1. what are the stages an entrepreneur will go through while starting a new business (or) a venture?

Stage 1: Decide which assets to buy (eg: premises, plant & machinery etc)

Stage 2: Decide about the investment amount involved i.e. cost of its acquisition.

Stage 3: Decide about the capital that is required to run the day-to-day operations. (Eg: working capital)

Stage 4: Decide about the sources of funding the capital

Equity | Debt | Preference

2. what are the 3 key questions that are to be answered in a business w.r.t. money?

From where to get the money? → Financing decisions

where to invest the money? → Investment decisions

whether to distribute the profits to SH (or) not? → Dividend decision.

Note: FM is concerned all about ——

* Effective acquisition of funds.

* Effective allocation of funds.
* with an objective to make profits and distribute dividend.

3. what are various sources of procurement of funds ?

1. Equity financing:
   * Equity shares are most reliable source of financing.
   * Advantages of equity finance
     • Less risky since repayment is not mandatory.
     • SH gets share in growth of company.
   * Dis-advantages of equity finance
     • High cost due to variable return.
     • No tax benefit.
     • Dilute the ownership.

2. Debentures:
   * Debentures are debt incurred the co.
   * Advantages of debt finance
     • Low cost
     • Tax benefit
     • No dilution of ownership
   * Disadvantages of debt finance
     • High risk due to repayment of capital
     • Interest is mandatory whether (or) not company makes profits.

3. Bank financing:
   * Commercial Banks are of good support to business enterprises by giving various types of loans.
   * Types of Bank finance includes ——
     • Loans • Cash credit • OD • W cap loans etc.

4. International financing:

* Enterprises need not depend only on domestic funding. They can also tap international markets.
* most popular ways are ———
  - FDI
  - FII
  - ADR
  - GDR

5. Angel finance:

* Angel finance is an equity - finance.
* Angel investors are wealthy individual investing in startups & expansion.
* They usually invest between 25%-60%
* Angel financing is last option where the company doesn't qualify for a Bank loan (or) too small for VCF.

4. What are the aspects to be considered for effective utilisation of funds?

1. Utilisation for fixed assets:

* The funds should be invested and utilised in such a manner that it should utilise the fixed assets at optimum level.
* The long term investment decision should not endanger the financial solvency.
* For taking these kind of decisions the finance manager should possess sound knowledge on capital budgeting techniques.

2. Utilisation for working capital:
   * Finance manager should keep in the view the adequate working capital.
   * He must also ensure that excess w.cap is not blocked in the form of inventories, Debtors, cash etc.

5. Mention the phases in evolution of FM.

Phase - 1 : Traditional phase
* In this phase, FM is used only in some occasional events like —
  - Takeover
  - mergers
  - Expansions
  - Liquidation etc.
* In this phase, FM considered the concerns only of —
  - Investment banker
  - Lenders and
  - some external persons.

Phase - 2: Transitional phase
* In this phase, day-to-day problems of finance manager is given import-ance.
* Problems w.r.t. financial planning, analysis, fund analysis is considered.

Phase - 3: modern Phase
* This phase is still going on.
* Scope of finance managers & FM is greatly increased.

* FM started helping in every financial analysis of the company.
* Many FM theories evolved during this phase like ______
  - Efficient market theory
  - Capital budgeting concepts
  - Option valuation models etc.

6. Tasks that are involved in FM

* Taking care as to not to over invest in fixed assets.
* Ensure sufficient level of working capital i.e. current assets.
* Balancing cash inflows and outflows.
* Increase the Gross profit with a correct product / service pricing.
* Tax planning that will minimise the taxes the company has to pay.

7. Agency problem + Agency cost

1. Basics

* In case of sole proprietor concern (or) partnership firms, the owners usually do participate in the management of the organisation.
* However, in case of corporates, owners donot participate in the management of company rather the managers do that. (Managers = BOD)
* In corporates there is a seperation of owner and manager. Manager are actually expected to work in the best interests of owner i.e. SH.
* But in reality, manager may put their personal goals ahead of goals of owners.

* This concept where managers give more importance to their personal goals than organisational goals is called as "Agency problem".
* To tackle this problem SH have to incur certain costs and those costs to monitor agency problem is called "Agency cost".
* Various agency costs includes ——
  - monitoring cost
  - Bonding costs
  - Opportunity costs.
  - Structuring cost.

2. Addressing the agency problem

- Debt lenders point of view
  - Tackled by putting negative covenants on managers
- Shareholders point of view
  - Tackled by monitoring the managers
    - Linking the managerial compensation to profits.
    - Employees should be designed to understand that the goal of company is to maximise the value of SH stocks.
    - Effective monitoring.

8. Financial management v/s Financial accounting

* FM and FA are closely related in such a way that FA is an important input for financial management.
* FA generates its data from operations of organisation.
* The output of FA is the balance sheet, profit & loss a/c and other statements.
* These statements & reports are used by the finance manager to analyse the past and take future decisions.

A. Treatment of funds:

1. FA follow the accrual basis of a/c.
2. So, revenues are recognised when the sale is made not when amount is actually received. Expenses are recognised when they are incurred not when they are actually paid.
3. Though the books show a profits, the company may not have enough liquidity to pay its obligations. This may be because the sales are credit sales and amount is blocked as "collectible receivables".
4. On the other hand, FM follow cash basis in recognising costs & benefits.
5. Hence, revenue is recognised only when it is actually received (cash inflow) and expenses are recognised only when they are actually paid (cash out flows).
6. Therefore, the finance manger focus is to maintain proper liquidity and not to project profits.

B. Decision making:
FA is collecting & presenting the data where as FM is concerned about Financial planning, controlling and decision making.

9. Concept of profit maximisation

a. Basics:
* Traditionally, primary objective of any business is to earn profit, hence it is the objective of FM.
* Hence, the FM has to take such kind of decisions which will maximise the profits.
* However, profit maximisation cannot be the sole objective and in such a case many problems will arise.

b. Problems due profit maximisation obj:
* The term profit is vague. It doesnot clarify what exactly it mean. It will convey different meaning to different people.
* Profit maximisation objective is having lot of risks involved. There is a direct relationship b/w profits & risk. Higher the profits higher probability for risk. If profit maximisation is the only goal, then risk factor is altogether ignored.
* Profit maximisation objective doesnot take into account the time patterns of returns.

Eg: Project A
CF of ₹1cr for 10 yrs
(Reject)

Project B
profit of ₹20cr after 10 years.
(Select)

* Profit maximisation objective is too narrow. It fails to consider the interests of workers, consumers, society & also ethical trade practices. If these factors are ignored, co cannot survive for a long period.

10. wealth maximisation / value creation

* SH value / wealth is created by considering the cost benefit analysis adjusted to TVM.

wealth = PV of Benefits − PV of the costs

* Benefits should be measured in terms of cash flows not in terms of profits.
* Shareholders wealth is maximised only if the finance manager takes such decisions which increases market price of shares.
* To maximise the SH wealth, finance manager should consider the following:
  - cash flow & not accounting profit
  - cost benefit analysis.
  - Time value of money.

11. Role of finance Executive / CFO:

1. Responsibilities of a CFO:

* Financial analysis and planning
* Investment decisions
* Financing and capital structure decisions.
* management of financial resources.
* Risk management.

2. Role of finance executive – Comparison

What CFO used to do?	What CFO now does?
Budgeting	Budgeting
Fore casting	Fore casting
Accounting	managing mergers & acquistions (M&A).
Preparation of financial statements	Pricing analysis.
Filings	Decision making.

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