# MUTHAYAMMAL ENGINEERING COLLEGE
## An Autonomous Institution

**(Approved by AICTE, New Delhi, Accredited by NBA & NAAC & Affiliated to Anna University)**
**Rasipuram - 637 408, Namakkal Dist.**

**MKC**

## DEPARTMENT OF MANAGEMENT STUDIES

**2019 - 2020**

**I Year/ II Semester**

| Subject | | Financial Management (I MBA-EVEN SEM) | | |
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| **S.No** | **Term** | **Notation ( Symbol)** | **Concept/Definition/Meaning/Units/Equation/ Expression** | **Units** |
| 1 | Financial management | | All the processes associated with the raising and use of Financial resources in a business. | I |
| 2 | Systematic Risk | | Uncontrollable | I |
| 3 | Un systematic risk | | Controllable Risk | I |
| 4 | Standard Deviation | | Conceptually equivalent quantitative measures of total risk | I |
| 5 | Components of return | | Current return, Capital return | I |
| 6 | Dispersion | | Assert risk in receiving a return on investment | I |
| 7 | Financial intermediary | | Providers and users of finance, either as a broker or as principal | I |
| 8 | Bail-out | | A fresh injection of liquidity given to a bankrupt or nearly bankrupt entity, such as a corporation or a bank, in order for it to meet its short-term obligations. | I |
| 9 | Bear market | | Prices are falling and investors, anticipating losses, tend to sell. | I |
| 10 | Bond | | The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. | I |
| 11 | Credit | | A "line of credit" is permission from a bank to borrow money. | I |
| 12 | Debt | | The money that a company or individual owes a creditor. | I |
| 13 | Debt Market | | Debt market provides market participants the lending and borrowing of funds through debt Instruments | I |
| 14 | Derivatives | | Derivatives are financial instruments that primarily derive its value from the performance of an underlying variable such as interest rates, FX rates, or financial instrument prices. | I |
| 15 | Equity | | A share of the ownership in a company, home or other asset. | I |

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| 16 | Equity market | | Equity market, also known as Stock Market | I |
| 17 | Futures | | A futures contract is an agreement to buy or sell a commodity at a predetermined date and price. | I |
| 18 | Hedging | | Hedging Making an investment to reduce the risk of price fluctuations to the value of an asset. | I |
| 19 | Stocks | | Goods purchased by a business to resell on to its customers. | I |
| 20 | Return on equity | | Return on equity is a measure of investment return that compares the profit earned by a business with the amount invested in the business by shareholders | I |
| 21 | Risk capital | | An alternative term for venture capital | I |
| 22 | Time Value of Money | | The time value of money (TVM) is the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity. | I |
| 23 | Annuity | | An annuity is a series of equal cash flows paid at equal time intervals for a finite number of periods | I |
| 24 | Discount Rate | | This is the interest rate that is used to convert between future values and present values. Note that the process of calculating present values is often referred to as "discounting" because present values are generally less than future values. | I |
| 25 | Objectives of Financial Management | | Attempting to reduce the cost of finance. Ensuring sufficient availability of funds. | I |
| 26 | Regular Annuity | | The first payment is made one period in the future | II |
| 27 | Annuity Due | | The first payment is made immediately | II |
| 28 | Graduated Annuity | | A graduated annuity (also called a growing annuity) is a series of cash flows that increases over time at a constant rate for a finite number of periods | II |
| 29 | Lump Sum | | A lump sum is a single cash flow. | II |
| 30 | Perpetuity | | Perpetuity is simply a type of annuity that has an infinite life. In other words, it is a "perpetual annuity." | II |
| 31 | Uneven Cash Flow Stream | | Any series of cash flows that doesn't conform to the definition of an annuity is considered to be an uneven cash flow stream. | II |
| 32 | Cash Flow Sign Convention | | This convention, used by financial calculators and spreadsheet functions, specifies that the sign | II |
| 33 | Rule of 72 | | A simple rule that can be used to approximate how long it will take a given amount of money to double at a particular interest rate. | II |
| 34 | Time Line | | A time line is a graphical depiction of the cash flows in a time value of money problem. | II |
| 35 | Banker's Year | | A banker's year is 12 months, each of which contains 30 days | II |
| 36 | Compound Interest | | This refers to the situation where, in future periods, interest is earned not only on the original principal | II |

