UNIT – I

PART-A

1. What is financial management?
   - Financial management is that managerial activity which is concerned with the **planning and controlling of the firm's financial resources**.
   - Financial management refers to the **management of flow of funds** in the firm. It deals with the financial decision making of the firm.

2. Objectives of the financial management.

   - Profit maximization
   - Wealth maximization
   - Return maximization
   - Provide support for decision making
   - Manage risks
   - Use resources efficiently, effectively and economically

3. What do you meant by Profit maximization?

   - According to this concept, a firm should undertake all those **activities which add to its profits** and eliminate all others which reduce its profits.
   - **It does not take into account the risk** which the firm may undertake in maximization of profit.
   - It **does not consider** the earnings per share, dividends paid or any other return to shareholders on the wealth of shareholders.

4. What do you meant by wealth maximization?

   - According to this concept, finance manager should **take decisions which increase net present value of the firm** and should not undertake any activity which decrease net present value.
   - It **consider** all future cash flows, earnings per share, dividends paid, **risk of decision** etc.

5. What do you mean by time preference of money?

   Most individuals value the opportunity to receive money now higher than waiting for one or more periods to receive the same amount. Time preference for money is an individual's preference for possession of a given amount of money now, rather than the same amount at some future time.

6. What is sinking fund?

   It is a fund, which is created out of fixed payments each period to **accumulate to a future sum after a specific period.**

7. Define compounding and discounting.

   Compounding: It is the process of **determining future values** of a series of **present** cash flows.
   Discounting: It is the process of **determining present values** of a series of **future** cash flows.

8. Define NPV

   - **Wealth** is defined as net present value.

- NPV of a financial decision is the difference between the present value of cash inflows and the present value of cash outflows.

NPV= present value of cash inflows - present value of cash outflows.

9. What do you mean by nominal interest rate and Effective interest rate?

   Nominal interest rate: The interest rate is usually specified on an annual basis in a loan agreement or security (such as bonds) and is known as the nominal interest rate.

   Effective interest rate: If compounding is done more than once a year, the actual annualized rate of interest would be higher than the nominal interest rate and it is called Effective interest rate.

10. Define Yield to Maturity (YTM)

Yield to Maturity (YTM) is the measure of a bond's rate of return that considers both the interest income and any capital gain or loss. YTM is bond's internal rate of return.

11. What is current yield?

Yield to maturity is **not the same** as current yield. Current yield is the **annual interest divided by the bond's current value**.
E.g. if annual interest=60, current investment=883 and then1 the current yield=60/883=6.8%

12. What is yield to call?
13. Explain the basic financial decisions.
14. Briefly mention the scope of financial management.
15. Define redeemable and irredeemable preference shares.

    Redeemable preference shares are the shares with maturity. Irredeemable preference shares are shares without any maturity.

16. Explain a deep discount bond and perpetual bond.

Pure discount bonds:
- Pure discount bond **do not carry an explicit rate of interest**.
- It provides for the payment of a lump sum amount at a future date in exchange for the current price of the bond.
- The difference between the face value of the bond and its purchase price gives the return to the investor.
- It is **also called deep-discount bonds** or zero interest bonds or zero-coupon bonds.

Perpetual bonds
Perpetual bonds also called consols, has an indefinite life and therefore, it has **no maturity value**. In this case, the value of the bonds would simply be **discounted value of the infinite stream of interest flows**.

17. Define equity capitalization rate:
18. Define P/E ratio.

P/E ratio is calculated as the price of a share divided by earning per share. Financial analyst evaluates the performance and prospects of the shares in terms of P/E ratio.

19. What is CAPM?

Capital asset pricing model is a model provides a framework to determine the required rate of return on an asset and indicates the relationship between return and risk of the asset.

20. Define SML and CML

Under CAPM, the security market line (SML) exemplifies the relationship between an asset's risk and its required rate of return.

21. Define risk free rate.

Risk-free rate is a rate obtainable from a default-risk free government security.

22. **Define risk-return tradeoff**

A proper balance between return and risk should be maintained to maximize the market value of a firm's shares. Such balance is called risk-return tradeoff.

23. Explain the different concepts of value.

Book value, Replacement value, Liquidation value, going concern value, market value.

PART-B

1. **Explain the concept of time value of money, discuss its techniques**
2. What is the role of financial manager?
3. Explain the finance functions in detail.
4. **Shareholders Wealth Maximization (SWM) is the goal of financial management and not Profit Maximization. Discuss in detail.**

   Or

   Discuss the limitations of profit maximization as the objective of financial management.
5. Explain the functions of controller's and treasurer's in finance decision.
6. **Explain the overview of financial management in detail.**
7. **What are the general principles of valuation of shares? Explain in detail.**

UNIT – II

PART A

1. **What is Capital Budgeting?**
2. **What are the various methods of evaluating capital budgeting proposals**?
3. What are the objectives of capital budgeting?
4. **Explain any few importance of capital budgeting.**
5. What is mutually exclusive investment?

6. **What are the types of investment decisions?**
7. Define NPV

- **Wealth** is defined as net present value.
- NPV of a financial decision is the difference between the present value of cash inflows and the present value of cash outflows.

NPV= present value of cash inflows - present value of cash outflows.

