

1. MM Theory in perfect market suggests that dividend payment

Option B: Has no impact on the value of a firm

2. A low risk-taking individual will most probably invest in which of these instruments:

Option C: Fixed Deposits

3. Purchasing equipment plus investing in modern technology indicates:

Option B: Growth & Diversification

4. Mukesh has two options to choose:

1. investment which would give him a returns of 15% with 15% standard deviation.

2. investment which would give him a returns of 13% with 25% standard deviation.

He has chosen the second option. What type of risk profile does he represent?

Option D: Risk - Seeking

5. The amount spent for capital expenditures will be reported in which section of the statement of cash flows?

Option B: Cash Provided/used In Investing Activities

6. Project finance is

Option C: Off-Balance Sheet financing

7. To estimate the optimal level of current assets comprises a tradeoff w.r.t costs that that fall with current assets and costs that rise with current assets. The former are referred to as _____ and the latter as _____ respectively. Justify

Option D: Shortage Costs and Carrying Costs

8. Which of these is an example of internal source of finance:

Option A: Sale of surplus assets

9. Axis Bank, PNB, SBI, ICICI are:

Option C: Commercial Banks

10. The preparation of pricing, budgeting, goal setting, distribution channel and other objectives can be worked upon majorly with the help of:

Option A: Sales and Promotion

11. Which of the following are NOT functions of a financial system?

Option C: Helping to reduce unemployment.

12. Financial intermediation is the process that the financial intermediaries connect _____ and _____ by transferring funds from one side to another.

Option B: Borrowers and lenders

13. _____ is the chance that governing bodies will make unfavorable changes in tax laws, driving down the after-tax returns and market values of certain investments.

Option A: Tax Risk

14. The current value of future cash flows discounted at the appropriate discount rate over some length of time period is called _____

Option B: present value

15. Corporate finance is the division of _____ that deals with financing, capital structuring, and investment decisions.

Option A: a) finance

16. _____ is the ratio between Quick Current Assets and Current Liabilities. They should be at least equal to 1

Option C: quick ratio

17. Three Major Decisions in Corporate Finance does not include following,

Option C: Strategy Decision

18. The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have

Option B: b) IRR greater than the cost of capital

19. . _____ of a company refers to the composition or make-up of its capitalisation and it includes all long-term capital resources viz : loans, reserves, shares and books

Option A: Capital structure

20. Modigliani and Miller argue that the dividend decision _____.

Option A: is irrelevant as the value of the firm is based on the earning power of its assets

Equity Instruments:

1. Equity instruments (stock or share) allows the investor to buy an ownership stake in the company.
2. Equity refers to the Net Worth of the company and it is the source of permanent capital.
3. Equity investments offer an ownership position in the company.
4. Owning a stock makes the investor an owner of the organization.
5. The percentage of ownership depends on the number of shares owned as compared with the total number of shares issued by the corporation. Also, the number of fund shares is its own funds.
6. Unlike debt instruments, equity instruments cede ownership, and some control, of a business to investors who provide private capital to a business. Stocks are equity instruments.
7. Equity holders incur greater risk than debt holders because equity holders do not enjoy priority in a bankruptcy proceeding.
8. However, equity holders earn greater returns if the business succeeds.
9. Equity instruments are the types of investment in Shares and Stocks.
10. Equity instruments are the types of investment in the long term, so high risk.

Debt Instruments:

1. Money raised by the company in the form of borrowed capital is known as Debt.
2. A debt instrument is an electronic obligation or any paper that permits an issuing party to raise funds by assuring it to pay back a lender by the terms and conditions of a contract.
3. Debt instruments, whatever they may call, are corporate borrowing.
4. Instead of procuring a straight commercial bank loan, the organization "borrows" from a variety of investors.
5. This is why debt instruments, such as bonds, come with a stated interest rate, as a loan would.
6. It represents that the company owes money to another person or entity.
7. They are less volatile than common stocks, with fewer highs and lows than the stock market.
8. Debt investments tend to be less risky than equity investments but usually offer a lower but more consistent return.
9. Anything that obliges a borrower to make payments based on a contractual arrangement is a debt instrument.
10. Debt instruments can be secured or unsecured.
11. Debt instruments are the types of investment in Term loans, Debentures, Bonds, etc.
12. Debt instruments are the types of investment in the comparatively short term, so that low and less risk.

