

7. FINANCIAL MANAGEMENT

DEAR STUDENTS, HERE ARE THE INSTRUCTIONS ON HOW TO UNDERSTAND AND PREPARE GUESS QUESTIONS GIVEN IN THIS DOCUMENT.

- 1) IF YOU DONT HAVE MM MATERIALS THEN YOU CAN FIND SIMILAR PROBLEM IN ICAI SOURCES LIKE STUDY MATERIAL, RTPs, MTPs, PAST EXAM QUESTION PAPERS, ETC IT IS SUFFICIENT IF YOU PREPARE THE SAME PROBLEMS IN THOSE SOURCES (ALTERNATE 1) OF COURSE, IF YOU FOLLOW THIS ALTERNATIVE, THEN YOU CANT PREPARE FEW PROBLEMS WHICH ARE GATHERED FROM NON ICAI SOURCES AND YOU CAN FIND THEM IN MASTERMINDS MATERIALS ONLY
- 2) IF YOU ALREADY 50TH OR 51ST EDITION OF MM MATERIAL, THEN YOU CAN PREPARE IN MM MATERIAL STATED BELOW IN SUCH A CASE YOU NEED NOT PREPARE THE SAME PROBLEMS IN ICAI SOURCES (ALTERNATE 2).
- 3) IT IS SUFFICIENT TO PREPARE THE PROBLEMS AS PER ANY ONE OF THE GIVEN 2 ALTERNATIVES DONT BE IN A WRONG NOTION THAT PROBLEM NUMBERS STATED IN ALTERNATE 1 ARE DIFFERENT FROM THAT OF ALTERNATE 2.
- 4) IF WE HAVE GIVEN A PROBLEM NUMBER IN ICAI SOURCE AND THERE IS NO CORRESPONDING PROBLEM IN MM MATERIAL THEN STUDENTS WHO PREPARE IN MM MATERIAL SHALL PREPARE SUCH PROBLEM IN SUCH ICAI SOURCE ONLY.
- 5) CHAPTERS NEWLY ADDED UNDER 2023 SCHEME ARE INDICATED WITH THE WORD "NEWLY ADDED"
- 6) NOTATIONS USED IN THIS DOCUMENT.
 - a) SM. STUDY MATERIAL (WE HAVE EVEN STATED THE EDITION NUMBER OF SM)
 - b) CRD. PROBLEM FOR CLASSROOM DISCUSSION IN MM MATERIAL
 - c) CQ-CRD. CONCEPT QUESTIONS FOR CLASSROOM DISCUSSION
 - d) ASSIGN. ASSIGNMENT PROBLEM IN MM MATERIAL
 - e) CQ-SP. CONCEPT QUESTIONS FOR SELF-PRACTICE
 - f) ACSP. ADDITIONAL CONCEPTS FOR SELF-PRACTICE
 - g) PP. PRACTICAL PROBLEM

PART 1: PROBLEMS

| SL. NO. | ALTERNATE 1 - IF YOU DON'T HAVE MM MATERIALS THEN PREPARE IN BELOW STATED ICAI SOURCES | | | ALTERNATE 2 - IF YOU HAVE BELOW STATED EDITIONS OF MM MATERIALS THEN PREPARE BELOW STATED PROBLEMS | | REMARKS |
|--|--|--------|----------------|--|----------|---------|
| | ICAI SOURCE | PG.NO. | PR.NO. | 51E | 50E | |
| | | | | PR. No. | PR. No | |
| FINANCIAL ANALYSIS THROUGH RATIOS | | | | | | |
| 1. | NEW SM | 3.70 | PP 7 | CRD 2 | CRD 2 | |
| 2. | NEW SM | 3.53 | ILLUSTRATION 4 | CRD 7 | CRD 7 | |
| 3. | NON ICAI SOURCES | | | CRD 11 | CRD 11 | |
| 4. | IPCC-OCT15-MTP2-5M | 2 | 1(d) | ASSIGN 4 | ASSIGN 4 | |
| 5. | NEW SM | 3.72 | PP 11 | ASSIGN 7 | ASSIGN 7 | |

