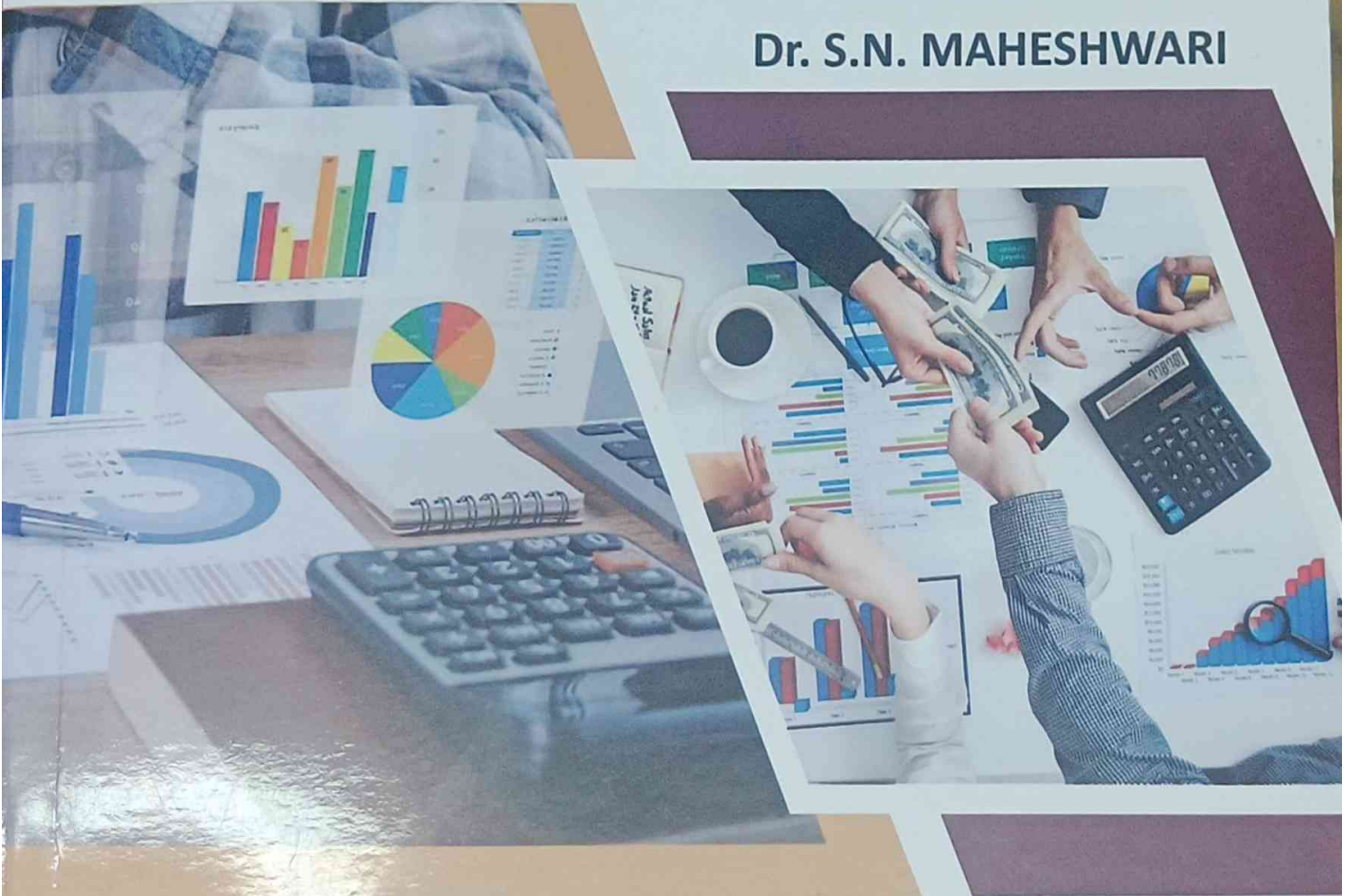




# FINANCIAL MANAGEMENT

## Principles & Practice

Dr. S.N. MAHESHWARI



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**FINANCIAL MANAGEMENT  
PRINCIPLES & PRACTICE**

# FINANCIAL MANAGEMENT

## PRINCIPLES & PRACTICE

(For M.Com., MBA, CA, CS & CMA Examinations)

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# Preface to the Fifteenth Edition

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We feel pleased and privileged to place before the esteemed readers the Fifteenth Revised and Enlarged Edition of our book “Financial Management – Principles and Practice”. The continued heart-warming response given by the readers to each new edition of the book is really a matter of great satisfaction and privilege for us.

