



BUSINESS STUDIES

BOOKS - VK GLOBAL PUBLICATION

BUSINESS STUDIES (HINGLISH)

FINANCIAL MANAGEMENT

High Order Thinking Skills 9 1

1. Somnath Ltd. Is engaged in the business of export of garments. In the past, the

performance of the company had been upto the expectations. In line with the latest technology , the company decided to upgrade its machinery. For this , the finance Manager, Dalmia 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. Dalmia therefore began with the preparation of a sales forecast for the next four years. He also collected the relvant data about the profit estimates in the coming years. By doing this , he wanted to be sure about the abailability of

funds from the internal sources of the business. for the remaining funds he is trying to find out alternative sources from outside.

Identify the financial concept discussed in the above para. Also state the objectives to be achieved by the use of financial concept, so identified.



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2. Ramanath Ltd. Is dealing in import of organic food items in bulk. The company sells

the items in smaller quantities in attractive package. 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 remaining 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 identified.



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3. Sudha is an enterprising business woman who has been running a poultry farm for the past ten years. She has saved *Rs*4,00,000 from her business. She shared with her family her desire to utilise money to expand her business. Her family members gave her different suggestions like buying new machinery to replace the existing one, acquiring altogether new equipments with latest technology, opening a new branch of the poultry farm in another city and so on. Since these decisions are crucial for her business, involve a huge amount of money and are

irreversible expect at a huge cost, Sudha wants to analyse all aspects to the decisions, before taking any final decision.

(i) Identify and explain the financial decision to be taken by Sudha.

(ii) Also, explain the briefly the factors that will affect this decision.



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4. 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, and expansion programme. He also informed her

that the stock market was going through a bullish phase.

(a) Keeping the above considerations in mind, name the source of finance Shalini should not choose for financing the modernisation and expansion of her food processing business.

Give one reason in support of your answer.

(b) 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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5. 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 equity, 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 lakh form IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to the distributed by the company

Quoting the lines from the above discussion identify and explain any four such factors.



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6. Tata International Ltd. Earned a net profit of *Rs*50 crore. Ankit the finance manger 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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7. Saksham Ltd, a firm manufacturing textiles , wished to diversify their business. They were considering two options, either to diversify into manufacturing tooth -paste switches.They wanted to invest in the purchase of land, to set up a manufacturing unit in the backward areas of Gujarat, which would also lead to the generation of employment opportunities in the area , but only after fulfilling all legal requirements and taking appropriate steps to ensure that the environment was not polluted. the finance manager of the company,

Mr. Ramakant was asked by the management to prepare a report on the factors which should be considered making the above investment decision.

(a) State any two factors that Mr. Ramakant would give in his report.

(b) Also state any one reason which makes it important for the above decision to be made carefully.

(c) And state two values being fulfilled by Saksham Ltd.



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8. Neelabh Sarin, the Finance Manager and Atul Chopra, the Managing Director of Ghokers, Ltd. Were discussing regarding the source of finance to be raised for modernisation of their exiting plant. Quoting that 'Sensex has soared by 5078 points ' in the last three years, Neelabh Sarin suggests that equity should be preferred while Atul Chopra wanted to opt for debt.

Keeping in mind the high operating costs of the company, suggest the source of finance that should be used for modernisation of

existing plant. Also, explain the two factors highlighted above which should be kept in mind for taking this decision.



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High Order Thinking Skills 9 2

1. A business that doesn't grow dies, says Mr. Shah, the owner of Shah Marble Ltd. With glorious 36 months of its grand success having capital base of *Rs*80 crore. 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 new breed of consumers is eager to buy the Italian marble sold by Shah Marble Ltd. to meet the increasing demand, Mr. Shah decided to expand his business by acquiring a mine. this required an investment of $Rs120$ crore. 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 institutions is low. Though this will increase the financial risk but will also raise the return to equity shareholders. He also apprised him that issue of debt will not dilute the control of equity shareholders. At the same time, the interest on loan is a tax deductible expense for computation of tax liability. After due deliberations with Mr. Seth, Mr. Shah decided to raise funds from 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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2. These directions of a manufacturing company are thinking of issuing *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 you think the directions should keep in view.



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3. Viyo Ltd. ' is a company manufacturing textiles. It has a share capital of ₹60 lakh. The earning per share in the previous was ₹0.50. For diversification requires additional capital of ₹40 lakh. The company raised funds by

issuing ₹10% debentures for the same.