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|------------------------------------|--|--------|-----------------------------------|--|-----------------|---------|
| | ICAI SOURCE | PG.NO. | PR.NO. | 51E | 50E | |
| | | | | PR. No. | PR. No | |
| 6. | NEW SM | 9.117 | PP 3 (WORKING CAPITAL MANAGEMENT) | ASSIGN 9 | ASSIGN 9 | |
| 7. | MAY 2024-MTP2 | 5 | Q.NO 3A | - | - | |
| COST OF CAPITAL | | | | | | |
| 1. | NEW SM | 4.9 | ILLUSTRATION 2 & 3 | CRD 2 | CRD 2 | |
| 2. | NEW SM | 4.13 | ILLUSTRATION 5 | CRD 5 | CRD 4 | |
| 3. | N20-5M | 3 | 1(d) | CRD 7 | CRD 6 | |
| 4. | M18-MTP1-5M | 1 | 1(a) | CRD 14 | CRD 12 | |
| 5. | NEW SM | 4.27 | ILLUSTRATION 12 | CRD 18 | CRD 16 | |
| 6. | NEW SM | 4.28 | ILLUSTRATION 13 | CRD 19 (PART A) | CRD 17 (PART A) | |
| 7. | NEW SM | 4.29 | EXAMPLE 5 | CRD 19 (PART B) | CRD 17 (PART B) | |
| 8. | M20-MTP1-5M | 1 | 1(b) | CRD 22 | CRD 19 | |
| 9. | NEW SM | 4.46 | PP 5 | CRD 23 | CRD 20 | |
| 10. | NEW SM | 4.37 | ILLUSTRATION 18 | CRD 25 | CRD 22 | |
| 11. | D21-MTP1-5M | 1 | 1(b) | ASSIGN 9 | ASSIGN 19 | |
| 12. | M21-RTP | 209 | 2 | ASSIGN 12 | ASSIGN 22 | |
| 13. | M24-MTP1 | 5 | Q.NO 3A | - | - | |
| CAPITAL STRUCTURE DECISIONS | | | | | | |
| 1. | NEW SM | 5.42 | ILLUSTRATION 14 | CRD 3 | CRD 3 | |
| 2. | N19-MTP1 | 1 | 1(b) | CRD 6 | CRD 5 | |
| 3. | NEW SM | 5.12 | ILLUSTRATION 4 | CRD 8 | CRD 7 | |
| 4. | NEW SM | 5.54 | PP 7 | CRD 12 | EXAMPLE 2 | |
| 5. | NEW SM | 5.24 | ILLUSTRATION 10 | CRD 14 | CRD 12 | |
| 6. | NEW SM | 5.18 | ILLUSTRATION 6 | CRD 15 | CRD 13 | |
| 7. | NEW SM | 5.21 | ILLUSTRATION 8 | CRD 16 | CRD 14 | |
| 8. | NEW SM | 5.53 | PP 5 | ASSIGN 2 | ASSIGN 5 | |
| 9. | NEW SM | 5.20 | ILLUSTRATION 7 | ASSIGN 5 | ASSIGN 13 | |
| LEVERAGES | | | | | | |
| 1. | NEW SM | 6.34 | PP 7 | CRD 5 | CRD 4 | |
| 2. | NEW SM | 6.33 | PP 4 | CRD 7 | CRD 5 | |
| 3. | NEW SM | 6.37 | PP 10 | CRD 10 | ASSIGN 10 | |

