**FINANCIAL MANAGEMENT**

1. What are the major financial functions?

i. Investment Decision / Long term Asset Mix decision

ii. Financing Decision / Capital Mix decision

iii. Dividend Decision / Profit Allocation Decision

iv. Liquidity Decision / Short term Asset Mix Decision

2. What is the role of a financial manager?

i. Raising Funds

ii. Allocation of funds

iii. Profit Planning

iv. Understanding Capital Market

3. What are the Financial Goals?

i. Profit Maximisation

ii. Maximizing Earning Per Share

iii. Shareholders Wealth Maximisation

4. What is Profit maximization?

i. Maximising the rupee income of firm

ii. Resources are efficiently utilized

iii. Appropriate measure of firm performance

iv. Serves interest to the society

5. What is maximizing Earning per Share?

i. Ignores timing and risk of the expected benefit

ii. Market value is not a function of EPS. Hence maximizing EPS will not result in highest price for the company’s Share

iii. Maximizing EPS implies that the firm should make no dividend payment so long as funds can be invested at positive rate of return.

6.What is Share Holders Wealth Maximization?

i. maximizes the net present value of a course of action to share holders

ii. Accounts for the timing and risk of the expected benefits

iii. Benefits are measured in terms of cash flows

iv. Fundamental objective – maximize the market value of the firm’s shares.

7. What is risk return Trade off?

i. Risk and return are proportionate to each other. Greater the risk greater is the return.

8. What is the role of a controller and a treasurer?

i. Two officers may be appointed as treasurer and a controller by the CEO.

ii. The treasurer’s function is to raise and manage company funds while the controller oversees whether funds are correctly applied.

9. What is meant by Time Value Adjustment?

Two common methods of adjusting cash flows for the time value of money:

i. Compounding – The process of calculating future values of the cash flows

ii. Discounting – The process of calculating present values of the cash flows.

10. What is Annuity?

Annuity is a fixed payment (or receipt) each year for a specified number of years.

11. What is Net present Value?

Net Present Value of a financial Decision is the difference between the present value of cash inflows and the present value of cash outflows.

12. What are the different concepts of values?

ii. Book Value Replacement Value

iii. Liquidation Value

iv. Going Concern Value

v. Market Value

13.What are the Features of a Bond? Face ValueInterest Rates are Fixed or Floating

iii. It has Maturity

iv. It has Redemption Value

v. It has Market Value

14. Define Yield To Maturity.(YTM)

It is the measure of a bond’s rate of return that considers both the interest income and any capital gain or loss. YTM is the bond’s internal rate of return.

A perpetual bond’s YTM = Σ INTt + Bn

(I + Kd)t (1 + Kd)

15. What is current yield?

i. Current yield is the annual interest dividend by the bond’s current value

ii. Current yield does not account for the capital gain or loss

16. What are the features of an ordinary Share?

i. A company may issue two types of shares they are ordinary shares and the preference shares.

ii. Shares have claims, dividend, redemption and conversion

17. What is the value of a preference share?

The value of the preference share would be the sum of the present values of dividends and the redemption value.

18. What is the value of an ordinary / equity share?

The value of an ordinary / equity share includes

i. The rate of dividend on equity share also the payment of equity dividend

ii. The earnings and the dividend on equity shares are expected to grow , unlike the interest rate on bonds or dividends on preference shares.

19. What are the different kinds of investors taking risk into consideration?

i. Risk – Averse: Investor who choose among the investments with the equal rate of returns, the investment with the lowest standard deviation, the investor would prefer the one with the higher return.

ii. Risk – Neutral: Investor who would not consider the risk, and would always prefer the investments with higher returns.

iii. Risk – Seeking: Investor who likes investment with higher risk irrespective of the rate of return.

Mostly the investors are risk averse.

20. What is a portfolio?

A portfolio is a bundle or a combination of individual assets or securities.

The portfolio theory provides a normative approach to the investors to make decisions to invest their wealth in assets or securities under risk. It is based on the assumption that investors are risk averse, and the returns on the securities are normally distributed.

21. What are the types of risk?

i. Systematic Risk: It arises on the account of uncertainties and the tendency of individual securities to move together with the changes in the market. It is also called as market risk.

ii. Unsystematic Risk: It arises from the unique uncertainties of individual securities. It is also called as unique risk.