During the current year the company earned profit of ₹8 lakh on capital employed. It paid tax @ 40%.



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4. The Return on investment (RoI) of a company ranges between 10% – 12% for the past three years. To finance its future fixed capital needs, it has the following options for borrowing dept:

Option 'A': Rate of interest 9 %

Option 'B' : Rate of interest 13 %

Which source of dept. Option A or Option B, is better ? Give reson in support of your answer.

Also state the concept being used in taking the decision.



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High Order Thinking Skills 9 3

1. Pinnacle Ltd. Deals in the scale 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 wiht a japanese electronic goods manufacturer.

Identfy and state any two factors that would affect the fixed capital requirement of pinnacle Ltd. as discussed above.



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2. Indian Logistics' has its own warehousing arrangements at key locations across the country. Its warehousing services help business firms to reduce their overheads, increase efficiency and cut down distribution time.

Satate with reason, whether the working capital requirements of 'Indian Logistics' will be high or low.



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3. Explain whether the following manufacturing concerns require large or small working capital :

(a) Bread, (b) Sugar , (c) Coolers , (d) Furniture Manufacturing against orders, (e) Motor car/Scooters, (f) Clothes, (g) Industrial chemicals.



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4. 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.' Praveen and Ramesh were carrying on a printing and stationery business in the name of 'Neo Prints Pvt.Ltd'. Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them without making separate investment ,Praveen agreed to this.

Identify the factor affecting fixed capital requirements of 'Fashionate Pvt. Ltd.'



5. Aarohan Ltd. An automobile manufacturer was diversifying into manufacturing two-wheelers. They knew that India is on a growth path and a new breed of consumer is eager for a first vehicle. The market responded very well to the new product. The company did not have to allow credit, as it had advance orders from four to six months with deposits paid. Also, due to efficiency in managing their operations as soon as a vehicle was off the assembly line, it was out to the dealers. Give any one reason

discussed above which helped the firm in managing its working capital efficiently.



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6. Shyam wanted to start a business of selling handicrafts by getting in touch with the craftsmen in the rural areas of Bengal. He wants to make a low investment in fixed Capital. Advise him in taking suitable decisions regarding the Nature of Business, Scale of operations and Financing Alternatives (in a

developed financial market) that he needs to take for the purpose.



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7. In the paint industry, various raw materials are mixed in different proportions with problem for manufacturing different kinds of paints. One specific raw material is not 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 identify the factor affecting the working capital requirements of this industry.



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8. VXL Ltd. Is a company dealing in diary product. It process these products from Rajesthan and sells them to various parts of Delhi. A month before 'Merio Ltd.' a Haryana

based company entered Delhi market with a similar range of products.

State the impact of entry of haryana based 'Merio Ltd'. on the working capital requirements of VXL Ltd. Also, name the factor affecting the work working capital requirements of VXL Ltd.



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Think As You Read

1. What is meant by 'financial management'?



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2. What is the primary aim of financial management ?



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3. Why is shareholders' wealth maximisation linked to the market price of a company's

shares?



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4. Financial management aims at _____

- (a) ensuring availability of enough funds
- (b) reducing the cost of funds procured
- (c) effective deployment of funds
- (d) All of these



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5. A proper matching of funds requirements and their availability is sought to be achieved by one of the concepts of financial management. It takes into consideration the growth, performance, investments and requirements of funds for a given period. Identify the concept.



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6. How does financial planning make the evaluation of actual performance easier ?



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7. What are the essential ingredients of sound working capital management ?



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8. A long -term investment decision is called is

(a) capital budgeting decision

(b) working capital decision

(c) financial decision

(d) dividend decision.



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9. Why are capital budgeting decisions called

'irreversible' decisions?





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10. Capital budgeting decisions involve a number of calculations List them.



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11. Which is the most important criterion to select a project while taking investment decision ?



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12. What is financial risk?



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13. What is the riskless source of finance?



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14. What is meant by flotation cost ?



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15. Companies 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.



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16. A decision is taken in financial management to disturb certain parts of the profit to shareholders after paying tax. What is this decision called ?



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17. Name the major determinant of the dividend decision.



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18. Which company is in a position to declare high dividend ?



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19. What is meant by 'Capital Structure' ?



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20. Name the concept of financial management which involves determining the

relative proportion of various types of funds.



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21. Name the two types of capital which are part of capital structure.



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22. What is financial leverage ?