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| | | | amount, but also on the previously earned interest. | |
| 37 | Compounding Frequency | | This refers to how often interest is credited to the account. Once interest is credited it becomes, in effect, principal. | II |
| 38 | Frequency of Cash Flows | | The frequency is simple a shortcut to save both time and memory. | II |
| 39 | Future Value | | This term refers to the value of a cash flow (or series of them) at some specific future time. | II |
| 40 | Internal Rate of Return | | The compound average annual rate of return that is expected to be earned on an investment, assuming that the investment is held for its entire life and that the cash flows are reinvested at the same rate as the IRR. | II |
| 41 | Modified Internal Rate of Return | | The compound average annual rate of return that is expected to be earned on an investment, assuming that the investment is held for its entire life and that the cash flows are reinvested at a rate that is different from the IRR. | II |
| 42 | Net Present Value | | The present value of the future cash flows less the cost of the investment. The NPV is a direct measure of "cost versus benefit. | II |
| 43 | Present Value | | t is the amount that you would be willing to pay today in order to receive a cash flow in the future. | II |
| 44 | Required Return | | The required return is simply the return that an investor believes he/she needs to earn in order to make an investment in a particular security. | II |
| 45 | Divisional constraints | | Upper management allocates a fixed amount for each division as part of the overall corporate strategy | II |
| 46 | Linear Programming Model | | The widely used mathematical programming techniques for arriving at solution to the problem. | II |
| 47 | Project Indivisibility | | Encountered in using ranking method arises due to indivisible nature of project investments. | II |
| 48 | Debt Constraints | | Earlier debt issues might prohibit the increase in the firms debt beyond a certain level as stipulated in previous debt contacts | II |
| 49 | System of weighting | | Historical weights and Marginal weights | II |
| 50 | TVM | | A common abbreviation for "time value of money | II |
| 51 | Capital structure | | The capital structure of a business refers to the way in which it is financed. I | III |
| 52 | Capital markets | | A market in which long-term capital is raised by industry and commerce, the government, and local authorities. | III |
| 53 | Discounted cash flow | | Discounted cash flow is a method of investment appraisal. | III |
| 54 | Methods Of Recapitalizatio n | | Issue debt and repurchase equity<br>Issue debt and pay a large dividend to equity investors<br>Issue equity and repay debt | III |
| 55 | Leveraged Buyouts | | In a leveraged buyout (LBO) transaction a firm will take on significant leverage to finance the acquisition. | III |
| 56 | Private Placement | | The sale of securities not registered with a recognized exchange to institutional investors or wealthy individuals. | III |
| 57 | Privatization | | Involves a private enterprise or syndicate purchasing a government asset or service. | III |

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| 58 | Public to Private | | A transaction where an under-analysed, “ignored” publicly listed company is de-listed and managed as a private company. | III |
| 59 | Real return | | The rate of return on an investment in excess of inflation. For example, if the rate of return is 10% but the inflation rate is 3% the real return is 7% (= 10-3%). | III |
| 60 | Risk | | In investment terms risk is a measure of volatility. Volatility is a measure of the variability of returns and is the standard deviation of investment returns over a specific period of time. | III |
| 61 | Specialized option | | An option which generally invests in less than three asset sectors. | III |
| 62 | Venture Capital | | A term used interchangeably with private equity. | III |
| 63 | Yield | | A measure of return on an investment expressed as a percentage | III |
| 64 | Net assets | | Net assets are disclosed as part of the balance sheet. Net assets equals total assets on the balance sheet less total liabilities. | III |
| 65 | Net current assets | | Net current assets are disclosed as part of the balance sheet. | III |
| 66 | Earning Per Share (EPS) | | Earnings Per Share (EPS) refers to the profit available per equity share issued by the company after the payment of all third party dues including tax and dividend on Preference shares. | III |
| 67 | Return on Equity (ROE) | | Return on Equity (ROE) is the other form of earning per share. Return on equity is Defined as the rate of return on equity share capital. | III |
| 68 | Cost of Capital | | The cost of capital is the rate of return the company, which theCompany has to pay to various suppliers of funds to the company | III |
| 69 | Net Income Approach | | The market value of equity shares is based on the earning available for equity shareholders after the payment of interest on debt if it is included in the capital structure. | III |
| 70 | Net Operating Income Approach | | The market value of the firm is based on the earning available for Fund providers after paying all other expenses except interest on debt. | III |
| 71 | Debentures | | A debenture is an acknowledgement of debt or loan raised by a company. | III |
| 72 | Term Loans | | Loans provided by banks and other financial institution which carry a fixed rate of interest for a period of three or more Years. | III |
| 73 | Financial Leverage | | The long term fixed interest bearing debt and preference share capital along with equity share capital is called financial leverage. | III |
| 74 | Flexibility | | Capital structure of a firm should be flexible. | III |
| 75 | Legal constraints | | In a regulated economy, a firm has to comply with legal requirements in this respect. | III |
| 76 | Dividends | | Dividends represent amounts paid to shareholders out of the profits of a business. | IV |