The Fifteenth Edition, besides maintaining the *PLUS* features of the Fourteenth Edition of the book, viz., lucid presentation, tailor made approach, comprehensive text with plenty of illustrative material etc., has several additional welcome features. These include the following:

- The book covers all the more comprehensively the course-content requirements of the students preparing for M.Com, MBA, CA, CS, CMA and other professional examinations.
- The subject matter in some of the chapters has been considerably strengthened and updated.
- Recent development in the text structure in Chapter – 2: Tax Implications and Financial Planning (Section E), Amendments in Bonus Issue Guidelines as per *SEBI*'s notifications in Chapter – 3 (Section D): Industrial Sickness (Section E) and Recent Acquisitions and Mergers in Chapter – 6: Corporate Restructuring (Section E), have been incorporated in the book.
- Since the publication of the last edition, certain new legislations have been enacted viz. The Companies Act 2013, The Companies (Amendment) Acts 2015 and 2017, Insolvency and Bankruptcy Code 2016 and the Finance Act 2018. Necessary changes in the text have been made due to these enactments at appropriate places in the book.
- The questions and problems from the recent University and Professional Examinations have been incorporated in the relevant chapters of the book.
- All efforts have been made to see that the book is without any misprint.
- The examination-oriented approach of the book has been further sharpened and enhanced.

We are confident that with all these changes, additions and adaptations, the students will find the revised edition of the book all the more useful and rewarding for them.

Constructive and helpful suggestions for improvement in the book will be gratefully acknowledged.

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New Delhi-110063

Dr. S. N. MAHESHWARI

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Key Terms	E.7.12
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Delisting	E.9.19
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5. Marginal Costing	G.12
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8. Financial Planning	G.23
9. Capital Structure	G.23
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**Bharathidasan University, Trichirappalli**

Core Course – XIII

**FINANCIAL MANAGEMENT**

**Objective:** To enable the students to know the principles and practices of managing finance.

*Coverage in the Book*

*Section Chapter(s)*

<b>Unit-I</b>			
Financial Management: Meaning, Scope and Objectives: Profit Maximization, Wealth Maximization – Functions – Financial Decisions – Time Value of Money: Present Value and Compound Value – Cost of Capital – Cost of Debt – Cost of Preference Share Capital – Cost of Equity – Cost of Retained Earnings – Weighted Average Cost of Capital.	A		1
	A		2
	C		4
<b>Unit-II</b>			
Capital Structure – Meaning and Features – Factors Determining Capital Structure – <i>EBIT</i> – <i>EPS</i> Relationship Indifference Point of <i>EBIT</i> – Theories of Capital Structure: Net Income Approach, Net Operating Income Approach, MM Approach and Traditional Approach.	B		2
<b>Unit-III</b>			
Leverage – Meaning, Significance and Types – Operating Leverage – Financial Leverage – Combined Leverage – Dividend Policy – Determinants of Dividend Policy – Theories: Relevance and Irrelevance with Value of Firm – Form of Dividend – Stock Dividend – Bonus Issue – Stable Dividend.	B		4
	C		3
<b>Unit-IV</b>			
Working Capital Management – Determinants of Working Capital – Forecasting of Working Capital Requirements	D		1
Cash Management – Motives of Holding Cash – Stages in Cash Management: Cash Planning, Collection and Disbursement of Cash, Optimum Cash Balance – Boumul Model – Investment of Surplus Cash.	D		2
<b>Unit-V</b>			
Receivables Management – Objectives – Factors Influencing Size of Receivables – Credit Policy – Credit Standard – Credit Term – Collection Policy – Incremental Analysis	D		3
Inventory Management – Meaning – Types of Inventory – Purpose of Holding Inventory – Excess or Inadequate Inventory – <i>EOQ</i> – Levels of Stock: Reorder Level, Minimum Level and Maximum Level – Techniques – <i>ABC</i> , <i>VED</i> , <i>ESN</i> and <i>HML</i> Analysis.	D		4

## Manonmaniam Sundaranar University

### Financial Management

Objective: The Objective of the course is to make the students acquainted with modern principles of financial management.