1. A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.
2. A leverage ratio is any kind of financial ratio that indicates the level of debt incurred by a business entity against several other accounts in its balance sheet, income statement, or cash flow statement.
3. These ratios provide an indication of how the company's assets and business operations are financed (using debt or equity).
4. Below is an illustration of two common leverage ratios: debt/equity and debt/capital.
5. The leverage ratio category is important because companies rely on a mixture of equity and debt to finance their operations, and knowing the amount of debt held by a company is useful in evaluating whether it can pay off its debts as they come due.
6. Too much debt can be dangerous for a company and its investors.
7. However, if a company's operations can generate a higher rate of return than the interest rate on its loans, then the debt may help to fuel growth.
8. Uncontrolled debt levels can lead to credit downgrades or worse.
9. On the other hand, too few debts can also raise questions.
10. A reluctance or inability to borrow may be a sign that operating margins are tight.

I) Debt-to-Equity Ratio:

1. The debt-to-equity (D/E) ratio compares a company's total liabilities to its shareholder equity and can be used to evaluate how much leverage a company is using.
2. Higher-leverage ratios tend to indicate a company or stock with higher risk to shareholders.
3. However, the D/E ratio is difficult to compare across industry groups where ideal amounts of debt will vary.

II) Asset-to-Equity Ratio:

1. The assets-to-equity ratio measures a firm's total assets in relation to the total stockholder equity.
2. Because assets are equal to liabilities and stockholders equity, the assets-to-equity ratio is an indirect measure of a firm's liabilities.
3. By analyzing this ratio, you can tell to what extent a business is financed by equity or debt.

Risk:

1. Risk is the potential of loss resulting from a given action, activity and/or inaction.
2. Risk means uncertainty about future loss or, in other words, the inability to predict the occurrence or size of a loss.
3. Risk refers to chance of loss, or uncertainty of occurrence of returns.
4. Risk is a possibility of an adverse deviation of expected income or output.
5. Risk is always uncertain, if it is certain then it can be treated as expense against revenue.
6. Risk is measured with the help of a statistical technique of probability.
7. Risk creates both problems and opportunities for business.

Return:

1. 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.
2. A return can be expressed nominally as the change in dollar value of an investment over time.
3. A return can also be expressed as a percentage derived from the ratio of profit to investment.
4. Returns can also be presented as net results or gross returns that do not account for anything but the price change.
5. Return is the motivating force and the principal reward in the investment.

Importance:

1. Investors use the risk-return tradeoff as one of the essential components of each investment decision, as well as to assess their portfolios as a whole.
2. At the portfolio level, the risk-return tradeoff can include assessments of the concentration or the diversity of holdings and whether the mix presents too much risk or a lower-than-desired potential for returns.

1. Mezzanine financing is a hybrid of debt and equity financing that gives the lender the right to convert the debt to an equity interest in the company in case of default, generally, after venture capital companies and other senior lenders are paid.
2. In terms of risk, it exists between senior debt and equity.
3. Mezzanine financing is frequently associated with acquisitions and buyouts, for which it may be used to prioritize new owners ahead of existing owners in case of bankruptcy.
4. Mezzanine financing bridges the gap between debt and equity financing and is one of the highest-risk forms of debt.
5. It is senior to pure equity but subordinate to pure debt.
6. Mezzanine financing can be considered as very expensive debt or cheaper equity, because mezzanine financing carries a higher interest rate than the senior debt that companies would otherwise obtain through their banks but is substantially less expensive than equity in terms of the overall cost of capital.
7. It is also less diluting of the company's share value.
8. In the end, mezzanine financing permits a business to move more capital and increase its returns on equity.

Example:

1. In a mezzanine financing example, Bank XYZ provides Company ABC, a maker of surgical devices, with \$15 million in mezzanine loan financing.
2. The funding replaced a higher interest \$10 million credit line with more favorable terms.
3. Company ABC gained more working capital to help bring additional products to the market and paid off a higher interest debt.
4. Bank XYZ will collect 10% a year in interest payments and will be able to convert the debt to an equity stake if the company defaults.
5. Bank XYZ was also able to prohibit Company ABC's borrowing of additional funds and to impose certain financial ratio standards upon it.