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| 77 | Dividend Policy | | Dividend policy refers to the decisions made by a company as to how much profit should be distributed by way of dividends to shareholders as opposed to being reinvested in the business. | IV |
| 78 | Discount rate | | A term used in investment appraisal to refer to the “hurdle rate of interest” or cost of capital rate applied to the discount factors used in a discounted cash flow appraisal calculation. | IV |
| 79 | Dividend cover | | The dividend cover ratio is an accounting ratio that is concerned with the level of returns that are given to shareholders compared with the ability of the company to deliver profits. | IV |
| 80 | Dividend Decision | | A decision made by the directors of a company. It relates to the amount and timing of any cash payments made to the company's stockholders. | IV |
| 81 | Valuation Of Firm | | Valuation is the analytical process of determining the current (or projected) worth of an asset or a company | IV |
| 82 | Dividend Relevance Theory | | The theory, attributed to Gordon and Lintner, that shareholders prefer current dividends and that there is a direct relationship between a firm's dividend policy and its market value. | IV |
| 83 | Dividend Irrelevance Theory | | The dividend irrelevance theory is the theory that investors do not need to concern themselves with a company's dividend policy since they have the option to sell a portion of their portfolio of equities if they want cash. | IV |
| 84 | Walter's Model | | According to the Walter's Model, given by prof. James E. Walter, the dividends are relevant and have a bearing on the firm's share prices. If r<K, the firm should pay all its earnings to the shareholders in the form of dividends, because they have better investment opportunities than a firm. | IV |
| 85 | Determinants of dividend policy | | (i) Type of Industry (ii) Age of Corporation (iii) Extent of share distribution (iv) Need for additional Capital (v) Business Cycles (vi) Changes in Government Policies (vii) Trends of profits (vii) Trends of profits (viii) Taxation policy (ix) Future Requirements and (x) Cash Balance. | IV |
| 86 | Stock dividend | | A stock dividend is a distribution of additional shares of stock to existing shareholders on a pro-rata basis i.e. so much stock for each share of stock held. | IV |
| 87 | Cash Balance | | If the working capital of the company is small liberal policy of cash dividend cannot be adopted. Dividend has to take the form of bonus shares issued to the members in lieu of cash payment. | IV |
| 88 | Trends of profits | | The past trend of the company’s profit should be thoroughly examined to find out the average earning position of the company. | IV |
| 89 | Business Cycles | | During the boom, prudent corporate management creates good reserves for facing the crisis which follows the inflationary period. | IV |

