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Assignment No.: 1

Assignment Topic: functions of FM

1. Explain the Functions of the Financial management?

A) Introduction:-

The modern approach to financial management provides a conceptual and analytical framework for financial decision making. The modern approach to financial management includes 3 major managerial financial decision:

1. Investment decision
2. Financing decision
3. Dividend decision.

- Financial management
  - Investment Decision
    - Capital budgeting
    - Working Capital management
  - Financing Decision
    - Financial planning
    - Capital structure
  - Dividend Decision
    - Dividend policy
    - Retained earnings

1. Investment Decision:-

Investment decision refers to the completion of the assets in terms of long term assets and short-term assets.

→ The long term assets is called "fixed assets", yeilding returns over a period of time in future.

→ the short-term asserts, otherwise called "current asserts' are convertible into cash usually with in a year. It is the most important financial decision.

The investment decision can be classified under two types:-

ⓐ long-term investment decision
ⓑ short-term investment decision

Capital Budgeting:-

It is the process of investment decision in capital expenditure. These are expenditures, the benefits of which are expected to received over a long period of time exceeding one year.

Working capital Management:-

Short-term investment decision relates to the allocating of funds as among cash and equivalents, receivables and inventories such a decision is influenced by trade off between liquidity and profitability.

② Financing Decision:-

ⓐ Other important decision is to be taken by the financial manager is the financial decision which involves acquisition of funds to meet the firm investment requirement

ⓑ managers make decision related to raising finance from long term sources and short term sources they are

1. financial planning decision
2. Capital structure.

1. Financial planning decision :-
which relates to estimating the source and application of funds. The primary objective of financial planning is to plan and ensure that the funds are available as when required.

2. Capital structure ~~req.~~ decision :-
Which involves identifying sorce of funds. It choosing the external sources like issuing shares, bonds, borrowing forms banks (or) internal sources like retained earning for raising funds.

