**ADVANCED FINANCIAL MANAGEMENT**

**M.COM – II – SEMESTER**

**TWO MARK QUESTIONS WITH ANSWERS**

**UNIT –I**

**1.Define the term financial management.**

 **“**Financial management is the application of the planning and control function to the finance function” – Archer and Ambrosio.

 “It is concerned with the efficient use of an important economic resource, namely capital funds” –Solomon.

**2.What are the two functions of financial management?**

To estimation of capital requirements, i.e., a finance manage has to make estimation with regards to capital requirements of the company.

 To determination of capital composition ,i.e., once the estimation have been made, the capital structure have to be decided. This involves short-term and long-term debt equity analysis**.**

**3.What is financial planning?**

Financial planning is the process of estimating the capital required and determining it’s competition.

 It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

**4.What do you mean by investment decision?**

 It relates to the decision made by the investors or the top level management with respect to the amount of funds to be deployed in the investment opportunities.

 The decision of investing funds in the long-term assets is known as capital budgeting. The investment made in the short term assets is termed as working capital management.

**5.What is dividend decision?**

The dividend decision is one of the crucial decisions made by the finance manager relating to the payout to the shareholders.

 The payout is the proportion of earning per share given to the shareholders in the form of dividends.

**UNIT- II**

**1.What do you understand by time value of money?**

The time value money(TVM) is the concept that money now is worth more than the identical sum in the future due to its potential earning capacity.

 This core principle of finance holds that provided money can earn interest, any amount of money is worth more the sooner it is received. It is also sometimes referred to as present discounted value.

**2.What is risk?**

Risk is defined in financial returns as the chance that an outcome or investment’s actual gains will differ from an expected outcome or return.

 It includes the possibility of losing some or all of an original investment.

**3.Give short note on ‘Return’?**

 A return also known as a financial return in its simplest terms, is the money made or lost on an investment over some period of time.

 It can also be expressed as a percentage derived from the ratio of profit to investment.

**4.What is the three steps of bond valuation?**

Step-i- Estimate the expected cash flows.

 Step-ii-Determine the appropriate interest rate that should be used to discount the cash flows.

 Step-iii-Calculate the present value of the step i using step ii, i.e., discounting the expected cash flows.

**5.Wrire short note on sinking fund?**

A sinking fund is a fund containing money set aside or saved to pay off a debt or bond.

 A company that issues debt will need to pay that debt off in the future, and the sinking fund helps to soften the hardship of a large outlay of revenue.

**UNIT – III**

**1.What is cost of capital?**

Cost of capital refers to the opportunity cost of making a specific investment.

 It is the rate of return that could have been earned by putting the same money into a different investment with equal risk.

**2.What do you mean by cost of debt?**

 Cost of debt is the returns expected by the potential investors of debt securities of a firm.

 It measures the current cost to the firm of borrowing funds to finance the projects.

**3.What is combined leverage? How is it calculated?**

 It is a leverage which refers to high profits due to fixed costs. It includes fixed operating expenses with fixed financial expenses. It indicates leverage benefits and risks which are in fixed quantity.

 Combined leverage =Operating leverage x Financial leverage

**4.Write short note on ‘Ploughing back of profits’?**

 The portion of the profits which is not distributed among the shareholders but is retained and is used in business is called ploughing back of profits.

 The amount kept in reserve may be used to meet long term financial requirements of the firm.

**5.What is weighted average cost of capital?**

 The cost of each component of the capital is weighted by the relative proportion of that type of funds in the capital structure is called weighted average cost of capital.

 The weight of each component may be determined based on either book value or market value of capital.

**UNIT – IV**

**1.Define capital structure.**

"Capital structure is the combination of debt and equity securities that comprise a firm's financing of its assets" - John J. Hampton.

 "Capital structure refers to the kind of securities that make up the capitalization" - W.Gerstenberg.

**2.Give short notes on cash flow analysis?**

 An examination of a company’s cash inflows and outflows during a specific period.

 The analysis begins with s starting balance and generates an ending balance after accounting for all cash receipts and paid expenses during the period.

**3.Define dividend policy.**

 “Dividend policy determines the division of earnings between payments to shareholders and retained earnings” – Weston and Brigham.

 “The firm’s dividend policy represents a plan of action to be followed whenever the dividend decision must be made” –Gitman.

**4.What is ‘Stable dividend’?**

 Firms which adopt this dividend policy pay a fixed amount of dividends regularly irrespective of fluctuations in earnings year after year.

 This policy attaches equal importance to the financial requirements of the firm and interest of the shareholders.

**5.Write short note on “Dividend payout ratio”?**

 The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company.

 It is the percentage of earnings paid to shareholders in dividends.

**UNIT –V**

**1..What is working capital? How will you compute it?**

Working capital is the amount of funds required for meeting day- to-day expenses of the business. It is the difference between a business’s current assets and current liabilities.

 Working capital =Current assets – Current liabilities.

**2.Explain the ‘Operating cycle’?**

 An operating cycle is the period of time from the moment raw materials are purchased on when cash is received from customers.

 This financial ratio measures the performance of working capital management. An increase in the duration of the operating cycle results in more working capital needed.

**3.Write short note on ‘Cash management’?**

Cash management is a broad term that refers to the collection, concentration and disbursement of cash.

 It encompasses a firm's level of liquidity, its management of cash balance and its short-term investment strategies.

**4.Give the two objectives of inventory management?**

 To ensure an adequate supply of materials, stores, spares, finished stock, so that the production may not be held up for want of materials.

 To avoid over stocking and under stocking of inventory.

**5.What is collection policy?**

 Collection policy refers to the procedure followed to collect accounts receivable, when, after the expiry of the credit period, they become due. This policy covers two aspects as:

1. Degree of effort to collect the over dues.
2. Type of collection efforts.

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