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| 90 | Changes in Government Policies | | Sometimes government limits the rate of dividend declared by companies in a particular industry or in all spheres of business activity. | IV |
| 91 | Additional Capital | | The extent to which the profits are ploughed back into the business has got a considerable influence on the dividend policy. The income may be conserved for meeting the increased requirements of working capital or future expansion. | IV |
| 92 | Industry | | Industries that are characterized by stability of earnings may formulate a more consistent policy as to dividends than those having an uneven flow of income. | IV |
| 93 | Age of Corporation | | Newly established enterprises require most of their earning for plant improvement and expansion, while old companies which have attained a longer earning experience, can formulate clear cut dividend policies and may even be liberal in the distribution of dividends. | IV |
| 94 | Extent of share distribution | | A closely held company is likely to get consent of the shareholders for the suspension of dividends or for following a conservative dividend policy. | IV |
| 95 | Inflation | | Inflation means rise in prices. | IV |
| 96 | Regular dividend | | Payment of dividend at the usual rate | IV |
| 97 | Irregular dividend | | Uncertainty of earnings, Lack of Liquid recourses | IV |
| 98 | Payout ratio | | The percentage share of the net earning distributed to the shareholders as dividend. | IV |
| 99 | Size of earnings | | Practically and truly speaking, the upper ceiling on dividend is dictated by the earnings of the business. | IV |
| 100 | Record Rate | | The dividend is payable to shareholders whose names appear in the Register of member as on the record date. | IV |
| 101 | Working capital management | | Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to the best effect. | V |
| 102 | Working Capital Formula | | Working Capital = Current Assets - Current Liabilities | V |
| 103 | Working Capital Ratio | | Working capital ratio = current assets / current liabilities. | V |
| 104 | Strategies to Manage Working Capital | | Different elements of working capital such as bills receivable, cash, inventory etc need to be taken care of in order to manage working capital of a business. | V |
| 105 | Inventory Management | | It refers to investing an optimum amount of working capital in inventories. This means that the investment is neither too low nor too high. Low amount of investment in inventories stalls the production process. | V |
| 106 | Cash Management | | Cash is the most liquid of all current assets. All the current assets like receivables and inventory get converted into cash eventually. | V |

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| 107 | Accounts Receivable Management | | Accounts receivable refers to the debtors arising on account of selling goods on credit to customers. | V |
| 108 | Seasonal Variations | | The seasonal enterprises, i.e., the enterprise whose operations pick up seasonally may require more working capital to meet their increased operations during the particular season. A popular example of seasonal enterprise may be sugar factory whose operations are highly seasonal. | V |
| 109 | Turnover of Inventories | | If inventories are large in size but turnover is slow, the small-scale enterprise will need more working capital. On the contrary, if inventories are small but their turnover is quick, the enterprise will need a small amount of working capital. | V |
| 110 | Contingencies | | If the demand for and price of the products of small- scale enterprises are subject to wide variations or fluctuations, the contingency provisions will have to be made for meeting the fluctuations. | V |
| 111 | Production Cycle Time | | The production cycle time refers to the time required for converting the raw materials into finished goods. Higher, this time, higher would be the time of blocking funds in the working capital. | V |
| 112 | Credit Policy | | Liberal credit policy demands a higher level of working capital and tight credit policy reduces it. | V |
| 113 | Growth And Expansion | | Some industries are static and others are growing. Obviously, growing industry grows the requirement of working capital also as compared to static industry. | V |
| 114 | Taxes | | Taxes are often paid in advance. This also blocks a part of working capital. Depending on the tax environment of the industry, working capital needs are also affected. | V |
| 115 | Operating Efficiency | | Operating efficiency means efficiently completing the various business operations. Operating efficiency of every organization happens to be different. | V |
| 116 | Growth Prospects | | Growth means the development of the scale of business operations (production, sales, etc.). The organisations which have sufficient possibilities of growth require more working capital, while the case is different in respect of companies with less growth prospects. | V |
| 117 | Level of Competition | | High level of competition increases the need for more working capital. In order to face competition, more stock is required for quick delivery and credit facility for a long period has to be made available. | V |
| 118 | Scale of Operations | | There is a direct link between the working capital and the scale of operations. In other words, more working capital is required in case of big organisations while less working capital is needed in case of small organisations. | V |
| 119 | Business Cycle | | The need for the working capital is affected by various stages of the business cycle. During the boom period, the | V |
| 120 | Types of Working Capital | | • Gross Working Capital (GWC)<br>• Net Working Capital (NWC) or Working Capital.<br>• Permanent / Fixed Working Capital.<br>• Temporary / Variable WC. | V |

