

FINANACIAL MANAGEMENT

VERY SHORT ANSWER TYPE QUESTIONS:

1. Name the type of investment decision which relates to short term and affects day to day operations of a company.
2. A company wants to establish a new unit in which a machinery of worth Rs 10 lakhs is involved. Identify the type of decision involved in financial management.
3. Name the concept which increases the return on equity shares with a change in the capital structure of a company.
4. Identify the decision taken in financial management which affects the liquidity as well as the profitability of business.
5. State why the working capital need of a service industry are different from that of a Manufacturing industry.
6. What is meant by Flootation Cost?
7. Which component of capital structure determines the overall financial risk in an organization?
8. What is meant by Cost of Debt?
9. What does higher business risk indicates?
10. What is meant by Cost of Equity?
11. What does firm's lower business risk indicate?
12. Name the Financial Decision which will help a businessman in opening a new branch of its business.
13. "Cost of Debt" is lower than the cost of 'Equity Share capital'. Give reason why even than a company cannot work only with the Debt.
14. Name the essential ingredients of sound working capital management?
15. Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise.
16. A company has to arrange its working capital. The available sources are:
a. Fresh issue of equity shares; b. Issue of debentures; c. Accepting Deposits; d. Taking short term loans from bank; e. Advance from customers.
Which sources company may prefer?
17. There is a boom in the demand for iPods. Does it affect the requirement of working capital

- for companies manufacturing iPods?
18. Big Bazaar plans to open a new branch in the festive season. Discuss the type of decision indicated in the given statement.
19. A company needs special kind of raw material which is imported from America and time gap between order placement and delivery is 2 months. How does it affect the requirement for working capital.
20. " Company can pay any amount of dividend without any restriction". Comment.
21. What does high business risk indicate?
22. Which decision taken in financial management affects both the profitability and the financial risk?
23. Which concept in financial management takes into consideration the growth, performance, investments and requirements of funds for a given time period?
24. Name the decision in financial which should be taken keeping in view the overall objectives of maximizing shareholder's wealth.
25. Name the decision in financial management which determines the overall cost of capital and the financial risk of the enterprise.
- 26.. Name the decision in financial management which affects the liquidity as well as the profitability of a business.

HOTS

27. How much will be the working capital requirements in manufacturing of the following items:
- a. Coolers b. Bread c. Sugar d. Furniture manufacturing against orders
- e. Motorcars.
28. The directors of a manufacturing company are thinking of issuing Rs 20 crore worth additional debentures for 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? What factors other than risk do you think the directors should keep in view before taking the decision? Explain any five factors.
29. Manish is engaged in business of garments manufacturing . Identify the working capital requirement of Manish giving reason in support of your answer.
30. Amar is doing his transport business in Delhi. His buses are generally used for the tourists going

to Jaipur and Agra. Identify the working capital requirement of Amar giving reason in support of your answer. Further Amar wants to expand and diversify his Transport business. Explain any two factor that will affect his fixed capital requirements.

31. 'S' Limited 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. It is planning to set up a new steel plant to cash on the increased demand. It is estimated that it will require about Rs 5,000 crores to set up and about Rs 500 crores of working capital to start the new plant.

Questions:

- a. Describe the role and objectives of financial management for this company.
- b. Explain the importance of having a financial plan for this company. Give an imaginary plan to support your answer.
- c. What are the factors which will affect the capital structure for this company.
- d. Keeping in mind that it is a highly capital- intensive sector, what factors will affect the fixed and working capital. Give reasons in support of your answer.

VALUE BASED QUESTIONS

32. " Seeing the large amount of profit in a particular year, the shareholders were expecting a high rate of dividend. But at the advice of the finance manager, the board of Directors declared only a moderate rate of dividend". Suggest any three values that might have restrained the Finance Manager to recommend lower rate than the shareholders expectations.

33. Besides the owners funds, many Financial Managers want to depend on other long term funds also. Name any one value that inspires them to borrow from external sources.

34. Mahima Ltd. needs machinery for production purpose. The production manager has 2 options available:

- a. Machinery which has quality certification mark and approved by the government costing Rs 3,00,000.
- b. Machinery which has the same production capacity but is not approved by government costing Rs 2,00,000. The manager decides to go with the second alternative.

Which values do you find missing in his decision?

35. In a company profits are heavy and in future less scope of expansion exists. Company has decided to pay a very less dividend. Here, which value is affected?

36. A company wants to show higher profits and for this:

a. Depreciation was charged at lower rates.

b. Goodwill, Patents, Trademarks and other intangible assets were shown at higher value.

Explain the values is affected here.

37. A wholesaler of onion comes to know that due to less production the prices of onion will increase heavily. He stores the onion and during rising prices, he earns heavy profits by selling the stored onion. Here, which value is affected?