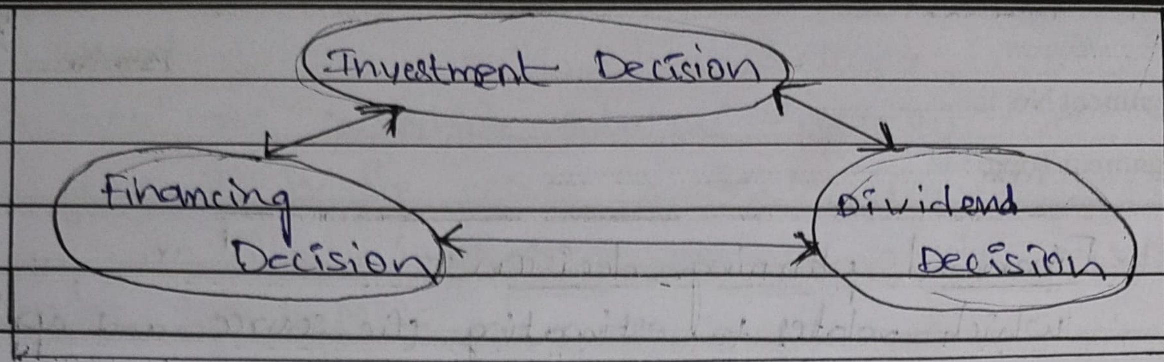
Capital structure = Equity + Debt

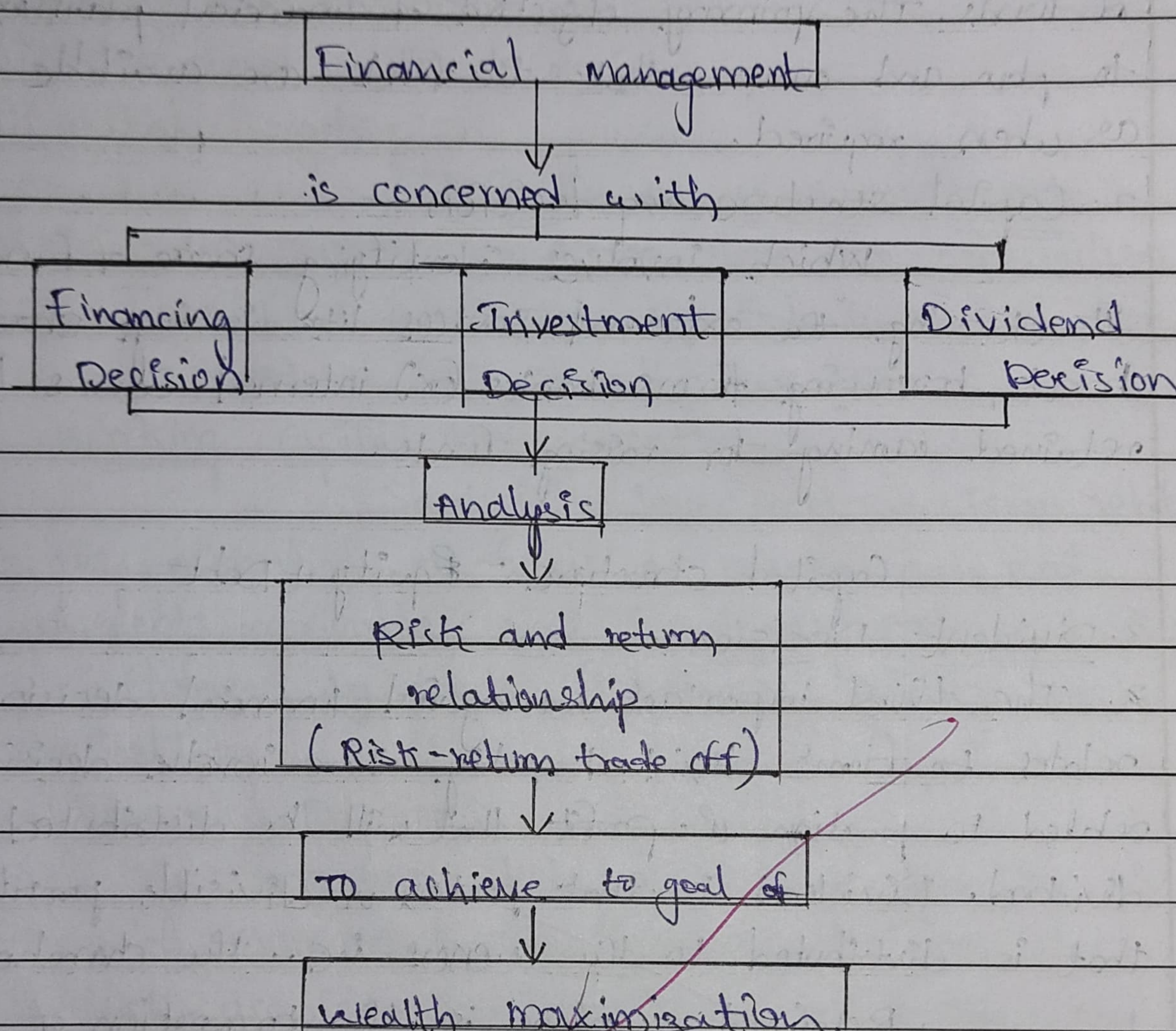
3. Divident Decision :-
3. The third important managerial financial decision relates to firm's dividend policy. there involve decision related to portion of profit that will be distributed as dividend. Dividend is that portion of divisible profit that is distributed to the owners i.e.. the shareholders.

Retained earnings is the proportion of profit kept in, that is invested in the business.

The optimal dividend policy maximizes the value of the shares and it is consitent with the objective of welth maximization.

Inter-Relational Decision :-


Investment Decision
Financing Decision
Dividend Decision


Financial management
is concerned with
Financing Decision
Investment Decision
Dividend Decision
Analysis
Risk and return relationship (Risk-return trade off)
To achieve to goal of
wealth maximization

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Assignment No. : 2

Assignment Topic : Role of financial manager

2. Explain the role of financial manager in modern Business organisation?

A A financial manager is a person who is responsible in a significant way to carry out the finance. It should be noted that in a modern enterprise the financial manager occupies a key position. He/she is one of the members of the ~~group~~ top management team and his/her role to the day-to-day is becoming more intensive and significant in solving the complex funds of the enterprise. ~~are~~ utilised problems.

The financial manager is now responsible for shaping to fortunes of the enterprise and foresighted outlook funds of the enterprise are utilised in the most efficient manner. that's why finance manager is an integral part of corporate management of a origanization.