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|--|--|--------|-----------------|--|-------------------|---------|
| | ICAI SOURCE | PG NO. | PR. NO. | 51E | 50E | |
| | | | | PR. No. | PR. No. | |
| 4 | NEW SM | 6.36 | PP 9 | CRD 12 | CRD 13 | |
| 5 | IPCC OCT 2015 MTP 2 8M | 7 | 6(b) | CRD 14 | ASSIGN 12 | |
| 6 | NEW SM | 6.33 | PP 6 | ASSIGN 3 | ASSIGN 4 | |
| 7 | N22 10M | 4 | 2 | ASSIGN 7 | ASSIGN 8 | |
| CAPITAL INVESTMENT DECISIONS | | | | | | |
| 1 | NEW SM | 7.80 | PP 9 | CRD 9 | CRD 10 | |
| 2 | NEW SM | 7.79 | PP 8 | CRD 11 | CRD 13 | |
| 3 | NEW SM | 7.53 | ILLUSTRATION 13 | CRD 15 (PART A) | CRD 15 (PART A) | |
| 4 | M19-MTP2-6M | 2 | 4(a) | CRD 15 (PART B) | CRD 15 (PART B) | |
| 5 | NEW SM | 7.76 | PP 1 | CRD 17 | CRD 21 | |
| 6 | NON ICAI SOURCES | | | CRD 20 | - | |
| ADVANCED CONCEPTS IN INVESTMENT DECISIONS | | | | | | |
| 1. | NEW SM | 7.83 | PP 13 | CRD 1 | CRD 1 | |
| 2. | JULY 21 | 6 | 4 | CRD 2 | CRD 2 | |
| 3. | IPCC-M19-8M | 4 | 2(b) | CRD 3 | CRD 3 | |
| 4. | NEW SM | 7.82 | PP 11 | CRD 5 | - | |
| 5. | NEW SM | 7.55 | ILLUSTRATION 14 | CRD 7 | CRD 5 | |
| 6. | NON ICAI SOURCES | | | CRD 10 | CRD 8 | |
| 7. | NEW SM | 7.69 | ILLUSTRATION 13 | CRD 11 | CRD 9 | |
| 8. | IPCC-M14-RTP | 77 | 7 | ASSIGN 2 | ASSIGN 2 | |
| 9. | IPCC-M21-RTP | 112 | 8 | ASSIGN 3 (PART A) | ASSIGN 3 (PART A) | |
| 10. | IPCC-N21-RTP | 82 | 6 | ASSIGN 3 (PART B) | ASSIGN 3 (PART B) | |
| 11. | M24 | 6 | Q NO 3A | - | - | |
| DIVIDEND DECISIONS | | | | | | |
| 1. | NEW SM | 8.42 | PP 2 | CRD 2 | CRD 2 | |
| 2. | N23 PTP | 4 | 8 | CRD 3 PART B | CRD 3 PART B | |
| 3. | NEW SM | 8.43 | PP 5 | CRD 5 | CRD 5 | |
| 4. | NEW SM | 8.34 | ILLUSTRATION 8 | CRD 6 | CRD 6 | |
| 5. | NEW SM | 8.44 | PP 7 | ASSIGN 4 (PART A) | ASSIGN 6 (PART A) | |
| 6. | N22 RTP | 5 | 7 | ASSIGN 4 (PART B) | ASSIGN 6 (PART B) | |

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|--------------------------------------|--|--------|----------------|--|-----------|---------|
| | ICAI SOURCE | PG NO. | PR. NO. | 5/E | 6/E | |
| | | | | PR. NO. | PR. NO. | |
| MANAGEMENT OF WORKING CAPITAL | | | | | | |
| 1. | N20 - 10M | 4 | 2 | CRD 2 | CRD 2 | |
| 2. | NEW 5M | 9 120 | PP 6 | CRD 5 | CRD 5 | |
| 3. | NEW 5M | 9 118 | PP 4 | CRD 6 | ASSIGN 4 | |
| 4. | NEW 5M | 9 31 | ILLUSTRATION 5 | CRD 7 | CRD 6 | |
| 5. | NEW 5M | 9 116 | PP 1 | CRD 8 | CRD 7 | |
| 6. | M23-10M | 2 | 1(d) | CRD 14 | CRD 14 | |
| 7. | M19-MTP2-6M | 2 | 3(a) | CRD 16 | CRD 16 | |
| 8. | N21-R1P | 214 | 8 | CRD 17 | CRD 17 | |
| 9. | M23-R1P | 4 | 9 | CRD 24 | CRD 24 | |
| 10. | IPCC-JULY 21-10M | 9 | 4(b) | ASSIGN 5 | ASSIGN 14 | |
| 11. | IPCC-N15-5M | 11 | 6(b) | ASSIGN 6 | ASSIGN 15 | |
| 12. | M22-MTP2-10M | 2 | 3 | ASSIGN 9 | ASSIGN 24 | |
| 13. | M24 | 2 | Q.NO 1C | - | - | |

PART 2: THEORY

CH.1: SCOPE & OBJECTIVE OF FINANCIAL MANAGEMENT

- 1) "Discuss the two main aspects of the finance function?"
- 2) State four tasks involved to demonstrate the importance of good financial management
- 3) Explain 'wealth maximization' and profit maximization objectives of financial management?
- 4) Discuss the role of a Chief Financial Officer / Finance Executive?
- 5) What is Financial Distress and explain its relationship with Insolvency?
- 6) What is Agency Cost?
- 7) How to address Agency Problem?
- 8) What are the major decisions of Financial Management?
- 9) Explain the advantages and disadvantages of Profit Maximization and Wealth Maximization?
- 10) Relationship between Financial Management and Financial Accounting?
- 11) What is meant by angel financing?

