ASSIGNMENT CH 9 FINANCIAL MANAGEMENT

1. There are two brothers: Shobhit and Mohit. Shobhit starts a tourist and travel agency. His idea is to take his business to great heights. Though he doesn't have experience in this business yet he wants to give this business a try. He feels that if he gives the best quality services then his business will reach great heights.
   Mohit starts a thermometer manufacturing business. He too like his brother wants to take his business towards great success. He is new to this business and is busy getting to know about the technical side of the business as much as possible. He wants to make the best quality thermometers which are ultrasensitive to temperature changes and can resist shocks.
   Despite all these good ambitions in mind a sudden shock takes place for both the brothers. The economy shows sign of recession and within a few months is totally engulfed by it.
   What will happen to the working capital requirement of the two businesses described in the above case?
   Which of the two businesses do you think will see greater impact of this change?(3)

2. KJ Ltd. is manufacturing trucks at its manufacturing unit in Kolkata. The demand of its trucks is high as the economic growth is about 7% to 8%. The company has estimated a 20% increase in the demand of its trucks. It is planning to set up a new truck manufacturing unit. For this the company will require approximately ?2,000 crores as fixed capital and ?5G0 crores as working capital. The company has already arranged for its fixed capital. State any three factors that the finance manager of the company should keep in mind while arranging its working capital.(5)

3. An organisation is busy preparing its financial blueprint for its future operations. The idea is to create satisfactory amount of money which should be there in the reach of the organisation at the right time.

1. Which concept of financial management has been highlighted in the above case?
2. What are the financial plans made for a year known as?
3. What are the twin objectives of financial planning?(3)

4. **Sunrises Ltd., dealing in readymade garments, is planning to expand its business operations in order to cater to the international market. For this**

purpose, the company needs an additional 80,00,000 to replace machines with modern machinery of higher production capacity. The company wishes to raise the required funds by issuing debentures. The debt can be issued at an estimated cost of 10%. The EBIT for the previous year of the company was 8,00,000, and the total capital investment was 1,00,00,000. Suggest whether the issue of debenture would be considered a rational decision by the company. Give reasons to justify your answer. (Ans. No, the Cost of Debt (10%) is more than ROI which is 8%). (4)

5. In the following cases identify the type of financial decision. Also identify the factors affecting the decisions:

1. A company has decided to issue equity but it is concerned about the control management will lose. So after a lot of brainstorming the board of directors decide to take loan from a bank and debt from other sources.
2. Keeping the concern of raising funds alive a company decides to go for debenture as the final choice. The people who will be purchasing the debentures would be assured a definite return after a definite period of time. The company’s credibility is good so they should not worry about the A company issues equity shares but the expenses involved are quite a lot. The organisation has to be aware about the printing charges, advertisement related expenses, underwriter’s commission and brokerage asked by the middle men.
3. ‘Dheeraj Plants’, a manufacturing company, thinks of starting a project in South America. The company knows that the project will be a successful venture in the years to come. It tries to figure out the revenue generated by the project and the expenses which will be involved in it.
4. Suyash tries to evaluate two projects. The projects have equal level of risk. According to this parameter he finds both projects at par. However, when it corhes to knowing the rate of return of the two projects he finds that Project A will yield a rate of return of 10% and Project B will yield a rate of return of 12%. So he decides to go ahead with the project B.
5. Shobhit wants to start a movie hall so he decides to evaluate the feasibility of starting the project. He finds that at place A the movie hall will cost ?20 crore and at place B it will cost ?30 crore. He decides to go for the first option—Project A. (5)