

BCM SCHOOL, BASANT AVENUE, DUGRI ROAD, LUDHIANA
BUSINESS STUDIES
XII
ASSIGNMENT

1. 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? (4 Marks)

2. A company 'White White Sheets' is a successful bed sheet selling company. It sells Rs.1 crore worth sheets to a corporate customer. The company gives a period of 2 months to the client to pay for the sheets. The company send an invoice to the customer and the inventory account gets reduced by Rs.1 crore. The account receivable is increased by Rs.1 crore. When its corporate client pays within the period of 2 months the cash is increased by Rs.1 crore and the account receivable is reduced by Rs.1 crore.

1. In the above financial transaction the essential ingredients of which concept of 'financial management' have been highlighted?
2. What is the other term used for long term investment decision?
3. Which concept of financial management is related to selection of the best financing or investment alternative? (4 Marks)

3. 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 comes 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. (6 Marks)

4. '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 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 ₹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. Quoting the lines from the above discussion, identify and explain any four such factors. (6 Marks)

5. 'Yiyo Ltd.' is a company manufacturing textiles. It has a share capital of ₹60 lakhs. The earning per share in the previous year was ₹0.50. For diversification, the company requires additional capital of ₹40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned a profit of ₹8 lakhs on capital employed. It paid tax @ 40%.

State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly. (4 Marks)

6. Arun is a successful businessman in the paper industry. During his recent visit to his friend's place in Mysore, he was fascinated by the exclusive variety of incense sticks available there. His friend tells him that Mysore region is known as a pioneer in the activity of Agarbathi manufacturing because it has a natural reserve of forest products especially Sandalwood to provide for the base material used in production. Moreover, the suppliers of other types of raw material needed for production follow a liberal credit policy and the time required to manufacture incense sticks is relatively less. Considering the various factors, Arun decides to venture into this line of business by setting up a manufacturing unit in Mysore.

a) Identify the three factors mentioned in the paragraph which are likely to affect the working capital requirements of his business. (3 Marks)

7. 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's availability of enough cash in the company and good prospects for growth in future. It is a well managed organization 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 ₹ 40 lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

a) 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.

b) Quoting the lines from the above discussion identify and explain and four such factors. (6 Marks)