8. What do you meant by internal rate of return (IRR)?
9. What do you meant by Profitability index (PI)?
10. What do you meant by payback (PB) period?
11. What do you meant by discounted payback period?
12. **What do you meant by overall cost of capital or weighted average cost of capital (WACC)?**
13. **What is capital rationing?**
14. **Define cost of capital.**

    The cost of capital is the minimum required rate of return on an investment project that keeps the present wealth of the share holder's unchanged.
15. **What are the significance (importance) of the cost of capital?**
16. How will you calculate cost of equity under CAPM?

    $\boxed{\mathbf{K_e=R_f+(R_m-R_f)B_j}}$

    $\mathbf{R_f}$ =Risk-free rate
    $\mathbf{R_m-R_f}$ =Market Risk premium
    $\mathbf{B_j}$ =systematic risk of the ordinary share.

17. What is marginal cost of capital?
18. Define cost of equity capital, **Ke**
19. Define cost of retained earnings, **Kr.**
20. What is meant by redeemable and irredeemable preference share?
21. What is meant by redeemable and irredeemable debt?

PART-B

1. Discuss the discounted and non-discounted cash flow technique in capital budgeting. How the former is better than the later.

UNIT – III

PART A

1. Define financial leverage
2. Define operating leverage
3. Define combined leverage
4. **Explain Gordon's dividend model**(P.NO.383 in IM Pandey)
5. **Explain Walter's dividend model**(P.NO.381 in IM Pandey)
6. Distinguish between operating risk and financial risk.
7. What is meant by Levered firm and unlevered firm.

A firm that finances its assets by **equity and debt** is called a **levered firm**. On the other hand, a firm uses no debt and finances their asset entirely **by equity** is called an **unlevered firm**.

8. What are the three stages which show the relationship between capital structure & the firm value in **traditional theory**?
9. What are criticisms of traditional theory?
10. What do you meant by perfect capital market?
    - Investors are free to buy or sell securities.
    - They behave rationally
    - They can borrow without restriction at the same terms as the firms do.
11. **Define payout ratio and retention ratio** (P.NO.379 in IM Pandey)
12. What are the objectives of dividend policy (P.NO.396 in IM Pandey)
13. What are the constraints on paying dividends? (P.NO.399 in IM Pandey)
14. **What are the forms of dividends?** (P.NO.403 in IM Pandey)
15. **What do meant by reverse split?** Give example (P.NO.406 in IM Pandey)
16.

Explain the following theory of capital structure in detail (i) Traditional approach (ii) NI approach (iii) NOI approach

Explain the Modigilani and Miller approach and its criticism in detail.

UNIT V
PART A

1. What is called as ordinary share?
2. **What do you meant by paid-up share capital?** (P.NO.433in IM Pandey)
3. **What is Book value per share?** (P.NO.433in IM Pandey)
4. **Define Pre-emptive rights** (P.NO.434in IM Pandey)
5. Explain some features of ordinary shares (P.NO.433 in IM Pandey)
6. Give some pros and cons of equity financing. (P.NO.434in IM Pandey)
7. **What is meant by private placement?** (P.NO.434in IM Pandey)
8. **What is called as Right issue?** (P.NO.435in IM Pandey)
9. Explain some features of ordinary preference shares (P.NO.437 in IM Pandey)
10. **What is sinking fund?** (P.NO.437 in IM Pandey)
11. **What is indenture?** (P.NO.439 in IM Pandey)
12. What are the types of debenture? (P.NO.440 in IM Pandey)
13. **What is meant by Non-convertible debenture NCD & fully –convertible debenture FCD?**
14. **What is meant by Partly-convertible debenture PCD?**
15. **Define term loans.** (P.NO.440 in IM Pandey)
16. Define the term Balloon payments (P.NO.441 in IM Pandey)
17. **Define the term leasing and give its types.** (P.NO.455 in IM Pandey)
18. **What is venture capital and explain its features** (P.NO.477 in IM Pandey)
19. What are the 3 stages of venture financing? (P.NO.478 in IM Pandey)
20. What do you meant by **conditional loan and Income note** (P.NO.482 in IM Pandey)

UNIT IV
PART A

1. Define working capital management.
2. What are the two concepts of working capital management. (P.NO.579 in IM Pandey)
3. What is meant by operating cycle?
4. What is optimum credit policy? (P.NO.603 in IM Pandey)
5. Define the term credit standard and credit analysis. (P.NO.605 in IM Pandey)
6. What is credit granting decision? (P.NO.608 in IM Pandey)
7. What is Average collection period? (P.NO.614 in IM Pandey)
8. What is the purpose of aging schedule. (P.NO.614 in IM Pandey)
   The aging sIt breaks down receivables according to the length of time for which they have been outstanding. It provides more information about the collection experience.
9. Define Factoring. (P.NO.615 in IM Pandey)
10. What are the types of factoring? (P.NO.615 in IM Pandey)
11. What are three types of motives for holding inventories? (P.NO.625 in IM Pandey)
12. What is EOQ? (P.NO.626 in IM Pandey)
13. What is reorder point? (P.NO.629 in IM Pandey)
14. Define the term Trade Credit & credit term. (P.NO.658 in IM Pandey)
15. What are the recommendations of credit given by Tandon committee (P.NO.662 in IM Pandey)
16. What are the recommendations of credit given by Chore committee (P.NO.662 in IM Pandey)
17. What is commercial paper?