiveness are affected by one of the financial decisions. Name and state the decision.



13. Radhika and Vani who are young fashion designers left their job with a famous fashion designer chain to set-up a company fashionate Pvt. Ltd.' They decided to run a boutique during the day and coaching classes for entrance examination of National Institute of Fashion Designing in the evening. For the coaching Centre they hired the first floor of a nearby building. Their major expense was money spent on photocopying of notes for their students. They thought of buying a photocopier knowing fully that their scale of operations was not sufficient to make full use of the photocopier.

In the basement of the building of 'Fashionate Pvt. Ltd.' Preveen and Ramesh were carrying on a printing and stationery business in the name of 'Neo prints Pvt. Ltd. 'Radhika approached praveen with the prosposal to buy a photocopier jointly which could be used by both of them without making seperate investment, praveen agreed to this. Identify the factor affecting fixed capital

requirements of 'Fashionate Pvt.Ltd.

14. How does 'cost of equity' affect the choice

of capital structure of a company? Explain.

Watch Video Solution

15. 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 improves the quantity of the bulbs produced. Indentify the factor affecting fixed capital requirements of the company.

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Previous Years Examination Question 2014 2018 Three Mark Questions 1. Ramanath Ltd. Is dealing in important of organic food item in bulk. The company sells the items in smaller quantities in attractive pakages. Performance of the company has been up to the expectations in the past. Keeping up with the latest packaging technology. the company decided to upgrade its machinery. For this, the finance Manager of the company, Mr. Vikrant Dhull, estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis.

Therefore, Mr. vikrant Dhull began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources. For the ramaining funds he is trying to find out alternative sources. Identify the financial concept discussed in the above paragraph. Also state any two points of importance of the financial concept, so indetified.

2. Explain briefly any four factors which affect

the choice of capital structure of a company.

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3. Explain briefly any four factors that affect

the working capital requirement of a company.



4. What is meant by Capital Budgeting State any four factors affecting fixed capital requirement of a firm.



5. Sika Ltd., a reputed industrial machine manufacturer, needs Rupees twenty crores as additional capital to expand the business. Mr. Amit Joshi, the chief Exceutive officer (CEO) of the company wants to raise funds through equity. The finance Manager, Mr. Narender Singh, suggested that the shares may be sold to investing public through intermediaries, as the same will be less expensive. Name the method through which the

company decided to raise additional capital.



6. Sarah Ltd. 'is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it

has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality. equal employment opportunities and good remuneration practices. It has many sharesholders who prefer to receive a regular inocome form their investments. It has taken a loan of Rs. 40 lakhs from IDBI

and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

The above discussion identify and explain any

four such factors.



7. Viyo Ltd.' is a company manufacturing textiles. It has a share capital of rupees 60 lakhs. The earning per shares in the previous year was rupees 0.50. for diversification, the company requires additonal capital of rupees 40 lakhs. The company raised funds by issued 10% debentures for the same. During the current year the company earned profit of ruppes 8 lakh on capital employed. It paid tax @40%

(a) State whether the sharesholders gained or
lost, 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.