22. Define CML.

The Capital Market Line is the slope that describes the best price of a given level of risk in equilibrium.

23. What is CAPM?

The capital Asset pricing Model is that framework that provides the required rate of return on an asset and indicates the relationship between return and the risk of the asset.

1. What is capital Budgeting?

Capital Budgeting is the investment decision to be taken by the companies before investing.

2. What are the various financial Decision in a firm?

i. Investment Decision

ii. Financing Decision

iii. Dividend Decision

iv. Funds requirement Decision

3. What are the techniques of capital Budgeting?

i. Discounted Cash Flow Method:

a. Net Present Value

b. Internal Rate of Return

c. Profitability Index

ii. Non- Discounted Cash Flow Method:

a. Pay Back Period

b. Discounted Pay back Period

c. Accounting Rate of Return

4. What is the process of capital Budgeting?

i. Identification of potential investment opportunities

ii. Assembling of proposal opportunities

iii. Decision Making

iv. Preparation of capital budgets

v. Implementation

vi. Performance Review

5. What are the factors affecting capital investment decision?

i. The amount of investment

ii. Minimum rate of return

iii. Return expected from the investment

iv. Ranking the investment proposal

v. Risk & uncertainty

6. What are the types of investment decision?

i. Expansion of existing Business

ii. Expansion of new Business

iii. Replacement & Modernisation

7. What is cost of capital?

A project’s Cost of capital is the minimum required rate of return on funds committed to the project, which depends on the riskiness of its cash flow.

The firm’s Cost of capital will be the overall, or average, required rate of return on the aggregate of the investment projects.

8. What are the classifications of cost of capital?

i. Explicit Cost & Implicit Cost

ii. Future & Historical Cost

iii. Specific & Combined Cost

iv. Average Cost

v. Marginal Cost

9. Define Opportunity cost of capital.

The opportunity cost is the rate of return foregone on the next best alternative investment opportunity of the comparable risk.

Equity Share

Preference Share

Corporate Bonds

Government Bonds

Risk free security

1. Define Capital Structure.

It is used to represent the relationship between the equity and the debt part of the capital in a firm.

2. What is financial leverage?

The use of fixed charges sources of funds such as debt and preference capital along with the owners equity capital structure is described as financial leverage or gearing or trading on equity.

3. What are the measures of Financial leverage?

i. Debt ratio

ii. Debt-Equity ratio

iii. Interest Coverage

iv. The debt and the Debt equity can also be called as capital gearing ratio

v. Coverage ratio

4. What is degree of Operating leverage?

The degree of operating leverage is defined as the percentage change in the earnings before the interest and the taxes relative to a given percentage change in sales.

DOL = % Change in EBIT

% Change in Sales

5. What is Degree of financial leverage?

The degree of operating leverage is defined as the percentage change in the earnings before the interest and the taxes relative to a given percentage change in EPS

DFL = % Change in EBIT

% Change in EPS

6. What is Degree of Combined Leverage?

The degrees of operating and the financial leverage is combined to see the effect of total leverage on EPS with the given change in sales.

DCL = % Change in EBIT X % Change in EPS

% Change in Sales % Change in EBIT

= % Change in EPS

% Change in Sales

7. What is dividend?

The dividend is the part of profit made by the firm to be distributed among the shareholders

8. What is retained earnings?

The retained earnings in that part of the profit which the company retains with itself for future investment.

9. What are the three distinct forms of dividend stabilities?

i. Constant dividend per share / Dividend rate

ii. Constant payout

iii. Constant dividend per share plus extra dividend.