The main role of a finance manager is to perform the following functions.

1. Determining financial needs:-

One of the most important functions of the financial manager is to ensure the availability of adequate financing. financial needs have to be assessed for different purpose money may be required for initial promotional expenses fixed capital and working capital needs. promotional expenditure includes expenditure incurred in the process of company formation.

2. Determining Source of funds:-

The financial manager has to chooses Sources of funds. He may issue different types of securities and debenture may borrow from a number of finance institutional and public. The financial manager must definitely know what he is doing workout strategies to ensure good financial health of the firm.

3. Financial analysis:-

It is the evaluation & interpretation of a firm's financial position and operation and involves a comparison and interpretation of accounting data the financial manager has interpret different statements.

4. optimal capital source:-

The F.M has to establish an optimum capital structure and ensure the maximum rate of return on investment and the liabilities carrying fixed charges has to be defined.

5. Cost volume profit analysis:-

This is popularly known as the 'CVP relationship for this purpose are fixed cost, variable cost and semi-variable cost have to be analysed.

6. profit planning and control:-

profit planning and control have assumed great importance in the financial activities of modern business profit planning ensures the attainment of stability and growth the break even analysis and cost volume profit it analysis are important tools in profit planning and control of the firms.

7. Fixed asset management :-

A firm fixed assets are land, building, machinery and equipment, furniture and intangibles as patents, copy rights and good will these fixed assets are justified to the extent of the utility or their production capacity.

8. Capital budgeting :-

It refers to the long term planning for investment in projects and fixed assets and methods of financing the approved projects. It includes the method of mobilization of long term funds and their deployments in profitable projects. capital budgeting is consider as the process of making investment decisions on capital expenditure.

9. Dividend policies :-

The Dividend policy of a firm determines the magnitude of the earning distributed to shareholders the net operating profit or profit after tax has to be intelligently appophoned between dividend payment and investment. the dividend policy determines the amount of dividend payment.

to be made to the shareholders. The date of payment of dividend and the effect of the dividend policy on the value of the firm.

10. <u>Acquisition and mergers</u>:-

A managor is a transaction where two firms agree to integrate their operations on a relatively equal basis because they have resources and capabilities that together may create a stronger competitive advantage two or more companies combine to form either a new company or one of the combining companies survives which is generally the acquires.

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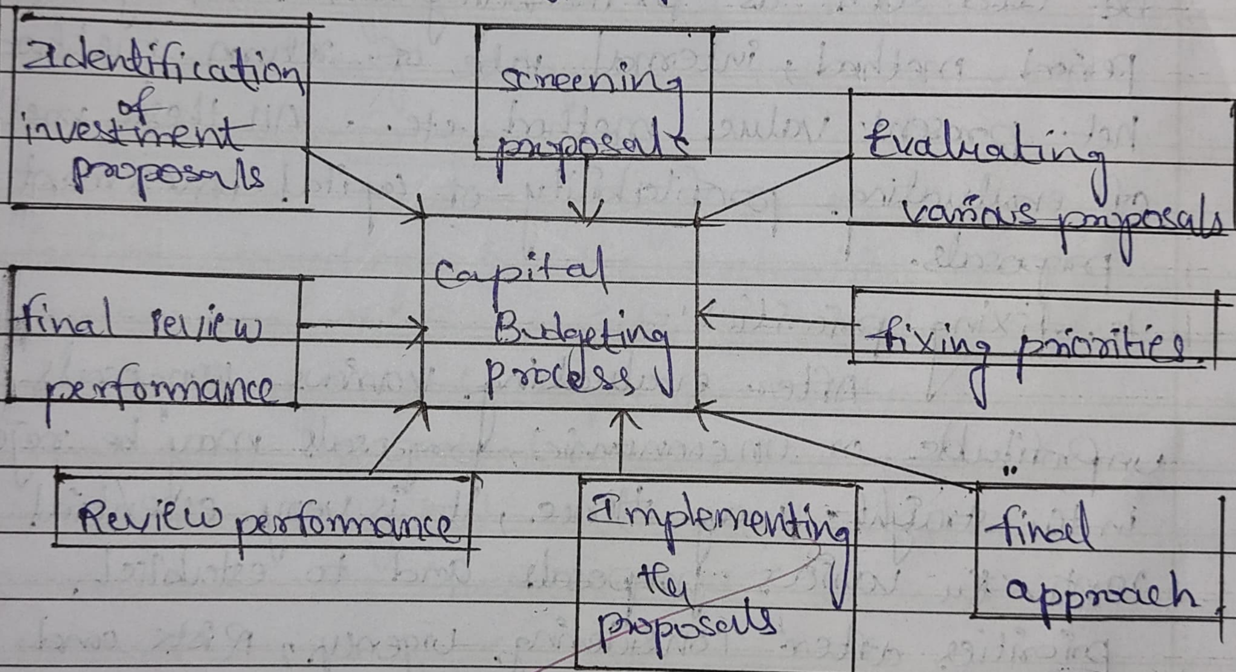
Assignment No.: 3

