

## Chapter 9 – Financial Management

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### Question 1

What do you mean by Financial Management?

**Answer:** Financial Management is all about planning, organizing, directing and controlling the financial pursuits such as acquisition and utilization of capital of the firm. To put it in other words, it is applying general management standards to the financial resources of the firm.

### Question 2

How does the production cycle impact working capital?

**Answer:** Production cycle impacts working capital as the working capital requirement will be greater with a longer production cycle.

### Question 3

While performing the financial function every manager takes three decision. Explain those decisions.

**Answer:** A manager take the three following decision while performing the financial function

- **Financing Decision-** This decision is about choosing the cheapest source from the amount of finance proposed from various short and long term sources.
- **Investment Decision-** This is about choosing the cheapest proposal from all the available alternative proposal, which gets the highest possible return for the investors.
- **Dividend Decision-** This decision is to choose between whether the the earnings should be distributed to a stockholder as a dividend or to retain the earnings to finance the long-term plans of the company.

### Question 4

State the four factor which affects the working capital requirements of a company.

**Answer:** The four factor that affects the working capital requirements of a company are as follows.

- **Nature of Business-** The primary nature of business influences the amount of nature of the business required by it. For instance, an organisation involved in trading business require a small amount of working capital as compare to the bigger organisation.
- **The scale of Operation-** A large organisation requires large inventory as a working capital than the small company.

- **Business Cycle-** When there is a growth in the economy, the production of a company increases and more working capital is required, as compared to when there is a crisis in the economy.
- **Seasonal Factors-** In the zenith season, the demand will be high so the working capital increases as compared to the offseason.

### **Question 5**

The board of director asked you to design the capital structure of a company. What are the factors you would consider to add?

**Answer:** The factors included in the capital structure of a company are.

- Interest Coverage Ratio (ICR)
- Cash Flow Situation
- Debt Service Coverage Ratio (DSCR)
- Regulatory Framework
- Return on Investment (ROI)
- Tax rate

### **Question 6**

The management of an organisation decided to enlarge the business activities by growing the stock of raw materials and finished products at an estimated cost of Rs. 40 lakh. Describe the various ways open to an organisation to increase the money for the reason.

**Answer:** The organisation can raise finance by the following reasons.

- Issue of debenture
- Issue of stock
- Loans for financial institutions and banks
- Retained earnings