Describe in brief the Net income Approach as a Capital Structure theory

1. The Net Income Approach suggests that the value of the firm can be increased by decreasing the overall cost of capital (WACC) through a higher debt proportion.
2. There are various theories that propagate the 'ideal' capital mix/capital structure for a firm.
3. Capital structure is the proportion of debt and equity in which a corporation finances its business.
4. The capital structure of a company/firm plays a very important role in determining the value of a firm.
5. A corporation can finance its business mainly by 2 means, i.e., debts and equity.
6. However, the proportion of each of these could vary from business to business.
7. A company can choose to have a structure with 50% each of debt and equity or more of one and less of another.
8. Capital structure is also referred to as financial leverage, which strictly means the proportion of debt or borrowed funds in the financing mix of a company.
9. Durand presented the Net Income Approach. The theory suggests increasing the firm's value by decreasing the overall cost of capital which is measured in terms of the Weighted Average Cost of Capital.
10. This can be done by having a higher proportion of debt, which is a cheaper finance source than equity finance.
11. Weighted Average Cost of Capital (WACC) is the weighted average costs of equity and debts, where the weights are the amount of capital raised from each source.
12. According to Net Income Approach, a change in the financial leverage of a firm will lead to a corresponding change in the Weighted Average Cost of Capital (WACC) and the company's value.
13. The Net Income Approach suggests that with the increase in leverage (proportion of debt), the WACC decreases, and the firm's value increases.
14. On the other hand, if there is a decrease in the leverage, the WACC increases, thereby decreasing the firm's value.

Explain various Financial Instruments in detail

1. Financial instruments are contracts for monetary assets that can be purchased, traded, created, modified, or settled for.
2. In terms of contracts, there is a contractual obligation between involved parties during a financial instrument transaction.
3. Basic examples of financial instruments are cheques, bonds, securities.
4. There are typically three types of financial instruments: cash instruments, derivative instruments, and foreign exchange instruments.

1) Cash Instruments

1. Cash instruments are financial instruments with values directly influenced by the condition of the markets.
2. Within cash instruments, there are two types; securities and deposits, and loans.
3. Securities: A security is a financial instrument that has monetary value and is traded on the stock market.
4. When purchased or traded, a security represents ownership of a part of a publicly-traded company on the stock exchange.
5. Deposits and Loans: Both deposits and loans are considered cash instruments because they represent monetary assets that have some sort of contractual agreement between parties.

2. Derivative Instruments

1. Derivative instruments are financial instruments that have values determined from underlying assets, such as resources, currency, bonds, stocks, and stock indexes.
2. The five most common examples of derivatives instruments are synthetic agreements, forwards, futures, options, and swaps.
3. Synthetic Agreement for Foreign Exchange (SAFE): A SAFE occurs in the over-the-counter (OTC) market and is an agreement that guarantees a specified exchange rate during an agreed period of time.
4. Forward: A forward is a contract between two parties that involves customizable derivatives in which the exchange occurs at the end of the contract at a specific price.
5. Future: A future is a derivative transaction that provides the exchange of derivatives on a determined future date at a predetermined exchange rate.
6. Options: An option is an agreement between two parties in which the seller grants the buyer the right to purchase or sell a certain number of derivatives at a predetermined price for a specific period of time.
7. Interest Rate Swap: An interest rate swap is a derivative agreement between two parties that involves the swapping of

interest rates where each party agrees to pay other interest rates on their loans in different currencies.

3. Foreign Exchange Instruments

1. Foreign exchange instruments are financial instruments that are represented on the foreign market and primarily consist of currency agreements and derivatives.
2. In terms of currency agreements, they can be broken into three categories.
3. Spot: A currency agreement in which the actual exchange of currency is no later than the second working day after the original date of the agreement. It is termed "spot" because the currency exchange is done "on the spot" (limited timeframe).
4. Outright Forwards: A currency agreement in which the actual exchange of currency is done "forwardly" and before the actual date of the agreed requirement. It is beneficial in cases of fluctuating exchange rates that change often.
5. Currency Swap: A currency swap refers to the act of simultaneously buying and selling currencies with different specified value dates.

Financial instruments can also be categorized into two asset classes.