Assignment Topic: Capital Budgeting process

3. Write about Capital Budgeting process?

A. Capital Budgeting is a complex process, As it involves decisions relating to the investment of current funds for the benifits to the achieved in future and the future is always uncertain.

The following procedure is adopted in the process of capital budgeting.



1. Identification of investment proposals:-

The capital budgeting process begins with the identification of investment proposals. The proposal or the idea about potential investment opportunities from the top management of the organisation.

2. Screening the proposals:-

The Expenditure planning commity Screens the various unproposals received from different department the commity views those proposals from various angles in accordance with the corporate strategies.

3. Evaluation of various proposals:-

The next step in the capital budgeting process is to evaluate the profitability of various proposals. These are followed many methods to be used such as profitability index, payback period method, internal rate of return method, net present value method etc. . All these methods of evaluating profitability of capital investment proposals.

4. Fixing priorities:-

After evaluating various proposals, unprofitable or uneconomic proposals may be rejected in the straight way. Hence, it is very essential to rank the various proposals and to establish priorities after considering urgency, Risk and profitability involved there in

5. Final Approval:-

proposal meating the evaluation and finally approved to be included in the capital expenditure budget. It is lays down the amount of estimated expenditure to be incurred on fixed assets during the budget period.

6. Implementing proposals:-

preparation of a capital expenditure budgeting and incorporation of a particular proposal in the budget with the implementation of the project.

while implementing the project, it is better to assign responsibilities for completing the project with in the given time and cost limit, so as to avoid unneccessary delays and cost over runs.

7. Review performance :-

The last stage in the process of Capital budgeting is the evaluation of the performance of the project. the Evaluation is made through post Complition audit by way of comparison of actual expenditure on the project with the budgeted and also by comparing actual return from the investment with the anticipated return.

8. Final Review performance :-

The unfavourable variances, If any should be looked into and the causes of the same to be identified so that corrective action may be taken in future.

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Assignment No.: 4

Assignment Topic: Capital Budgeting-techniques

4: Explain Capital Budgeting techniques?

A: capital budgeting "Evaluation techniques" or "investment aprisal techniques".

Capital budgeting methods broadly classified into 2 categories. which are mentioned below.

Techniques of capital Budgeting:-

1. Traditional Techniques or methods:-

Under traditional techniques, which future cash inflow are not discounted to arrive at their future worth. Traditional techniques are divided into 2 types they are.

1. payback period method.
2. Accounting rate of return method.

1. payback period method:-

payback period is the no.of years required to recover the original investment of a project. It is one of the popular traditional method for evaluating the investment proposals.

In simple words, payback period refers to the period of time in which the project cash outflows can be recovered from the project cash inflows or investment.

Formula:-

$$\text{payback period} = \frac{\text{Investment}}{\text{Annal cash inflows.}}$$

Acceptence Rule :-

Accept the project, if the calculated payback is less than the normal playback, otherwise the project should be rejected.

2. Accounting rate of Return :-

It is also known as Return on investment on average rate of return or aggregate rate of return. It will be calculated based on the following formula.

$$\text{Average investment} = \frac{\text{original investment} + \text{scrap value}}{2}$$

If there is any additional working capital is required, the average investment will be calculated follows

$$\text{Average investment} = \frac{\text{Original investment} + \text{scrap value} + \text{Additional working capital}}{2}$$

The Average rate of return is calculated as follows.

$$ARR = \frac{\text{Average income after taxes}}{\text{Average investment}} \times 100$$

Acceptence Rule :-

Accept the project, if the calculated ARR is greater than normal rate of return, otherwise the project should be rejected.