Coverage in the Book  
Section Chapter/s

#### Unit-I

Financial Management – Meaning – Nature and Scope of Finance – Objectives – Profit Vs Wealth Maximization – Finance Functions – Functions and Role of Finance Manager – Time Value of Money.	A	1
	A	2

#### Unit-II

Capital Budgeting – Investment Decisions – <i>NPV</i> , <i>IRR</i> , <i>ARR</i> – Payback Period – Profitability Index – <i>NPV</i> and <i>IRR</i> Comparison – Capital Rationing – Risk Analysis – Time Value of Money – Techniques.	C	1 & 2
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#### Unit-III

Cost of Capital – Significance, Importance and Concepts – Cost of Debt – Preference Capital – Equity Capital – Retained Earnings – Combined Cost of Capital (Weighted) – Cost of Equity – <i>CAPM</i>	C	4
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#### Unit-IV

Capital Structure Theories – Traditional and <i>MM</i> Hypothesis – Determining Capital Structure in Practice	B	2
Operating, Financial and Combined Leverage – Measurement of Leverages – Effects of Operating and Financial Leverage on Profits – Significance of Leverage.	B	4

#### Unit-V

Working Capital Management – Meaning – Significance – Types of Working Capital – Estimation of Working Capital Requirements	D	1
Management of Cash – Dividend Policies – Issues in Dividend Decisions – Walter Model – Gordon's Model – <i>MM</i> Hypothesis Forms of Dividend.	D C	2 3

## Madras University

### III Year (Semester V) Paper 5.5 – Financial Management

(Maximum: 100 marks (Internal: 50 marks; External: 50))

(Only Theory)

#### Objectives:

- To understand the various finance sources
- To understand how to take capital budgeting and investment decisions

*Coverage in the Book*  
Section Chapter(s)

#### Unit-I

Meaning and Definition – Function of Finance Manager – Methods and	A	1
Sources of Raising Finance – Sources of Short-term and Long-term Finance	D	3
– Critical Appraisal of Different Securities and Bonds as Source of Finance –		
Equity Shares – Convertible and Non-convertible Debentures – Preferred		
Stock. Objectives/goals of finance function – financing decisions – investment	A	1
decisions – importance of finance planning – problems in financial forecasting.		

#### Unit-II

Capital Structure Decisions – Traditional and <i>MM</i> Approaches – Current	B	2
Views – Determine of Capital Structure – Over Trading – Over and Under		
Capitalization – Leverage Analysis <i>EBIT</i> – <i>EPS</i> Analysis.	B	4

#### Unit-III

Cost of Capital Measurement <i>WACC</i> – <i>MCC</i> and Value of the Firm	B	2
Factors in Dividend Policy of Firm – Dividend Relevancy – Company Law	C	3
Provisions on Dividend Payment.		

#### Unit-IV

Investment Decisions – Risk – Required Rate of Return – Estimating Cash	C	1
Flows – Present Value of Cash Flows – Evaluation of Alternative Investment		
Proposals – Sensitivity Analysis – Simulation – Decision Making under		
Condition of Risk and Uncertainty – Inflation and Investment Decision.	C	2

#### Unit-V

Working Capital Management – Working Capital Cycle – Forecasting of	D	1 to 4
Working Capital Requirement – Factors Influencing Working Capital –		
Different Components – Inventory – Cash – Receivables – Credit Policies –		
Collection Policies.		

**GURU GOBIND SINGH INDRAPRASTHA UNIVERSITY, DELHI**

**BACHELOR OF BUSINESS ADMINISTRATION (BBA)**

**BBA-204: Financial Management Credit-4**

**Objective**

Efficient Management of a business enterprise is closely linked with the efficient management of its finance. Accordingly, the objective of the course is to acquaint the students with the overall framework of financial decision – making in a business unit.