I) Debt-Based Financial Instruments:

1. They are categorized as mechanisms that an entity can use to increase the amount of capital in a business.
2. Examples include bonds, debentures, mortgages, U.S. treasuries, credit cards, and line of credits (LOC).

II) Equity-Based Financial Instruments:

1. Equity-based financial instruments are categorized as mechanisms that serve as legal ownership of an entity.
2. They help businesses grow capital over a longer period of time compared to debt-based but benefit in the fact that the owner is not responsible for paying back any sort of debt.
3. Examples include common stock, convertible debentures, preferred stock, and transferable subscription rights.

1. Financial statements are written records that convey the business activities and the financial performance of a company.
2. Investors and financial analysts rely on financial data to analyze the performance of a company and make predictions about the future direction of the company's stock price.
3. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes.
4. The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential.
5. The three major Financial statements reports include:
 - a. Balance sheet
 - b. Income statement
 - c. Cash flow statement

I) Balance Sheet:

- The balance sheet provides an overview of a company's assets, liabilities, and stockholders' equity as a snapshot in time.
- The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the reporting period. Below is a breakdown of the items in a balance sheet.

Assets:

- Cash and cash equivalents are liquid assets, which may include Treasury bills and certificates of deposit.
- Accounts receivables are the amount of money owed to the company by its customers for the sale of its product and service.
- Inventory

Liabilities:

- Debt including long-term debt
- Wages payable
- Dividends payable

Shareholders' Equity

- Shareholders' equity is a company's total assets minus its total liabilities. Shareholders' equity represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.

- Retained earnings are part of shareholders' equity and are the amount of net earnings that were not paid to shareholders as dividends.

II) Income Statement

- Unlike the balance sheet, the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements.
- The main purpose of the income statement is to convey details of profitability and the financial results of business activities; however, it can be very effective in showing whether sales or revenue is increasing when compared over multiple periods.

Revenue:

- Operating revenue is the revenue earned by selling a company's products or services.
- The operating revenue for an auto manufacturer would be realized through the production and sale of autos.
- Operating revenue is generated from the core business activities of a company.
- Non-operating revenue is the income earned from non-core business activities.
- These revenues fall outside the primary function of the business.

Expenses

- Primary expenses are incurred during the process of earning revenue from the primary activity of the business.
- Typical expenses include employee wages, sales commissions, and utilities such as electricity and transportation.
- Expenses that are linked to secondary activities include interest paid on loans or debt.
- Losses from the sale of an asset are also recorded as expenses.
- Investors can also see how well a company's management is controlling expenses to determine whether a company's efforts in reducing the cost of sales might boost profits over time.

III) Cash Flow Statement:

- The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments.
- The cash flow statement complements the balance sheet and income statement.
- The CFS allows investors to understand how a company's operations are running, where its money is coming from, and how money is being spent.
- The CFS also provides insight as to whether a company is on a solid financial footing.
- Those three components of the CFS are listed below:

Operating Activities

- The operating activities on the CFS include any sources and uses of cash from running the business and selling its products or services.
- Cash from operations includes any changes made in cash, accounts receivable, depreciation, inventory, and accounts payable.
- These transactions also include wages, income tax payments, interest payments, rent, and cash receipts from the sale of a product or service.

Investing Activities

- Investing activities include any sources and uses of cash from a company's investments into the long-term future of the company.
- A purchase or sale of an asset, loans made to vendors or received from customers, or any payments related to a merger or acquisition is included in this category.

Financing Activities

- Cash from financing activities includes the sources of cash from investors or banks, as well as the uses of cash paid to shareholders.
- Financing activities include debt issuance, equity issuance, stock repurchases, loans, dividends paid, and repayments of debt. The cash flow statement reconciles the income statement with the balance sheet in three major business activities.

1. Corporate finance is the subfield of finance that deals with how corporations address funding sources, capital structuring, accounting, and investment decisions.
2. Corporate finance is often concerned with maximizing shareholder value through long- and short-term financial planning and the implementation of various strategies.
3. Corporate finance activities range from capital investment to tax considerations.
4. Corporate finance departments are charged with governing and overseeing their firms' financial activities and capital investment decisions.
5. Such decisions include whether to pursue a proposed investment and whether to pay for the investment with equity, debt, or both.
6. Types of corporate decisions:
 - I) Investment Decision
 - II) Financing Decision
 - III) Dividend Decision

Investment Decision:

- A financial decision which is concerned with how the firm's funds are invested in different assets is known as an investment decision.
- Investment decisions can be long-term or short-term.
- A long term investment decision is called capital budgeting decisions which involve huge amounts of long term investments and are irreversible except at a huge cost.
- Short-term investment decisions are called working capital decisions, which affect day to day working of a business.

