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CLASS: XII-BUSINESS STUDIES

FINANCIAL MANAGEMENT

Q1. What is business finance? State any two purposes for which it is required?

Q2. Define Financial Management? State its main objective.

Q3. Name the two factors which affect the market price of shares.

Q4. Name the important Financial decisions.

Q5. Name the investment decision which is difficult to reverse.

Q6. Name the investment decision which affects the liquidity of the business.

Q7. Name the decision which affects the size of operations and profitability of the company.

Q8. State the most important criterion for an investment decision.

Q9 . Name the factor which makes debt the cheapest of all sources.

Q10. State the twin objectives of Financial Planning.

Q11. When does a company experience favorable financial leverage?

Q12. Define Trading on Equity.

Q13. What does Interest Coverage ratio indicate?

Q14. Name the ratio which determines the company's ability to trade on equity.

Q15. Kiran purchases goods on one month credit and sells goods on 3 months credit. How will this affect the working capital requirement? Give reason.

Q16. Ravi has just completed his engineering. He is highly motivated and ambitious individual. He wants to start his own business and asked his father for financial help. His father agreed to finance but asked him to prepare a detailed report and let him know the amount required to start the company. How will Ravi decide the amount of capital required to start his business?

Q17 . Explain with reasons which of the following businesses will require large amount of working capital and which ones will require lesser working capital:

a. Ice cream seller
b. Sugar factory
c. Bakery
d. Automobile company
e. Garment factory
f. Grocery shop
g. Transport business
h. Legal services

Q18. What is meant by capital structure? Explain any four factors affecting the choice of capital structure.

Q19. Differentiate between fixed and working capital.

Q20. Explain the following factors affecting working capital requirement:

a. Seasonal factor
b. Production cycle
c. Business cycle
d. Inflation

Q21. You are the Financial Manager of a newly established company. The directors have asked you to determine the amount of fixed capital requirement for the company. Explain any four factors that you will consider while determining the amount of fixed capital requirements for the company.

Q22. Style Ltd. is a Cosmetics manufacturing company. The company is confused with determining the relative Proportion of various types of funds, Company sells goods on credit basis so they ensure that enough cash is available to cover not only fixed payment obligation but there be sufficient buffer also. It has taken loan from bank to raise shares and Debentures from Public, to take care of unforeseen Circumstances the company has decided not full use of debt. The equity shares of company are more easily sold even at a higher Price and decided the public issue of shares and debentures have been made under SEBI guidelines. The Company has a loyal customer profile because of quality products

a) This above discussion about company leads to various factors that decide how quantum of finance to be raised from various long term sources. Identify them by quoting lines from above

b). Identify the value being referred above.

Q23. A company is engaged in the business of manufacturing the auto rickshaw. The company wants to diversify by setting up a separate line for production for manufacturing of the spare parts. For the aforesaid purpose, the company wanted to raise long term funds without diluting its control. It was observed that investors, in general were reluctant to take risk. The company also want to save its heavy tax liability. Suggest a suitable source of raising long term funds. Give three reasons for supporting the alternative you choose.

Q24. Suman, as a financial manager of the business engaged in the manufacturing of sewing machines want to raise the debt component of the business as its rate of return increase by 5% consistency since last three years. But Mohan, Finance executive has opined that debt component should not be increased as the rate of interest on debt is also increasing by 4% consistently. Mohan also observed that increasing the debt component will increase the financial risk of the company.

a) State the condition in which the company should increase the debt component.

b) Explain the concept which is highlighted in the above situation.

Q25. Amar, Akbar and Anthony are working AAA Enterprises as production manager, finance manager and marketing manager respectively. Recently, the company started facing certain problems. Sometimes, it has ample cash in hand and at bank and sometimes, it fails to meet its day to day obligations also such as payment of telephone and electricity bills, payment to suppliers etc. In such situation, it has to raise funds at higher cost.

a) Which decision is not taken by Akbar properly, when the company is not able to meet its day to day payment obligations?

b) Discuss any four factors that must be considered for taking the decision identified in part a.

Q26. Y Ltd. has invested Rs. 30 lakh and earns a profit before interest and taxes (EBIT) of Rs. 2 lakh. Tax rate is 30%.

(a) Calculate earnings per share (EPS) assuming that there is no debt.
(b) What would be EPS, if total capital of the company includes Rs 10 lakh, 10% Debentures?
(c) Will EPS increase or decrease in case (b)? Explain the reason.

Q27. Abhishek Ltd.' is manufacturing cotton clothes. 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.50 lakhs from I.C.I.C.I. Bank and is bound by certain restrictions on the payment of dividend according to the terms of the 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 be distributed by the company.

a) Identify the financial decision
b) Quoting the lines from the above discussion, identify and explain any four factors affecting such decision.

Q28. 'R' Limited is a real estate company which was formed in 1950. In about 56 years of its existence the company has managed to carve out a niche for itself in this sector. Lately, this sector is witnessing a boom due to the fact that the Indian economy is on the rise. The incomes of middle class are rising. More people can afford to buy homes for themselves due to easy availability of loans and accompanying tax concessions. To expand its business in India and abroad the company is weighing various options to raise money through equity offerings in India. Finance manager of 'R' Limited made a blue print of financial requirement of business and also thinking of Whether to tap equity or debt market, whether to raise money from domestic market or international market or Combination of both? Whether to raise the necessary finance from money market or capital market.

Name the financial blue print of company and list its objectives

Q29. Mr. Udai Kotak holds the designation of Finance Manager in 'Jai Shree Ram Trading Limited'. Last year performance of his department was as per the expectation. Currently he is busy in preparing financial blueprint of the next five years. To begin with he tried to forecast the sales in the next five years. It is so because it is the sales on which depends the need for fixed and working capital. Thus an estimate was made with regard to both these items. Similarly, he collected data in respect of possible profits in the coming years. In this way, one can know how much of capital will be available from within the business. The rest of the funds will be arranged from outside the business. He is also thinking about the sources of finance to be tapped outside the business.

a) Identify the financial concept as referred to in the above paragraph

b) Explain five points of importance of the financial concept, so identified

Q30. Keeping in view the increasing number of cars taking over the Delhi roads, the Delhi Government is organizing Car-Free day campaign - "Ab Bus Karein". The government has urged the people of Delhi to refrain from travelling in their cars and two-wheelers and rather use public transport on 22nd of every month. The government also announced that there will be more DTC buses and three-wheelers available to ensure that commuters do not face difficulty. A separate cycle lane was also made for those who use bi-cycles for commuting. The supporters of this campaign demanded for construction of cycle stands in offices, hotels and shopping malls, as they were not able to get suitable space to park their bi-cycles.

State whether there will be any change in fixed capital requirements of government, offices, hotels, shopping malls etc., due to this campaign. Give reason to justify your answer.

State any two values highlighted in the above case.

Q31. Naveen glass ltd is into this business for 20 years. Now due to expansion plans the company needs additional 100 crs. The finance manager is asked to decide about the capital structure after considering the pros and cons of both the sources-Owners fund and borrowed fund. He finds out the following facts. Cash flows of the company are unstable and he is in no mood to choose a source in which high risk is involved. Company also wants to retain control over the management of the affairs of the company. There is a boom period in the economy. The above disclosures lead to various factors which decide how much to finance from equity and how much from debt. The recent companies act has revised the tax on companies to 20% from 15%. Amidst all this the company is also facing heavy operating costs of salaries, rent, premiums etc. Quoting the relevant lines, identify any such six factors