Discounted Cash Flow methods :-

1. Net present value method :-

It is also known as net gain method.

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is one of the popular method considering time value of money. The first discounted cashflow technique is net present value.

Net present value maybe defined as the summarization of the present value of the cash flows in each year minus the summarization of the present value of the net cash outflows in each year.

In order to calculated NPV the following steps should be consider.

1. Determination of annual cash inflows.
2. An appropriate rate of intrest should be selected it is called cost of capital or discounted factor or present value.
3. multiplying the annual cashinflow with respective discounting factor is get present value of cash inflows.
4. NPV should be calculated subtracting the investment from the total present value.

Acceptence Rule :-

Accept the project, if the NPV is positive or equal to zero. A project should be rejected, if the NPV is negative.

2. Internal rate of Return :-

The second discounted cash flow for apprising capital investment decisions is the IRR method. This technique is also known as yield on investment

IRR may be define as the total present value are equal to investment at a particular rate of return. The value of IRR can be calculated by trial & error method.

Acceptence Rule:-

If the calculated IRR is more than the cost of capital the project is accepted, otherwise the project should be rejected.

3. **Profitability Index:-**

profitability index is also known as benefit cost ratio. It is based on NPV method and similar to NPV method. The following formula to calculated the profitability index.

$$PI = \frac{\text{Present value of cash inflows}}{\text{present value of cash outflows}}$$

Acceptence rule:-

If the PI is greater than or equal to one the project is accepted. If the PI is less than one that project is rejected.

5. Explain the capital structure theories?

A. The Capital structure theories are categories into various parts as follows.

* Net income Approach
* Net operating income Approach

Net income approach :-

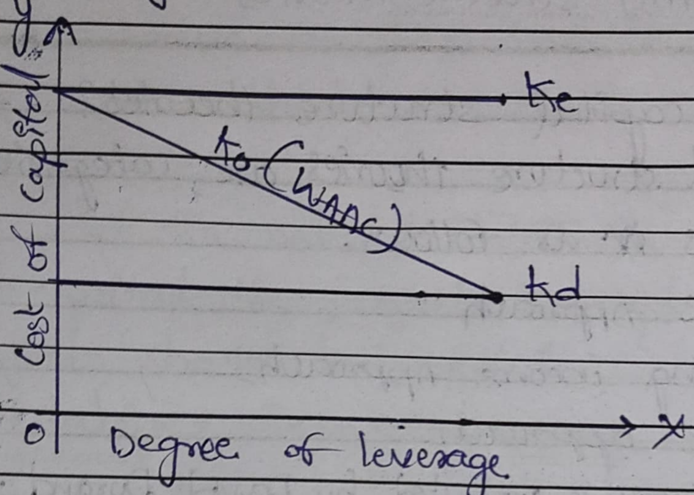
This theory is suggested by David Durand. According to net income theory the capital structure decision is relevant to the capital structure changes. The main importants of this theory, The firm can chang it's value or lower the cost of capital by increasing the debt in the capital structure. This approach followed the assumptions.

1. Kd and Ke are costant.
2. Kd is less than the Ke
3. No taxes.

The three assumptions applyed under net income theory is that; if Ke and Kd are costant the increased use of debt to the share holder earnings result in higher value of the firm. Cosicvently The overall cost of capital will decrease. The Ko is measured by the following formula.

1. $V = S + D$
2. $Ko = \frac{EBIT}{V}$

The net income theory further shown graphically in the following.



It can be observed from the above graph, when the proportion of debt is increased in the capital structure the weighted average cost of capital will decrease and proportionally the firm will have to maximize the value lower the cost of capital.

Net operating income approach:-

This approach is introduced by David Durand. It is just opposite to the net income approach. According to net operating income theory, the market value of the firm is not affected by capital structure changes. In this approach the cost of equity is increased with the leverage as a result, the overall cost of capital and the total value of the firm will remind constant. The basic assumption under this theory as follows.