Financing Decision:

- A financial decision which is concerned with the amount of finance to be raised from various long term sources of funds like, equity shares, preference shares, debentures, bank loans etc. Is called a financing decision.
- In other words, it is a decision on the 'capital structure of the company.
- Capital Structure Owner's Fund + Borrowed Fund

Dividend Decision:

- A financial decision which is concerned with deciding how much of the profit earned by the company should be distributed among shareholders (dividend) and how much should be retained for the future contingencies (retained earnings) is called dividend decision.
- Dividend refers to that part of the profit which is distributed to shareholders.
- The decision regarding dividend should be taken keeping in view the overall objective of maximizing shareholder's wealth.

1. A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.
2. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.
3. Financial institutions can vary by size, scope, and geography.
4. Financial institutions serve most people in some way, as financial operations are a critical part of any economy, with individuals and companies relying on financial institutions for transactions and investing.

Commercial Banks

- A commercial bank is a type of financial institution that accepts deposits, offers checking account services, makes business, personal, and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses.
- A commercial bank is where most people do their banking, as opposed to an investment bank.
- Banks and similar business entities, such as thrifts or credit unions, offer the most commonly recognized and frequently used financial services: checking and savings accounts, home mortgages, and other types of loans for retail and commercial customers.
- Banks also act as payment agents via credit cards, wire transfers, and currency exchange.

Investment Banks

- Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs).
- They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings.

Insurance Companies

- Among the most familiar non-bank financial institutions are insurance companies.
- Providing insurance, whether for individuals or corporations, is one of the oldest financial services.
- Protection of assets and protection against financial risk, secured through insurance products, is an essential service that facilitates individual and corporate investments that fuel economic growth.

Brokerage Firms

- Investment companies and brokerages, such as mutual fund and exchange-traded fund (ETF) provider Fidelity Investments, specialize in providing investment services that include wealth management and financial advisory services.
- They also provide access to investment products that may range from stocks and bonds all the way to lesser-known alternative investments, such as hedge funds and private equity investments.

	Ordinary Annuity	Annuity Due
Definitions	Ordinary annuity is the payment or receipt that occurs at the end of each period.	Annuity due is the payment or receipt that occurs at the beginning of each period.
Cash flows Start	At the end of each period.	At the beginning of each period.
Indicator	End of the year, after one year, one year from now, from next year etc.	Beginning of the year , now immediately, start of the year etc.
Period	One period is less than annuity due.	One extra period is more than ordinary annuity.
Interest Factor	One interest factor is less than annuity due.	One interest's factor is more than ordinary annuity.
Total Value	Total value of money is less than that of the annuity due.	Total value of money is more than that of ordinary annuity.

1. The money market involves the purchase and sale of large volumes of very short-term debt products, such as overnight reserves or commercial paper.
2. An individual may invest in the money market by purchasing a money market mutual fund, buying a Treasury bill, or opening a money market account at a bank.
3. Money market investments are characterized by safety and liquidity, with money market fund shares targeted at \$1.
4. The money market refers to the market for highly liquid, very safe, short-term debt securities.
5. Because of these attributes, they are often seen as cash equivalents that can be interchangeable for money at short notice.

Types of Money Market Instruments:

Treasury Bills (T-Bills)

- Issued by the Central Government, Treasury Bills are known to be one of the safest money market instruments available.
- However, treasury bills carry zero risk. I.e. are zero risk instruments, therefore, the returns one gets on them are not attractive.
- Treasury bills come with different maturity periods like 3-month, 6-month and 1 year and are circulated by primary and secondary markets.
- Treasury bills are issued by the Central government at a lesser price than their face value.
- Currently, there are 3 types of treasury bills issued by the Government of India via auctions, which are 91-day, 182-day and 364-day treasury bills.

