Ch-09 FINANCIAL MANAGEMENT
Important Questions Part-1

Q1) When is financial leverage considered favorable?
Ans) Financial leverage is considered favourable when return on investment is higher than the cost of debt.

Q2) why does financial risk arise?
Ans) Interest on borrowed fund have to be paid regardless of whether or not you firm has made a profit. Moreover borrowed fund have to be repaid after a fixed time and it carries a charge on assets. This gives rise to financial risk.

Q3) How does production cycle effect working capital?
Ans) working capital requirement is higher with longer production cycle.

Q4) Enumerate two objectives of financial management?
Ans) (a)To ensure availability of required funds.
(b) to see that the firm does not raise resources unnecessarily.

Q5) What is the primary objectives of financial management?
Ans) Wealth Maximisation.

Q6) The board of Directors has asked you to design the capital structure of the company. Explain any sin factors that you would consider while doing so. [6]
Ans) For design the capital structure of the company six factors are as following:-
1) Cash Flow Position.
2) Interest coverage ration(ICR)
3) Debt Service coverage ratio(DSCR)
4) Return on investment (ROI)
5) Cost of debt
6) Tax rate.

Q7) Every manager has to take three major decisions while performing the finance function. Explain them.

Ans) A manager take three following major decisions:-

1) financing Decision.

2) Investment Decision.

3) Dividend Decision.

Q8) What do you call the capital needed for day to day operations? Explain any 5 factors affecting such capital needs.

Ans) Capital needed for day to day operations is called working capital.{explain any 5 factors affecting such capital needs].

1) Nature of business

2) Scale of operations

3) Seasonal Factors

4) Production cycle

5) Credit allowed

Q9) The directors of a company have decided to expand their business activities by increasing the stock of raw materials and finished goods at an estimated cost of Rs. 50 lakhs, Describe the various ways open to the company to raise necessary finance for the purpose.

Ans) the company can raise necessary finance for the purpose of expansion through the following function.

(a) Issue of shares

(b) Issue of debentures

(c) Loans from banks and financial institutions.

(d) Retained earnings.

Q10) A capital budgeting decisions is capable of changing the financial fortune of a business. Do you agree? Why or why not?

Ans) hint Yes, I agree to this statement because of the following importance of capitals budgeting decisions.

(a) long term growth and effects.
(b) Large amt of funds involved
(c) Risk involved
(d) Irreversible decisions.

Q11) Are the share holders of a company likely to gain with a debt component in the capital employed ? Explain with the help of an example?
Ans) The shareholders of a company are very likely to gain with debt component in the capital employed by way of trading
On equity as it increases the earning per share(EPS) of the share holders[(Explain trade on equity with one example)].

Q12) state whether the working capital requirements of business manufacturing the following items are big or small. Justify your statement.
(a) Coolers (c) Sugar (b)bread (d) Locomotives (e) Furniture manufacturing against orders.
Ans) Requirements of working capital for the mentioned business will be:
(a) Bread Requirements of working capital will be less because it has quick cash turnover.
(b) Sugar;- working capital required for manufacturers will be more as ration of raw material cost to total cost is more.
(c) Coolers:- working capital required for manufacturers of cooler will be more because it is a seasonal product.
(d) Furniture:- Requirements of working capital for a manufacturer of furniture manufactured against specific order is less as it doesn't requires large stock.
(e) Motor car;- Requirements of working capital for a manufacturer of locomotives will be more because gestation period is more.

Q13) What do you mean by floatation cost?
Ans) Cost uncured for raising funds.

Q14) Name any 2 sources of long term fund?
Ans) (a) Debt.
(b) Equity

Q15) What is Business Finance?

Ans) Money required for carrying out business activities is called business finance.

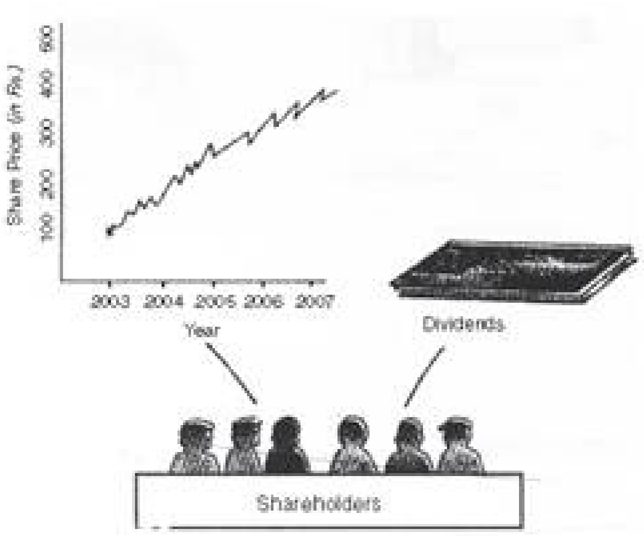
Q16) " A decision to acquire a new and modern plant to upgrade an old one". Identify the aspect of financial decision.

Ans) Investment decision (Capital Budgeting).

Chapter-9
FinancialManagement
Important Questions Part-2

QUESTIONS FOR PRACTICE

Q1. The cartoon demonstrates the primary objective of Financial Management. Name and explain it.



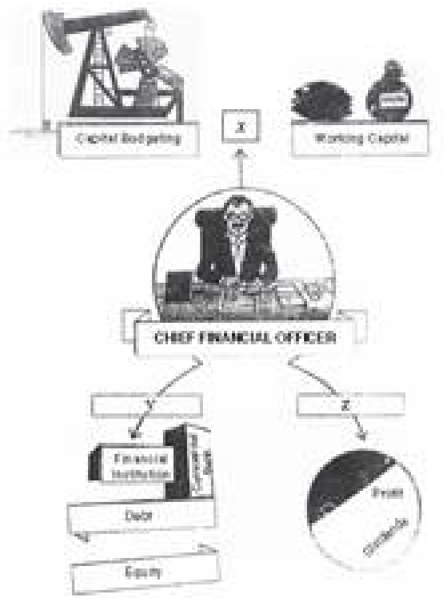
Q2. Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth Rs. 1,000 crore. Which financial decision is involved in it?

Q3. Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000crores. The directors has proposed a dividend of 38%. As a finance manager of the company. What factors would you consider while formulating a dividend policy of the company?

Q4. How overall financial risk is calculated?

Q5. 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.

Q6. Identify x, y and z from the cartoon and explain them.



Q7. How financial Management, helps in maximization of shareholders' wealth?

Q8. How does 'Trading on Equity' affect the Capital structure off a company? Explain with the help of a suitable example.