



# **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 to 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's EBIT 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.



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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





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## Exercise

1. State the objective of financial management.



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2. Enumerate three important decisions taken in financial management.



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3. State steps involved in financial planning.



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4. What is the link between operating cycle and working capital?



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5. Why is dividend decision called residual decision?





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**6. How is interest coverage ratio computed?**



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**7. How is return on investment computed?**



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**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?



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**10.** How does control of existing shareholders affect financing decisions?



**Watch Video Solution**

**11.** What is financial risk?



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



**Watch Video Solution**

**13.** Give two factors affecting financing decision.



**Watch Video Solution**

**14.** Give two factors affecting dividend decision.



**Watch Video Solution**

**15.** Give two factors affecting investment decision.



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**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.



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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 manufacturing company are thinking of issuing *Rs*20 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 you think the directions should keep in view.



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**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.



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## 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 discuss any five factors which help him in taking this decision.





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2. How to rising prices affect the requirement of working capital of an organisation ?



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3. Shalini, after acquiring a degree in Hotel management and Business Administration took over her family food processing company of manufacturing pickles, 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 weak. 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 consultant, 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.



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4. A business that doesn't 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 is eager to buy the Italian 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 shareholders. At the same time, the interest on loan is a tax deductible expense for computation tax liability. After due deliberations with mr seth, Mr Shah decided

to raise funds a financial institution.

(a) Identify and explain the concept of Financial Management 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.



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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?



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**6. When is financial leverage favorable?**



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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.



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**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.



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**11.** You are the finance manager of a company  
your board of directors have asked you to  
decide the dividend policy of a company .  
Explain the factors which you will consider  
while determining the dividend policy.



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

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



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**13.** Name the factor due to which a petrochemical 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.



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**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.



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**16.** How does 'Trading on Equity' affect the Capital structure of a company?

Explain with the help of a suitable example.



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**17.** " Tax benefits is available only in case of payment of interest and not on the payment of preference dividend. " Why?



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**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 shareholders. 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 referred 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?



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**21.** A decision is taken to distribute certain part of profit to shareholders 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.



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**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?



**Watch Video Solution**

**25.** What is financial leverage? Explain with the help of an example.



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**26.** What is favourable financial leverage?



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**27.** What is the cost of raising funds called?



**Watch Video Solution**

**28.** What determine overall financial risk?



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**29.** In case of high fixed operating cost, company should prefer debt or equity?



**Watch Video Solution**

**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.



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**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 owns a fruits orchard 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 as he needs money for other inputs.

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



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**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 increased tremendously and it has been declaring higher dividend and the market price of its share has increased manifold.

(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 objectives why or why not.



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**35.** Healthcare Ltd. Is a company engaged in production of organic food. Presently It sells Its 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 invest in own showrooms and online portals.

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.



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## 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 considerations

(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:**



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6. Higher debt equity ratio  $\left( \frac{Debt}{Equity} \right)$  results in

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

**Answer:**



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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.

**Answer:**



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**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



C. (c) High earning high cash flows a stable earning and lower growth opportunities

D. (d) High earning, low cash flows, stable earnings and lower growth opportunities

**Answer:**



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**11.** A fixed asset should be financed through

A. (a) a long term liability

B. (b) a short-term liability

C. (c) a mix of long and short term liabilities

D. (d) None of these

**Answer:**



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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:**



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## Short Answer Type Questions

1. What is meant by capital structure?



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2. Discuss the two objectives of financial planning.



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3. What is 'financial risk'? Why does it arise?



**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?



**Watch Video Solution**

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.



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## Long Answer Type Questions

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



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



**Watch Video Solution**

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.



**Watch Video Solution**



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



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## Test Yourself Very Short Answer Questions

1. State the objective of financial management.



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2. Explain the concept of wealth maximisation as an objective of financial management.



**Watch Video Solution**

3. Discuss the two objectives of financial planning.



**Watch Video Solution**

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





**Watch Video Solution**

5. What is the link between operating cycle and working capital?



**Watch Video Solution**

6. What do you mean by negative working capital?



**Watch Video Solution**

7. Why is the dividend decision treated as a residual decision?



**Watch Video Solution**

8. What do you mean by dividend decision?



**Watch Video Solution**

9. What do you mean by management of fixed capital?



**Watch Video Solution**

**10.** Why is capital budgeting decision considered as an important decision?



**Watch Video Solution**

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



**Watch Video Solution**

## Test Yourself Short Answer Questions

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.



**Watch Video Solution**

3. Explain the meaning and nature of financial planning.



**Watch Video Solution**

4. Explain the meaning and nature of capital budgeting.



**Watch Video Solution**

5. Give two factors affecting financing decision.



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## Test Yourself Long Answer Questions

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

(i) Bread

(ii) Coolers

(iii) Sugar

(iv) Furniture



(v) Motor car

(vi) Locomotives



**Watch Video Solution**

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

Comment.



**Watch Video Solution**

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



**Watch Video Solution**

**Previous Years Examination Question 2014 2018**  
**One Mark Questions**

1. What is meant by 'financial management'?



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



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3. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available 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 actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods.

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



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#### 4. What is meant by 'capital Structure'?



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5. Sika Ltd., a reputed industrial machine manufacturer, needs Rupees twenty crores as additional capital to expand the business. Mr. Amit Joshi, the chief Executive 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'.



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8. Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company with his son. His son was keen that the company may start manufacturing of Mobile-phones with some unique features. Rizal Bhattacharya felt that the mobile-phones are prone to quick obsolescence 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.



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**9. Meca Ltd.** A reputed automobile 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.



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**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 working capital requirements of 'Reliable Transport Services' will be high or low.



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**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.



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**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.



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**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.

Identify 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 packages. 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.



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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.



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



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5. Sika Ltd., a reputed industrial machine manufacturer, needs Rupees twenty crores as additional capital to expand the business. Mr. Amit Joshi, the chief Executive 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.



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**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 shareholders who prefer to receive a regular income from 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.



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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 rupees 8 lakh on capital employed. It paid tax @40%

(a) State whether the shareholders 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.



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