



INDIAN SCHOOL AL WADI AL KABIR

Class: XII Business Studies	Department: Commerce
Worksheet No: 2	Topic: FINANCIAL MANAGEMENT

1. Ramit is using ICR (Interest Coverage Ratio) as the indicator of the interest paying capacity of his company. However, one of his old school days' friends Shobhit tells him to use DSCR (Debt Service Coverage Ratio) as the indicator to judge it.
Do you agree with his friend?
Give reason for your answer.
2. 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. Hamara Bank' has over 1.5 million satisfied customers. However, recently some of them started leaving the clientele of bank. The reason behind this was that the services of the bank were extremely good, people always complained about lack of ATM facility in the bank. To overcome this problem and stop the clients go away, the bank decided to go for collaboration with 'Tumhara Bank'. 'Tumhara Bank' is a new bank and is no way near to the competency of Core services of 'Hamara Bank' but it has exceptional ATM facilities.
What do you think is going to be the impact of this collaboration on the fixed capital investment of 'Hamara Bank'? Give reason.
4. Ramesh is running a real estate construction company. He has to meet clients on a regular basis in order to make deals. For every decision he makes he has to be really

cautious as he knows once he has decided he can't go back which will mean abandoning of the project. So, he evaluates every decision before he makes it. That is why he pays a lot of attention to what his clients are saying and figures out which portion of the deal is in his capacity and favour. Recently his company pumped an amount of Rs.50 crores in a project and he knows this project can affect the returns of the firms in the long run both positively as well as negatively. All this is a part of the business in which he has established himself. He knows that the funds invested are only likely to give returns in the future and impact the future prospects of his business. The chances of success in any business are more when one does a lot of research. He has to involve a considerable portion of his funds and block them in long term projects. A thorough research is required in order to grow funds at the lowest cost possible. He is a very stable minded entrepreneur.

1. Which concept of management has been highlighted in the above case?
 2. Identify the reasons highlighted in the above case.
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5. Raghav is trying to co-ordinate the functioning of various departments like sales and production. He has been trying to do this with the help of a concept of financial management. He quite often calls people of both departments and tells them to work within means. He has even prescribed a budget for it. During the time, when he is doing a lot of analysis he connects the decision of present with the outcomes of future. This can especially be seen in two of the prominent decisions. One is the investment and the other is the financing decision- so the interlinking of these two decisions is assumed by him. When the year ends it is easy for him to take some strong decisions. This happens because he is able to evaluate the performance of various departments in terms of revenue generated and the expenses incurred. No business is risk proof. However, he knows that at least business shocks which a business can suffer can be minimised thus laying foundation for a better future. His involvement in the work is definitely appreciable.
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1. Which concept of financial management has been highlighted in the above case?
 2. Identify the types of this concept highlighted in the above case.
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6. 'Yiyo Ltd.' is a company manufacturing textiles. It has a share capital of Rs.60 lakhs. The earning per share in the previous year was Rs.0.50. For diversification, the company requires additional capital of Rs.40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned a profit of Rs.8 lakhs on capital employed. It paid tax @ 40%.
 - (a) State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly.
 - (b) Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.
 7. Krish limited is in the business of manufacturing and exporting carpets and other home décor products. It has a share capital of ₹ 70 lacs at the face value of ₹ 100 each. Company is considering a major expansion of its production facilities and wants to

raise ₹ 50 lacs. The finance manager of the company Mr. Prabhakar has recommended that the company can raise funds of the same amount by issuing 7% debentures. Given that earning per share of the company after expansion is ₹ 35 and tax rate is 30%, did Mr. Prabhakar give a justified recommendation? Show the working.

8. AB Limited has a share capital of ₹10,00,000 divided into shares of ₹100 each. For expansion purpose, the company requires additional funds of ₹ 5,00,000. The management is considering the following alternatives for raising funds: Alternative 1: Issue of 5000 Equity shares of ₹100 each Alternative 2: Issue of 10% Debentures of Rs. 5,00,000 The company's present Earnings Before Interest and Tax (EBIT) is ₹4,00,000 p.a. Assuming that the rate of Return of Investment remains the same after expansion, which alternative should be used by the company in order to maximise the returns to the equity shareholders. The Tax rate is 50%. Show the working