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23. How is financial leverage computed ?



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24. When is financial leverage favourable ?



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25. What is trading on equity ?



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26. What is optimum capital structure ?



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27. What does a high debt service coverage ratio indicate ?



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28. Explain why the requirements of fixed capital for a trading concern are different

from that of a manufacturing organisation.



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29. Current assets are those assets which get converted into cash_____.

- a. within six months
- b. within one year
- c. between three and five years.
- d. between three and five years.



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30. How does 'level of competition' effect the working captial requirement of an organisation ? State.



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31. How does the availability of leasing facilities in a developed financial market affect the fixed capital requirements of a firm ? For what kind of business, such a strategy is suitable ?



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32. A bank may use another's ATM or some of them many jointly establish particular facility. Name of the factor affecting the fixed capital requirements of each bank.



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9 1 Test Yours Understanding

1. For optimal procurement of funds, a finance manager identifies different available sources and compares those in terms of costs and associated risks, identify and state the concept highlighted in the above lines.



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2. A decision is taken in financial management to put capital of the company in different assets. What is the decision called ?





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3. Why are capital budgeting decisions very crucial for any business ?



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4. Capital budgeting decisions need to be taken with utmost care. Why? Give reason.



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5. While taking investment decision, if there is only project, how is its viability assessed?



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6. The size, assets, the profitability and competitiveness are affected by one of the financial decisions.



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7. 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 faces 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.



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8. Which decision is involved in launching a new product line ?



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9. Which decision is involved in expenditures on advertising campaign or research and development firm.



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10. Name the financial decision which will help businessman in opening a new branch of its business.



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11. Name the decision in financial management which influences the overall business risk complexion of the firm.



View Text Solution

12. Name the decision is financial management which affects the growth , profitability and risk of the business.



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13. What is the effect of increased use of debt on the overall cost of capital ?



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14. Mahindra Ltd. Takes a decision to raise money for long -term capital needs of business from certain sources which type of decision is this ?



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15. Name of the decision in financial management which determine the overall cost of capital and the financial risk of the enterprise.





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16. Cost of debt is less than cost of equity. Still a company cannot go with entire debt. Why ?



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17. What does a higher business risk indicate ?



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18. The decision in financial management which determines the proportion between debt and equity is known as :

- (a) Financing decision (b) Operating decision
(c) Capital budgeting decision (d) Dividend decision.



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19. Name the decision in financial management which should be taken keeping in view the

overall objective of maximising shareholder's wealth.



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20. Companies with higher growth potential are likely to

- (a) pay lower dividends
- (b). Pay higher dividends
- (c) dividends are not affected by growth considerations
- (d) None of the above.



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21. Avik is the finance manager of Mrs 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 factors that affect it ?



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22. A decision to acquire a new modern plant to upgrade an old one is a _____

- a. financing decision
- b. working capital decision.
- c. investment decision.
- d. None of the above.



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23. Higher dividend per share is associated with:

- (a). High earnings, high cash flows, unstable

earnings and higher growth opportunities

(b). High earnings , high cash flows, stable earnings stable earnings and high growth opportunities.

(c). high earnings, high cash flows, stable earnings and lower growth opportunities .

(d). high earnings ,low cash flows, stable earnings and lower growth opportunities.



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24. It is essentially preparation of a blueprint of an organisation's future operations related to finance. Identify it.



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25. Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise.



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26. Which concept in financial management takes into consideration the growth, performance, investments and requirement of funds for a given time period ?



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9 2 Test Yours Understanding

1. Which concept of financial management affects both the profitability and the financial

risk ?



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2. Financial leverage is called favourite if

(a) R_oI is lower than cost of debt

(b) R_oI is higher than cost of debt

(c) debt is nearly available

(d) the degree of existing financial leverage is low.



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3. Which is an important determinant of a company's ability to use trading on equity ?



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4. Name the concept which increases the return on equity shares with a change in the capital structure of a company.



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5. Trading on equity takes place when

A. (a) ROI is less than rate of interest on
debt

B. (b) ROI is more than the rate of interest
on debt

C. (c) ROI is less than the ROE

D. (D) ROI is more than ROE

Answer:

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6. "An increase in debt may enhance earning per share (EPS) but also raise the financial risk ."
"What should be done by a company to meet the objective of financial management ?



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7. How are the shareholders of a company likely to gain due to debt component in the total capital ? Explain with an example.