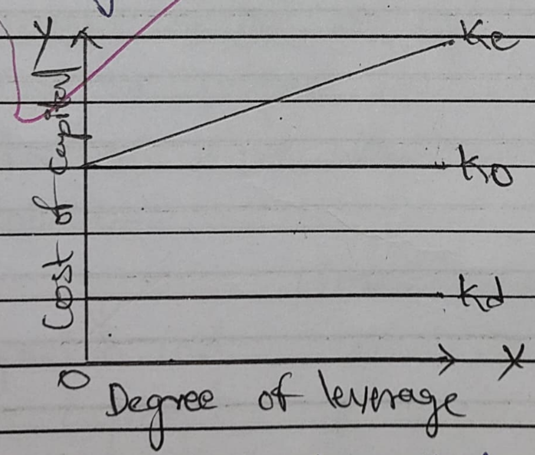
1. The debt capitalization rate (Kd) is constant.
2. The weighted average cost of capital (Ko) and total value of the firm doesn't change.

3. there are no taxes.

Based on the above assumptions under net operating income theory the value of the firm is calculated by the following formulas.

1. $V = S + D$
2. $S = \frac{NI}{Ke}$
3. $D = \frac{I}{Kd}$
4. $V = \frac{EBIT}{Ko}$

The net income theory further shown in graphically as follows.



The above graph shows that, when Kd and Ko are constant and Ke increase continuously with the leverage. When the weighted average cost of capital is constant under this approach there is no specific optimum capital structure.

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Assignment No.: 6

Assignment Topic: Cost of Capital & it's measurements

6. Explain the cost of capital & write the measurements of cost of capital?

A. **Meaning:-**

Cost of capital is very important in the financial management. It is the minimum rate of return which will be maintaind by the business firm at the current level. If the Business firm earns more than the cost of capital the market value of the firm is expected to increase. The measurement of the cost of capital is significant in the capital budgeting decisions.

Definitions:-

"Cost of capital is the minimum required rate of return in the capital expenditure."

— soloman ezra.

Measurement of cost of capital:-

For the purpose of measuring the cost of capital, the business firm will calculate the two heads as follows.

- Cost of Capital
  - Specific cost of capital
    - Explicit cost
      - Cost of debt
      - Cost of preference
      - Cost of Equity.
    - Implicit cost:
      - Cost of retained earnings
  - Weighted Average cost of capital (WACC)

Specific cost of capital:-

The cost which is incurred specifically on each source of finance is called specific cost. It will be classified in the following

i) cost of debt (k_d):-

Cost of debt means rate of interest payable on debt capital. It includes debentures, bonds, and long-term.

ii) cost of preference capital (k_p):-

Like debt, preference capital is also major source of specific cost. It is dividend in redeemable & irr-redeemable.

iii) cost of equity (k_e):-

Cost of equity is rate of dividend payable on common share holders. There are 2 models for calculating the cost of equity they are

i. Dividend model

ii. Earning model.

iv) Cost of retained earnings:-

The cost which is incurred for utilization of resources when the business firm required expantion of the business or introducing the new project.

Weighted average cost of capital:-

It is also called as overall cost of capital or average cost of capital. In order to calculate the WACC the following steps should be.

Consider.

1. Calculation of Specific cost of capital.
2. Determination of weighted (or) the proportion of each source of finance.
3. multiplying the specific cost of with respective to proportion of to find our weighted costs.
4. Adding the weighted cost of different sources to determine (WAAC).

7. Define Dividend explain the types of dividends?

A. The term Dividend refers to the portion of profit which is distributed among the shareholders of the firm. In other words dividend is that part of the net earnings of a company that is distributed to it's shareholders. It is a payment made to the equity Shareholders for their investment in the company.

The financial manager has to determine the amount of profit to be distributed as dividends and the amount of profit to be retained in the business for financing its long term growth.

Definition:-

According to institute of charted Accountants of India - "A dividend is a distribution to shareholders out of profit or reservers available for this purpose".

features of Dividend :-

1. Dividend are distributed to equity share holders.
2. Dividend are variable in nature.
3. Dividend are decided by Board of Directors
4. Dividends are optimal payment there is no legal obligations.
5. Dividends can't be paid out of depreciation or any other capital reserves.
6. It can be paid in the form of cash or bonus shares.

