

BCM SCHOOL, BASANT AVENUE, DUGRI ROAD, LUDHIANA

ASSIGNMENT OF CH 9

CLASS -XII

BUSINESS STUDIES

MM: 15

Q1. How does an optimum capital structure help in maximizing the value of a firm? (1)

Q2. Why is fixed capital decision considered irreversible? (1)

Q3. How do working capital needs differ in seasonal businesses? (1)

Q4. A company manufactures air coolers. Due to the summer season arriving early, the company expects a rise in demand. To fulfill orders on time, it wants to maintain higher levels of inventory and provide credit to wholesalers for bulk purchases. (3)

Questions:

- a) Identify the type of financial decision being discussed.
- b) Which two factors affecting this decision are highlighted?
- c) How will this decision benefit the company?

Q5. 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. (4)

Q6. Gagan Electronics Ltd. is planning to expand its business by installing advanced machinery worth ₹10 crores. The finance manager suggests raising funds mainly through debt as interest is tax deductible. However, the CEO is concerned that too much borrowing may increase the company's dependency on creditors and lower the confidence of shareholders. (5)

Questions:

- 1. Which financial decision is being taken here?
- 2. Explain any four factors that should be considered while making this decision.