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8. Other things remaining the same, an increase in the tax rate on corporate profits will _____

- (a) make the debt relatively cheaper.
- (b) make the debt relatively the dearer.
- (c). Have no impact on the cost of debt.
- (d) We can't say.



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9. As the financial leverage increases, what happens to the cost and risk ?



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9 3 Test Yours Understanding

1. A fixed asset should be financed through

(a) a long -term liability

(b) a short-term liability

(c) a mix of long and short -term liabilities



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2. Mr. Rohit is into transport business. His buses are hired by schools for transportation of students. He is willing to expand and diversify his business to inter-state transportation purposes. Enumerate any six factors that will affect his fixed capital requirements.



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3. How should the fixed assets be financed ?



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4. Yogesh, a businessman in engaged in purchasing and selling of Ice-creams. Identify the working capital requirement of Yogesh giving reason in support of your answer.



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5. Manish is engaged in business of garments manufacturing. Identify the working capital requirement of Manish giving reason in support of your answer.



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6. Amit is running an '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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7. Neelabh is engaged in ' Transport Busines' and transports fruits and vegetables to different states. Stating the reason in support of your answer, identify the working capital require-ments of Neelabh.



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8. Bharat Express' Specialises in Courier Services. It's `wide range of express package and paracel services ' help business firms to make sure that the goods are made available to the customers at the right place and at the right time.

State with reason, whether the working capital requirements of 'Bharat Express' will be high or low.



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9. Name the decision in financial management which facilitates smooth day-to-day operations of the business.



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10. Higher working capital usually results in

(a) higher current ratio, higher risk and higher profits

(b) lower current ratio, higher risk and profits

(c) higher equity , lower risk and lower profits

(d) lower equity, lower risk and higher profits.



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11. What is that part of current assets called which is financed thorough long-term sourcess of funds ?



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Brain Teaser

1. S Ltd. is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7% – 8% and the demand for steel is growing. The company has decided to set up a new steel plant to cash on the increased demand. It is estimated that it will require about ₹2000 crore to set up and about ₹500 crore of working capital to start the new plant.

(a) Identify the decision taken by the finance manager in the above case.

(b) Explain any two factors affecting the fixed and working capital requirements of S Ltd.



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Self Evaluation Test 1

1. Radikha 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 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'. Parveen and Ramesh were carrying on a printing and stationary business in the name of 'Neo Prints Pvt.Ltd' Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them without

making separate investment, Praveen agreed to this,

identify the factor affecting fixed capital requirements of 'Fashionate Pvt.Ltd'.



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2. Discuss the two objective of financial planning.



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3. "A capital budgeting decision is capable of changing the financial fortunes of a business".

Do you agree? Give reasons for your answer.



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4. What is working capital? How is it calculated?
? Discuss four important determinants of working capital requirement.



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5. The Capital of India has been declared as the most polluted city in the world. Bengaluru, Mumbai , Patna, Ahmedabad, Lucknow , Kanpur and Ludhiana are also the highly polluted Indian cities. This has resulted into a dramatic increase in the sale of home air purifiers. the prices of these devices range from ₹, 2, 000 to ₹25, 000 depending upon the pollutants these purifiers remove. Looking at the increasing demand of these home air purifiers 'Pure Air Technology India Ltd.' has developed a low cost home air purifier in R & D Lab. The

company ₹500 per unit. For this capital of ₹100 crore will be required. The company decide to have both equity and debt in its capital structure. Explain any four factors that the company should consider while deciding its capital structure.



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Self Evaluation Test 2

1. 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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2. Harish is engaged in warehousing business and his warehouses are generally used by the businessmen to store fruits. Identify the working capital requirements of Harish giving reason in support of your answer .



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3. A company wants to establish a new unit in which a machinery of worth $Rs10$ lakh is involved. Identify the type of decision involved in financial management.



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4. Name and state the aspect of financial management that enables to foresee the funds requirements both in terms of 'the quantum' and the timings'.



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5. Define financial management. What are the main objectives of financial management ? Briefly explain.

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6. How does working capital affect both the liquidity as well as profitability of a business ?

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7. "Capital structure decision is essentially optimisation of risk-return relationship." Comment.



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8. Explain the term 'Trading on equity'. Why, when and how it can be used by a company ?



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9. Name the decision a financial manager takes, keeping in view the overall objective of maximising shareholders' wealth. Explain any five factors affecting this decision.



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10. Explain briefly any four factors which affect the choice of capital structure of company.



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