Certificate of Deposits (CDs)

- A Certificate of Deposit or CD, functions as a deposit receipt for money which is deposited with a financial organization or bank.
- However, a Certificate of Deposit is different from a Fixed Deposit Receipt in two aspects.
- The first aspect of difference is that a CD is only issued for a larger sum of money.
- Secondly, a Certificate of Deposit is freely negotiable.

- Certificate of Deposits are also relatively liquid, which is an added advantage, especially for issuing banks.
- However, banks issue Certificates of Deposits for durations ranging from 3 months, 6 months and 12 months.
- They can be issued to individuals (except minors), trusts, companies, corporations, associations, funds, non-resident Indians, etc.

Commercial Papers (CPs)

- Commercial Papers can be compared to an unsecured short-term promissory note which is issued by highly rated companies with the purpose of raising capital to meet requirements directly from the market.
- CPs usually feature a fixed maturity period which can range anywhere from 1 day up to 270 days.
- Commercial papers are actively traded in the secondary market.

Repurchase Agreements (Repo)

- Repurchase Agreements, also known as Reverse Repo or simply as Repo, loans of a short duration which are agreed upon by buyers and sellers for the purpose of selling and repurchasing.
- These transactions can only be carried out between RBI approved parties Repo/Reverse Repo transactions can be done only between the parties approved by RBI.
- Transactions are only permitted between securities approved by the RBI like treasury bills, central or state government securities, corporate bonds and PSU bonds.

Banker's Acceptance (BA)

- Banker's Acceptance or BA is basically a document promising future payment which is guaranteed by a commercial bank.
- Similar to a treasury bill, Banker's Acceptance is often used in money market funds and specifies the details of the repayment like the amount to be repaid, date of repayment and the details of the individual to which the repayment is due.
- Banker's Acceptance features maturity periods ranging between 30 days up to 180 days.

Main factors affecting the working capital are as follows:

(1) Nature of Business:

1. The requirement of working capital depends on the nature of business.
2. The nature of business is usually of two types:
3. Manufacturing Business and Trading Business.
4. In the case of manufacturing business it takes a lot of time to convert raw material into finished goods.
5. Therefore, capital remains invested for a long time in raw material, semi-finished goods and the stocking of the finished goods.

(2) Scale of Operations:

1. There is a direct link between the working capital and the scale of operations.
2. In other words, more working capital is required in case of big organizations while less working capital is needed in case of small organizations.

(3) Business Cycle:

1. The need for the working capital is affected by various stages of the business cycle.
2. During the boom period, the demand of a product increases and sales also increase.
3. Therefore, more working capital is needed and in such a situation less working capital is required.

(4) Seasonal Factors:

1. Some goods are demanded throughout the year while others have seasonal demand.
2. Goods which have uniform demand the whole year their production and sale are continuous.
3. Consequently, such enterprises need little working capital.
4. On the other hand, some goods have seasonal demand but the same are produced almost the whole year so that their supply is available readily when demanded.
5. Such enterprises have to maintain large stocks of raw material and finished products and so they need a large amount of working capital for this purpose. Woolen mills are a good example of it.

(5) Production Cycle:

1. Production cycle means the time involved in converting raw material into finished product.
2. The longer this period, the more will be the time for which the capital remains blocked in raw material and semi-manufactured products.
3. Thus, more working capital will be needed. On the contrary, where period of the production cycle is little, less working capital will be needed.

(6) Credit Allowed:

1. Those enterprises which sell goods on a cash payment basis need little working capital but those who provide credit facilities to the customers need more working capital.

(7) Credit Availed:

1. If raw material and other inputs are easily available on credit, less working capital is needed.
2. On the contrary, if these things are not available on credit then to make cash payments quickly large amount of working capital will be needed.

(8) Operating Efficiency:

1. Operating efficiency means efficiently completing the various business operations.
2. Operating efficiency of every organization happens to be different.
3. A company which has a better operating efficiency has to invest less in stock and the debtors.
4. Therefore, it requires less working capital, while the case is different in respect of companies with less operating efficiency.

(9) Availability of Raw Material:

1. Availability of raw material also influences the amount of working capital.
2. If the enterprise makes use of such raw material which is available easily throughout the year, then less working capital will be required, because there will be no need to stock it in large quantities.

3. On the contrary, if the enterprise makes use of such raw material which is available only in some particular months of the year whereas for continuous production it is needed all the year round, then large quantities of it will be stocked.
4. Under the circumstances, more working capital will be required.

