

Worksheet 5
Financial management

Q.1 Explain the effect of following:

- (i) Growth opportunities – on dividend decisions
- (ii) Shareholders' decision not to lose control – on financing decision
- (iii) Increased fixed charges – on business risk
- (iv) Cost of capital more than return on investment – on Financial leverage
- (v) Issue of debentures – on debt equity ratio
- (vi) Closure of loss making unit – on working capital requirement.
- (vii) Returns exceeding the cost of capital – on EPS

2. Identify the concept in the following:

- (i) It refers to change in debt-equity ratio to increase the return on equity.
- (ii) The finance manager presented a blueprint of its operation for the next financial year.
- (iii) It indicates the proportion of debts and equity in the capital structure of a company.
- (iv) It is the initial or processing cost to raise funds.

3. Raghav has just completed his engineering. He is highly motivated and ambitious individual. He wants to start his own business. He requested his father to finance his start-up company. His father agreed to finance but asked him to prepare a detailed report and let him know the amount required to start the company:

- (a) Name the document and its contents which Raghav will present to his father.
- (b) How will Raghav decide the amount of capital required to start his business?

4. '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 facing. It is estimated that it will require about Rs.5000 crore to set up and about Rs.500 crore of working capital to start the new plant.

- (a) What is the role and objectives of financial management for this company?
- (b) What is 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 capital structure of 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 with regard to both in support of your answer.

5. What is the aim of financial management? State the value that should be kept in mind while setting the objectives of financial management.

6. Financial Planning is essentially the preparation of a financial blueprint of organization future operations. The objective of financial planning is to ensure that enough funds are available at the right time.

- (i) What will happen if enough funds are not available at the right time?
- (ii) State any two importance of financial planning.
- (i) Identify the value which is being emphasized in financial planning.