Types of Dividends :-

Dividends are classified in various ways. they are

1. cash Dividend
2. stock Dividend
3. scrip Dividend
4. Property Dividend
5. Composite Dividend.

1. Cash Dividend :-

A cash Dividend is a usual method of paying dividend and the companies which have enough cash balances will declare cash dividend. payment of cash dividend result in outflow of funds and reduces the companies net worth. The cash account and reserve account of a company will be reduced when the cash dividend are paid. Thus, both the total asset and networth of the company are reduced when the cash dividend is distributed.

2. Stock Dividend :-

It is also called as bonus shares. stock dividend means the issue of bonus shares at free of cost to the existing shareholders. If a company doesn't have liquid resources then it is better to declare the stock dividend.

For example, If a shareholder owns 100 shares at that time a 10% bonus is issued, when shareholder will ~~reduce~~ receive 10 additional shares.

3. Scrip Dividend :-

It is also known as bond dividend. A scrap dividend is a promise to pay to the shareholder at a future specific date. In case if a company doesn't have sufficient funds to pay dividend in cash, it may issue a note or bond for due amount to the share-holders. The objective of bond dividend is to postpone the immediate payment of cash. A scrip dividend bears intrest and it is accepted as a additional security.

4. **Property Dividend :-**

property dividend are paid in the form of some assets other than cash. They are distributed under exceptional conditions and it is not popular in india.

5. **Composite Dividend :-**

When Dividend is paid partly in the form of Cash and the remaining in other form, it is called as composite Dividend. This is not a new technique for payment of dividend, it is a combination of all the dividend types.

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Assignment Topic : Types of Dividend policies

8. Explain the different types of dividend policy?

A) Dividend policy means that management follows in making dividend payout decisions. In other words, dividend policy is the firm's plan of action to be followed when dividend decisions are made. It is the decision about the earnings of the firm to payout as dividend versus retaining and re-investing earnings in the firm. There are four types of dividend policy.

1. Regular dividend policy:-

In this type of dividend policy the investor get dividend at usual rate. The investors are generally retired persons or weaker section of the society who want to get regular income. This type of dividend payment can be maintained only if the company has regular income.

Assumptions:-

* It helps in creating confidence among the shareholder
* It stabilizes the market value of shares.
* It helps in giving regular income to the shareholders.

2. Stable dividend policy:-

Here, the payment of certain sum of money is regular paid to the share holders.

Assumption:-

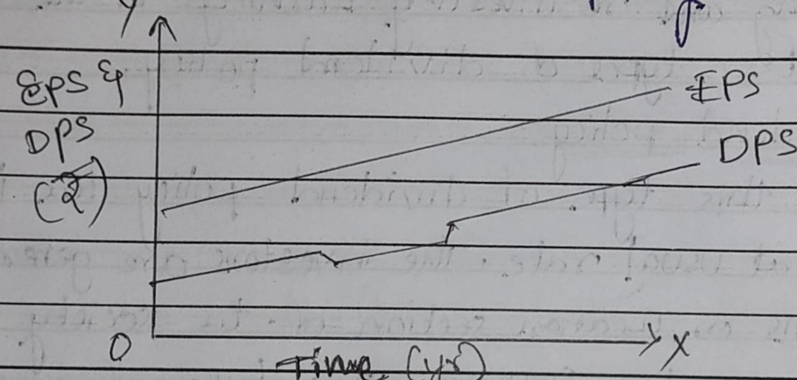
* It helps in creating confidence among the shareholders

* It stabilizes the market value of shares.
* It helps in giving regular income to the shareholders.
* forms of stable dividend policy :-

There are 3 different form of dividend policies of stability. They are

i) constant dividend per-share :-

Some companies follow a policy of paying fixed dividend pershare irrespective of the level of earnings year after years. The relationship between EPS and DPS under this policy is shown below.



it is easy to follow this policy when the earnings are stable. however if the earnings pattern of a company shows wide functuations it is different to maintain this policy.

ii) constant payout ratio :-

A certain percentage of net earnings are paid by way of dividend to the shareholders for every year. In such as policy amount of dividend functuates in direct proportion with earnings of the company as show below.