CH.2: TYPES OF FINANCING

- | | |
|---|-------------------------|
| 1) How bonds can be broadly classified? | 3) Define Samurai Bond? |
| 2) Define Euro Bond? | 4) Define Masala Bond? |
| 5) What do you mean by Bridge Finance? | |
| 6) What is VCF? Explain various methods of Venture Capital Financing? | |

- 7) What do you mean by Debt Securitization?
- 8) Distinguish between Financial Lease and Operating Lease?
- 9) Define Secured Premium notes
- 10) Write short notes on American Depository Receipts (ADRs) and Global Depository Receipts (GDRs)?
- 11) Describe the different types of Packing Credit
- 12) What do you mean by Seed Capital Assistance?
- 13) What are the features of commercial papers?
- 14) List the facilities extended by banks to exporters, in addition to pre & post shipment finance?

CH.3: MANAGEMENT OF WORKING CAPITAL

- 1) Classify working capital on the basis of value and time?
- 2) What is Treasury Management? What are the Functions of Treasury Management?
- 3) Write a short note on Different kinds of float with reference to management of cash
- 4) Write a short note on Management of Marketable Securities?
- 5) Write a short note on Electronic Cash Management System.
- 6) Define Electronic fund transfer
- 7) What is Virtual Banking? State its Advantages.
- 8) What is Forfaiting and explain its functions?
- 9) Explain the features of Forfaiting?
- 10) Write a short note on operating or working capital cycle?
- 11) What is Baumol's Economic Order Quantity model?
- 12) Explain recent developments in cash Management?
- 13) What are the 3 aspects of management of sundry debtors?
- 14) What do you mean by Cash Planning?
- 15) Enumerate various forms of bank credit in financing the working capital of a business organization.
- 16) What are the methods used for preparation of cash budget?

CH.4: COST OF CAPITAL

- 1) What is the significance of Cost of capital?
- 2) DISCUSS the dividend-price approach to estimate cost of equity capital?
- 3) Explain different groups of risk to which a security is exposed?
- 4) Discuss the meaning of Weighted Average Cost of Capital?
- 5) What is the difference between Book Value and Market Value?
- 6) How do you calculate cost of equity basing on Capital Asset Pricing Model (CAPM)
- 7) Discuss Effective Rate of Interest
- 8) "Financing a business through borrowing is cheaper than using equity." Briefly EXPLAIN

CH.5: CAPITAL INVESTMENT DECISIONS

- 1) State the meaning of Payback Reciprocal
- 2) Define Modified Internal Rate of Return method.
- 3) Explain the concept of Discounted Payback Period?

- 4) Define Multiple Internal Rate of Return (MIRR)
- 5) Explain the steps while using the Equivalent Annualized Criteria?
- 6) What are the advantages and disadvantages of PI?
- 7) What is capital rationing?

CH 6: DIVIDEND DECISIONS

- 1) State Dividend Decision? Briefly explain the Determinants of dividend decision
- 2) Explain the Significance of Dividend Policy
- 3) State the meaning of stock split. Explain its advantages and disadvantages
- 4) List out the assumptions of MM irrelevance theory
- 5) List out the assumptions of Gordon's model

CH.7: CAPITAL STRUCTURE DECISIONS

- 1) What is Net Operating Income (NOI) theory of Capital Structure? Explain the assumptions of Net Operating Income approach theory of Capital Structure
- 2) Briefly explain pecking order theory
- 3) Briefly explain the concept of Trade off theory of capital structure
- 4) Explain the process of Arbitrage
- 5) What is Over Capitalizations? State its causes and consequences.
- 6) State two advantages and disadvantages of Gordon model of Dividend Decision
- 7) Explain different forms of Dividend?
- 8) Brief out the remedies for over capitalization

CH 8: LEVERAGES

- 1) 'Financial Leverage as Trading on Equity' Comment
- 2) 'Financial Leverage is a Double-edged Sword' Comment?
- 3) Differentiate between Business risk and financial risk
- 4) 'Operating risk is associated with Cost structure whereas Financial risk is associated with Capital structure of a business concern.' Critically examine this statement
- 5) Explain Break-even analysis and its relationship with Operating Leverage?

CH.9. FINANCIAL ANALYSIS THROUGH RATIOS

- 1) How is debt service coverage ratio calculated? What is its significance?
- 2) Briefly explain the limitations of financial ratios
- 3) Discuss the composition of return on equity (ROE) using the DuPont model
- 4) How is debt service coverage ratio calculated? What is its significance?

THE END

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