(10) Growth Prospects:

1. Growth means the development of the scale of business operations (production, sales, etc.).
2. The organizations which have sufficient possibilities of growth require more working capital, while the case is different in respect of companies with less growth prospects.

(11) Level of Competition:

1. High level of competition increases the need for more working capital.
2. In order to face competition, more stock is required for quick delivery and credit facility for a long period has to be made available.

(12) Inflation:

1. Inflation means rise in prices.
2. In such a situation more capital is required than before in order to maintain the previous scale of production and sales.
3. Therefore, with the increasing rate of inflation, there is a corresponding increase in the working capital.

1. The Indian financial services industry comprises several key subsegments.
2. These include, but are not limited to- mutual funds, pension funds, insurance companies, stock-brokers, wealth managers, financial advisory companies, and commercial banks- ranging from small domestic players to large multinational companies.
3. The services are provided to a diverse client base- including individuals, private businesses and public organizations.

10 Types of Financial Services:

I) Banking

1. The banking industry is the backbone of India's financial services industry.
2. The financial services offered in this segment include:
 - a. Individual Banking (checking accounts, savings accounts, debit/credit cards, etc.)
 - b. Business Banking (merchant services, checking accounts and savings accounts for businesses, treasury services, etc.)
 - c. Loans (business loans, personal loans, home loans, automobile loans, working- capital loans, etc.)
3. The banking sector is regulated by the Reserve Bank of India (RBI), which monitors and maintains the segment's liquidity, capitalization, and financial health.

2. Professional Advisory

1. India has a strong presence of professional financial advisory service providers, which offer individuals and businesses a wide portfolio of services, including investment due diligence, M&A advisory, valuation, real-estate consulting, risk consulting, taxation consulting.
2. These offerings are made by a range of providers, including individual domestic consultants to large multi-national organizations.

3. Wealth Management

1. Financial services offered within this segment include managing and investing customers' wealth across various financial instruments- including debt, equity, mutual funds,

insurance products, derivatives, structured products, commodities, and real estate, based on the clients' financial goals, risk profile and time horizons.

4. Mutual Funds

1. Mutual fund service providers offer professional investment services across funds that are composed of different asset classes, primarily debt and equity-linked assets.
2. The buy-in for mutual fund solutions is generally lower compared to the stock market and debt products.
3. These products are very popular in India as they generally have lower risks, tax benefits, stable returns and properties of diversification.

5. Insurance

1. Financial services offerings in this segment are primarily offered across two categories:
 - a. General Insurance
 - b. Life Insurance
2. Insurance solutions enable individuals and organizations to safeguard against unforeseen circumstances and accidents.
3. Payouts for these products vary across the nature of the product, time horizons, customer risk assessment, premiums, and several other key qualitative and quantitative aspects.

6. Stock Market

1. The stock market segment includes investment solutions for customers in Indian stock markets (National Stock Exchange and Bombay Stock Exchange), across various equity-linked products.
2. The returns for customers are based on capital appreciation - growth in the value of the equity solution and/or dividends and payouts made by companies to its investors.

7. Treasury/Debt Instruments

1. Services offered in this segment include investments into government and private organization bonds (debt).
2. The issuer of the bonds (borrower) offers fixed payments (interest) and principal repayment to the investor at the end of the investment period.

3. The types of instruments in this segment include listed bonds, non-convertible debentures, capital-gain bonds, Govt savings bonds, tax-free bonds, etc.

8. Tax/Audit Consulting

1. This segment includes a large portfolio of financial services within the tax and auditing domain.
2. These services domain can be segmented based on individual and business clients, they include:
 - a. Tax- Individual (determining tax liability, filing tax-returns, tax-savings advisory, etc.)
 - b. Tax-Business (determining tax liability, transfer pricing analysis and structuring, GST registrations, tax compliance advisory, etc.)
3. In the auditing segment, service providers offer solutions including statutory audits, internal audits, service tax audits, tax audits, process/transaction audits, risk audits, stock audits, etc.
4. These services are essential to ensure the smooth operation of business entities from a qualitative and quantitative perspective, as well as to mitigate risk.