10. What are the issues of dividend Policy?

i. Earning to be distributed – High Vs Low payout

ii. Objective – Maximise Shareholders Return

iii. Effects – Taxes, Investment and financing Decision

11. What is the significance of stability of dividend?

i. Resolutions of investors’ uncertainty

ii. Investors’ desire for current income

iii. Institutional Investors’ requirement

iv. Raising additional Finances

12. What are the forms of dividend?

i. Bonus Shares

ii. Cash Dividend

iii. Property Dividend

iv. Bond Dividend

v. Stock Dividend

1. What are the concepts of working capital?

GWC: Gross working capital refers to the total investment in current assets

NWC: It is the difference between the current asset and the current liabilities

2. What are the determinants of working capital?

i. Nature of business

ii. Market and demand

iii. Technology and manufacturing policy

iv. Credit policy

v. Suppliers credit

vi. Operating efficiency

vii. Inflation

3. What is the nature of credit Policy?

i. Invesment in receivables

a. Volume of credit sales

b. Collection period

ii. Credit Policy

b. Credit Standards

2. Credit Terms

3. Collection efforts

4. What is the optimum credit policy?

i. Estimation of incremental profit

ii. Estimation of incremental investment in receivables

iii. Estimation of incremental rate of return

iv. Comparison of incremental rate of return with the required rate of return

v. Optimum credit policy = IRR = RRR

5. What are the collection policies and procedures?

i. Regularity of collection

ii. Clarity of collection procedures

iii. Responsibility for collection and follow-up

iv. Case by case approach

v. Cash discount for prompt payment

6. What is the need for inventories?

i. Transaction motives

ii. Precautionary motives

iii. Speculative motives

7. What are the four facets of cash management?

i. Cash planning

ii. Managing the cash flows

iii. Optimum cash level

iv. Investing surplus cash

8. What are the motives for holding cash?

i. Transaction Motive

ii. Precautionary Motive

iii. Speculative motive

9. What is meant by trade credit?

i. Customers get from suppliers goods during the normal course of business

ii. Trade credit can also take the form of bills receivables

iii. It refers to the conditions of due date and cash discount

10. What are the various bank finances for working capital?

i. Overdraft

ii. Cash credit

iii. Purchase or discounting of bills

iv. Letter of credit

11. What is receivables management?

The objective of receivables is to promote sales & profits until that point is reached on the investment in further funding of receivables is less than the cost of funds raised to finance that additional credit.

12. What are the factors affecting the size of receivables?

i. The levels of sales

ii. The credit policies

iii. The term of trade

iv. The credit period

are the factors affecting the size of receivables.

13. What are the uses of receivables?

i. Achieving growth in sales

ii. Increasing Profits

iii. Meeting Competition

14. What is leasing?

It is the contract between the lessor and the lessee for the assets for which the lessee pays the lease rentals for a certain agreed period called lease period.

15. What is break even lease rental?

It is that rent which the lessor makes neither the profit nor loss. It is usually negotiable. The lease rents are always higher than the break even lease rentals, for making profit.

1. Define capital market efficiency.

Capital market efficiency is defined as the ability of securities to reflect and incorporate all relevant information in their prices. Three forms of capital market efficiency may be distinguished:

i. Weak form of efficiency

ii. Semi strong form of efficiency

iii. Strong form of efficiency

2. What are the various long term sources of financing?

Various long term sources of finance are:

i. Ordinary Shares / Equity Shares

ii. Preference Shares

iii. Debentures

iv. Term Loans

3. What are the various asset based financing sources?

Asset based financing sources are:

1. Lease financing

2. Hire purchase

3. Project financing

4. Distinguish Between Lease financing and the Hire Purchase.

S.no

Lease

Hire Purchase

1

Lessee is not entitled to claim depreciation tax shield

Hirer is entitled to claim

depreciation tax shield

2

Lessee can charge the entire lease payment as expenses for tax computation

Hirer can charge only the

interest portion

3

Lessee does not become the owner of the asset. Therefore he has no claim over the asset salvage value

Once the hirer has paid all the instalments, he becomes the owner of the asset and can claim the salvage value.

5. What are the features of venture Capital?

 Equity participation

 Long term investment

 Participation in Management

 Venture Capitalist combines the qualities of a banker, stock market investors and the entrepreneur.

6. Define Disinvestment Mechanism

They are:

i. Buy backs

ii. Initial Public offering

iii. Secondary Stock Market

7. What are the various stages of venture Capital?

 Early Stage Financing

 Expansion Stage Financing

 Acquisition / Buyout Financing

8. What are the various ways of arranging Project Financing?

 Own Operate transfer Structure

 Own operate Structure

 Lease transfer Structure