*Coverage in the Book*

Section Chapter(s)

**Course Contents**

**Unit-I (14 Hours)**

**Financial Management:** Nature, Scope and Objectives of Financial Management, Time Value of Money, Concept of Risk and Return (including Capital Asset Pricing Model), Valuation of Securities: Debentures, Preference shares and Equity Shares. A 1  
A 2  
A 4  
A 3

**Sources of Financing:** Classification of Sources of Finance, Security Financing, Loan Financing, Project Financing, Loan Syndication – Book Building, New financial Institutions and Instruments (in brief) viz., Depositories, Factoring, Venture Capital, Credit Rating, Commercial Paper, Certificate of Deposit, Stock Invest, Global Depository Receipts. B 3

**Unit-II (14 Hours)**

**Capital Budgeting:** Concept, Importance and Appraisal Methods: Pay Back Period, Accounting Rate of Return, Net Present Value Method (NPV), Profitability Index, and IRR. C 1

**Capital Budgeting under Risk:** Certainty Equivalent Approach and Risk Adjusted Discount Rate. C 2

**Unit-III (14 Hours)**

**Cost of Capital:** Meaning, Classification and Methods of Calculating Cost of Equity Capital, Cost of Retained Earnings, Cost of Debts, Cost of Preference Capital and Weighted Average Cost of Capital (WACC). C 4

**Capital Structure:** Theories of Capital Structure (Net income, Net Operating Income, MM Hypothesis Traditional Approach), Determinants of Capital Structure. B 2

**Leverage:** Concept, Significance and Types of Leverage: Operating and Financial Leverage. B 4

**Unit-IV (14 Hours)**

**Dividend Decision:** Retained Earnings vs. Dividend Decision, Gordon Model, Walter Model, MM Approach, Determinants of Dividend. C 3

**Working Capital Management:** Meaning and Nature of Working Capital, Working Capital Estimation, D 1  
Inventory Management D 2

Payable Management D 4  
D 3

## About the Book

The book provides a comprehensive coverage of the course-content requirements of the students appearing for the paper *Financial Management* at the MBA and M.Com. Examinations of different Indian Universities and those of Professional Institutions. The book has been divided into SEVEN Sections. Each Section covers a different aspect of *Financial Management* with the subject divided into chapters covering different topics in a systematic, convenient and concise manner. The last TWO Sections: Section F and Section G comprising of Advanced Solved Problems and Advanced Unsolved Problems, respectively, make the study of the subject all the more informative, interesting and exhaustive.

The unique feature of this book lies in its simple and systematic presentation of theory, which would enable the students to solve practical problems with ease. The other main strengths of this book are: plentiful illustrative examples and end-of-the-chapter exercises with short answers.

## New in the Fifteenth Edition

- Incorporates latest relevant provisions of different legislations viz. The Companies Act 2013, The Finance Act, 2018: Industrial Development Regulation Act, 1951 etc., having a bearing on Financial Management of an organization.
- Updates the details regarding working of different financial institutions providing finance to various sectors of economy.
- Explains recent measures taken by the Securities Exchange Board of India (SEBI) and financial institutions including Reserve Bank of India for strengthening the financial sector.
- Adds questions, problems and cases from recent university and professional examinations.

## About the Author

**Dr. S.N. Maheshwari** is presently Professor Emeritus & Academic Director, Delhi Institute of Advanced Studies, Delhi. He is also the Chairman, Indian Society of Accounting and Management, New Delhi. During his long and varied experience, he worked as Director General, Delhi Institute of Advanced Studies, Principal, Hindu College, University of Delhi; Professor and Dean, Faculty of Commerce and Business Management, Goa University; Director, Institute of Management Science and Productivity Research, New Delhi; Director (Academic), BLS Institute of Management, Mohan Nagar; Vice-Principal, Shri Ram College of Commerce, University of Delhi; and Principal, Staff Training College, New Bank of India, Chandigarh. Dr. S.N. Maheshwari has more than five decades of experience in teaching students of B.Com., BBA, M.Com., MBA, CA, CS and CMA. He has authored around one hundred fifty books/monographs and participated in several National and International seminars.



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