9. Capital Restructuring:

1. These services are offered primarily to organizations and involve the restructuring of capital structure (debt and equity) to bolster profitability or respond to crises such as bankruptcy, volatile markets, liquidity crunch or hostile takeovers.
2. The types of financial solutions in this segment typically include structured transactions, lender negotiations, accelerated M&A and capital raising.

10. Portfolio Management:

1. This segment includes a highly specialized and customized range of solutions that enables clients to reach their financial goals through portfolio managers who analyze and optimize investments for clients across a wide range of assets.
2. These services are broadly targeted at HNIs and are discretionary and non-discretionary.

Manage the receivables under working capital management

1. A sale is realized as and when the invoice is generated but usually, a time period is provided to the customers for the payment of the amount due.
2. This practice of conducting business on credit terms gives rise to Accounts Receivable (AR) in the financial statements.
3. This credit facility is laid down to ensure a smooth flow of the working capital into the businesses.
4. There are complexities involved with the accounts receivable i.e its management, the process of recording in financial statements, credit period etc.
5. The word receivable stands for the amount of payment not received which means the company has extended credit facilities to its customers.
6. Accounts receivable is the money that a business has a right to receive after a certain period of time when the business has sold goods or services on credit.
7. For example, the accounts receivable is the record of fact that a company has done some work for customer X and that customer X owes money to the company.
8. Generally, the credit period is short ranging from a month or two to a year.
9. The businesses usually have invested money in selling a product or delivering a service.
10. After selling the goods, the inventories are reduced and in turn businesses need an asset to balance the financial statements.
11. Either that assets are cash-in-hand or receivables in case of credit sales and that's why accounts receivable appear in the assets side of the balance sheet.
12. As accounts receivables form a major part of the organization's asset, it leads to the generation of cash in-flow in the books of the organization.
13. The idea behind providing a credit facility to the customers is to facilitate and ease the process of the transaction and establish a strong credit relation between the parties involved.
14. It may lead to better deals or increase the chances of improving the working capital management.

Importance of Economic Order Quantity

1. EOQ is an important cash flow tool and the goal of the EOQ formula is to identify the optimal number of product units to order.
2. If achieved, a company can minimize its costs for buying, delivering, and storing units.
3. The EOQ formula can be modified to determine different production levels or order intervals, and corporations with large supply chains and high variable costs use an algorithm in their computer software to determine EOQ.
4. The formula can help a company control the amount of cash tied up in the inventory balance.
5. For many companies, inventory is its largest asset other than its human resources, and these businesses must carry sufficient inventory to meet the needs of customers.
6. If EOQ can help minimize the level of inventory, the cash savings can be used for some other business purpose or investment.
7. The EOQ formula determines a company's inventory reorder point.
8. When inventory falls to a certain level, the EOQ formula, if applied to business processes, triggers the need to place an order for more units.
9. By determining a reorder point, the business avoids running out of inventory and can continue to fill customer orders.
10. If the company runs out of inventory, there is a shortage cost, which is the revenue lost because the company has insufficient inventory to fill an order.
11. An inventory shortage may also mean the company loses the customer or the client will order less in the future.

Example of How to Use EOQ

1. EOQ takes into account the timing of reordering, the cost incurred to place an order, and the cost to store merchandise.
2. If a company is constantly placing small orders to maintain a specific inventory level, the ordering costs are higher, and there is a need for additional storage space.
3. Assume, for example, a retail clothing shop carries a line of men's jeans, and the shop sells 1,000 pairs of jeans each year.

4. It costs the company \$5 per year to hold a pair of jeans in inventory, and the fixed cost to place an order is \$2.
5. The EOQ formula is the square root of $(2 \times 1,000 \text{ pairs} \times \$2 \text{ order cost}) / (\$5 \text{ holding cost})$ or 28.3 with rounding.
6. The ideal order size to minimize costs and meet customer demand is slightly more than 28 pairs of jeans. A more complex portion of the EOQ formula provides the reorder point.

Limitations of EOQ

1. The EOQ formula assumes that consumer demand is constant.
2. The calculation also assumes that both ordering and holding costs remain constant.
3. This fact makes it difficult or impossible for the formula to account for business events such as changing consumer demand, seasonal changes in inventory costs, lost sales revenue due to inventory shortages, or purchase discounts a company might realize for buying inventory in larger quantities.