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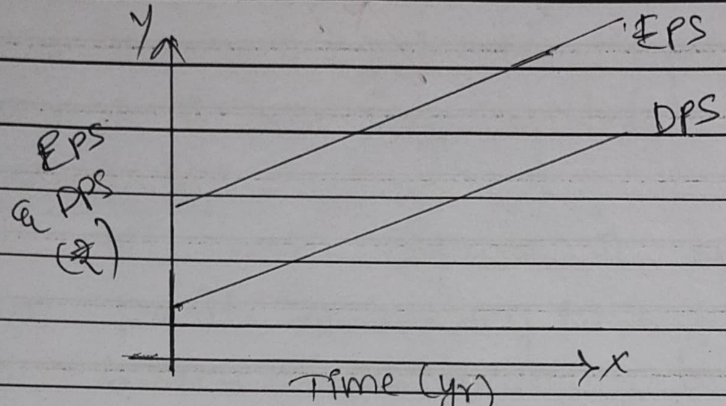

iii) constant dividend pershare plus extra dividend :-

~~Some~~ Companies follow ~~ep~~ a policy of paying constant low dividend pershare plus an extra dividend in the year ~~of~~ high profits. This policy is suitable ~~for~~ the firms having flunctuations earnings from the year to year.

3. Irregular Dividend policy:-

The company doesn't pay the regular dividend to the share-holders. In practice the followings are the reasons to pay the irregular dividend.

- Due to uncertain earnings of the company
- Due to lack liquid resources
- The company is affraid of giving regular dividend.

4. Zero Dividend policy:-

The company may follow the policy of paying no dividend permanently because of its unfavourable working capital position requirements of funds for future expansion and growth.

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Assignment No. : 9

Assignment Topic : Working capital & it's concepts

9. what is meant by working capital? Explain the Concepts of working capital.

A. Introduction:-

The main objective of any management is to earn profit. For acheiving to earnings objective how the business firm is managing to working capital is important. working capital management is considered as management of current assets namely cash, debtors and inventory.

Management of fixed assets comes with in the Jurisdition of capital budgeting, while the management of working capital is continuous function which involving controls of financial resources circulating in the enterprise.

Definition:-

• "The sum of the current assets is the working capital of a business".

— J.S. mill.

Concepts of working capital:-

There are two concepts of working capital

1. Gross concept
2. Net concept

1. Gross concept :-

Gross working capital simply called as working capital refers to total of current assets.

2. Net concept :-

The net concept or net working capital is the excess of current assets over current liabilities.

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Assignment No.: 10

Assignment Topic: factors influencing working capital/Determinants

10. What are the factors influencing the working Capital requirements. (or) Determinants of working Capital.

A. Meaning:-

The size of working capital required in an organisation depends on different policies that the firm wishes to follow with respect to it's management. The amount working capital required in an organisation would not only be affected by factors specific to the operatives of the firm but also in general.

Factors influencing working Capital requirements:-

1. Nature and Size of Business:-

The size of working capital needed in an organisation is determined by the nature and size of business trade oriented enterprises like retaile shops, showrooms and financing companies need more working capital. The manufacturing enterprises like steel, cement and electronic companies relatives maintain lower balance of current assets when compared to fixed assets. The working capital needs public utilities and services business units like transport, operators, maintain limited working capital.

2. manufacturing cycle:-
Firms having longer manufacturing cycle need to maintain large balance of working capital. manufacturing heavy machines, cargo vessels, aircrafts find their investory tied up in large doses of working capital.
manufacture of food products, perishable products like vegetable, fruits etc -
circulate their investment in with in days. no need for large balance.

3. production policies:-
In the light of higher cost and larger requirements for working capital firms may adopt the policy of changing production schedules. the production manager has take responsibility to adjusting his working staff.

4. Growth and expansion activities:-
Growth in the operations of an ~~etc~~ enterprise may demand more stock, more cash, Resource to finance, Day to day activities. It needs large funds. increased operations double the change in corporate practices may also determine the size of working capital required in a growing firm.

5. Credit standards:-
Factors influencing working capital requirements. role they are five "c" as credit contoll standards
1. Character
2. Capacity
3. collateral
4. Capital
5. Condition.

Ameet
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