**FINANCIAL MANAGEMENT**

**B.COM- VI -SEMESTER**

**TWO MARK QUESTIONS WITH ANSWERS**

**UNIT - I**

**1.Define financial management.**

"Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business" -Guthman and Dougal.

 "Financial management deals with procurement of funds and their effective utilization in the business " - S.C.Kuchhal**.**

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

(i) To ensure regular and adequate supply of funds to the concern.

 (ii)To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share and expectations of the shareholders**.**

**3.Define cost of capital.**

"Cost of capital is the minimum rate of return which a firm requires as a condition for undertaking an investment" - Milton H.Spencer.

 "The cost of capital is the minimum rate of return or cut-off rate for capital expenditures" -Solomon Ezra.

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

Time value of money means that "worth of a rupee received today is different from the worth of rupee to be received in future". That is, the value derived from the use of money overtime as a result of investment and re-investment.

**5.How will you compute cost of retained earnings?**

 Retained earnings are the accumulated amount of undistributed profits belonging to the equity shareholders. If calculate as,

 Kr =Ke (1 -t) (1-b)

 Kr =Cost of retained earnings

 Ke = Cost of equity capital.

 t =Tax rate

 b=brokerage.

**UNIT - II**

**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.What do you understand by trading on equity?**

Trading on equity is based on the concept of taking advantage of equity i.e.,owner funds to earn additional profits.

 It is an arrangement ,the finance manager raises funds by issuing securities which carry fixed rate of interest or dividend which is less than average earnings of the firm to increase the return on equity shares.

**3.Explain the NI approach to capital structure?**

Net Income approach was presented by Durand. The theory suggests, a firm can increase its value or lower the overall cost of capital by increasing the proportion of debt in the capital structure.

**4.What do you mean by optimum capital structure?**

 The capital structure is said to be optimum capital structure when the firm has selected such a combination of equity and debt ,So that the wealth of firm is maximum.

 At this capital structure, the cost of capital is minimum and market price per share is maximum.

**5.Write short note on 'Indifference point'?**

Indifference point refers to the EBIT(Earning Before Interest and Taxes)level at which EPS(Earning per share)remains unchanged irrespective of debt-equity mix.

 Given the total amount of capitalization and the interest rate on bonds, a firm reaches indifference point when it earns exactly the same amount of income what it has promised to pay on debt.

**UNIT - III**

**1.What do you mean by operating leverage?**

Operating leverage is the ratio of fixed costs to variable costs incurred by s company in a specific period.

 If the fixed costs exceed the amount of variable costs, a company is considered to have high operating leverage.

 Such a firm is sensitive to changes in sales volume and the volatility may affect the firm's EBIT and returns on invested capital.

**2.What is financial leverage?**

Financial leverage occurs when a firm uses fixed interest or dividend bearing securities i.e., Debentures and preference share capital along with owner's equity to improve the return on an equity investment.

**3.What do you mean by dividend?**

The term dividend refers to that part of the profit (after tax) which is distributed among the owners or shareholders of the firm.

 In other words, it is a taxable payment declared by a firm's board of directors and given to its shareholders out of the firm's current or retained earnings usually quarterly.

**4.What is meant by dividend policy?**

 Dividend policy refers to the policy chalked out by firms regarding the amount they would pay to their shareholders as dividend.

 Once firms make profits, they have to decide on what to do with these profits.

**5.What do you understand by stock dividend?**

 **A** stock dividend is a distribution of corporate shares to shareholders based on their ownership percentage in lieu of cash payments.

 In other words, it is a payment of addition shares, instead of cash , to shareholders as a form of return on their investment in the company.

**UNIT - IV**

**1.Define the term working capital.**

"Working capital is a part of capital which is required for purchase of raw materials and for meeting day-to-day expenditure on salaries, wages, rent and advertising etc;" -Shubin

 "Working capital is the excess of current assets over current liabilities" -C.W.Gerstenberg.

**2.What do you understand by 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.

**3.What is meant by cash budget?**

A cash budget shows the cash inflows and outflows expected in a budget period and net effect of these flows on cash balances.

 It enables management to obtain a preview of the cash position of the firm.

**4.What do you mean by lock-box system?**

Under this system, customers are advised to mail their payments to special post office boxes called lock boxes, which are attended to by local collection banks, instead of sending them to corporate headquarters.

**5.What is 'cash turnover'?**

Cash turnover refers to the number of times each year the firm's cash is actually turned over.

 It indicates the effectiveness with which cash and bank balances have been utilized by the firm.

**UNIT - V**

**1.What are the two objectives of receivable management?**

It analyze the role of cash discounts in determining the sales average collection period and debt expenses and profits.

 It discuss credit analysis and collection of policies.

**2.Write short note on credit policy?**

Credit policy is an important part of the overall strategy of a firm to market its products.

 It refers to those decision variables that influence the amount of trade credit i.e., investment in receivables. I t can be lenient or stringent.

**3.Write short note on EOQ?**

 The Economic Order Quantity(EOQ) is the number of units that a company should add to inventory with each order to minimize the total costs of inventory such as holding cash, order costs and shortage costs.

**4.What do you mean by inventory management?**

Inventory management refers to the process of managing the stocks of finished products, semi-finished products and raw materials by a firm.

 Inventory management , if done properly, can bring down cost and increase the revenue of a firm.

**5.Write short note on ABC analysis?**

ABC analysis is an inventory categorization techniques. It divides an inventory into three categories:

 "A items" with very tight control and accurate records.

 "B items" with less tightly controlled and good records.

 "C items" with the simplest controls possible and minimal records.

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