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| 121 | Nature of Inventory | | Raw Material, work in Progress, Consumable, Finished Goods | V |
| 122 | Stock out Cost | | Cost associated with not serving the customer | V |
| 123 | Carrying Cost | | Holding cost or storage cost | V |
| 124 | Trade Credit | | Credit extended by the suppliers of goods in the normal course of business | V |
| 125 | Sales Ration | | This ratio is also very useful from the point of inter period and inter firm comparisons. | V |
| **General Questions:** | | | | |
| 1 | What Is The Financial Management Reform? | | The Financial Management Reform is the new policy framework that had been adopted by the Fiji Government to improve performance and accountability. | |
| 2 | Differentiate Between Financial Management And Financial Accounting? | | Though financial management and financial accounting are closely related, still they differ in the treatment of funds and also with regards to decision - making. | |
| 3 | Define Convexity? | | Convexity is the measure of curvature that exists between bond prices and bond yields. It helps in more accurate estimations. | |
| 4 | What ss Free Cash Flow? | | Free cash flow is the cash flow that exists for distribution. It is available for all the securities holders of the organization. They include debt holders, preferred stock holders, equity holders, convertible holders etc. | |
| 5 | Explain Credit Spread? | | Credit spread is the difference between the value of two securities which have different prices but similar interest rates and maturities. It is also defined as the additional interest that is paid by a borrower who has a lower than a satisfactory credit rating. | |
| 6 | Why are increases in accounts receivable a cash reduction on the cash flow statement? | | Since our cash flow statement starts with net income, an increase in accounts receivable is an adjustment to net income to reflect the fact that the company never actually received those funds. | |
| 7 | How is the income statement linked to the balance sheet? | | Net income flows into retained earnings. | |
| 8 | What is goodwill? | | Goodwill is an asset that captures excess of the purchase price over fair market value of an acquired business. | |
| 9 | What is a deferred tax asset and why | | Deferred tax asset arises when a company actually pays more in taxes to the IRS than they show as an expense on their income statement in a reporting period. | |

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| | might one be created? | | | |
| 10 | What motivates you? | | This is your chance to detect what drives your finance candidates. Dig further to find out whether it’s about the money or the finance industry itself. Keep in mind, the desire to make money doesn’t necessarily equate to a sufficient drive to succeed or real passion for the business. It often comes with limitations. | |
| 11 | What is working capital? | | Working capital is typically defined as current assets minus current liabilities | |
| 12 | What does negative working capital mean? | | Negative working capital is common in some industries such as grocery retail and the restaurant business. For a grocery store, customers pay upfront, inventory moves relatively quickly, but suppliers often give 30 days (or more) credit. | |
| 13 | When should a company consider issuing debt instead of equity? | | A company should always optimize its capital structure. If it has taxable income, then it can benefit from the tax shield of issuing debt. If the firm has immediately steady cash flows and is able to make the required interest payments, then it may make sense to issue debt if it lowers the company’s weighted average cost of capital. | |
| 14 | Walk me through the three financial statements. | | Balance Sheet, Income Statement, Cash flow statement | |
| 15 | When do you capitalize rather than expense a purchase? | | If the purchase will be used in the business for more than one year, it is capitalized and depreciated according to the company’s accounting policies. | |
| 16 | Why would two companies merge? What major factors drive mergers and acquisitions? | | There are many reasons companies go through the M&A process: to achieve synergies (cost savings), enter new markets, gain new technology, eliminate a competitor, and because it’s “accretive” to financial metrics. Learn more about accretion/dilution in M&A. | |
| 17 | If you were CFO of our company, what would keep you up at night? | | Step back and give a high-level overview of the company’s current financial position, or the position of companies in that industry in general. Highlight something on each of the three financial statements. | |
| 18 | Tell me about a time when you had to prepare a financial report with a very tight deadline. What steps did | | I was given four hours to prepare a financial report. I stopped working on all non-essential tasks and brought in my assistant to sort through balance sheets while I examined statements of cash flow. | |

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| | you take? | | | |
| 19 | As a finance manager, do you have experience with relational database management systems, such as Oracle? | | As a finance manager, I have six years of experience using Oracle. I have a working knowledge of SQL. I recently began using Tibero and Microsoft SQL Server." | |
| 20 | What are your methods for avoiding errors when recording and examining financial documents? | | In my last finance manager position, I put together a team of analysts to double-check all financial documents. I would correct any errors on the documents before submitting them to upper management." | |
| 21 | As a finance manager, how do you motivate and reward your team? | | As a finance manager, I allocate budgets for monthly bonuses and Friday lunches. Every Friday, I provide my team with excellent lunches in the office. The monthly bonuses are for those who come to work daily." | |
| 22 | In your opinion, can a cash flow statement tell how well a company is doing? | | I would use a balance sheet, which lists liabilities and assets, and a cash flow statement to get a complete idea of a company's financial state. Using multiple documents helps fill in any missing gaps." | |
| 23 | Explain ‘financial modelling’. | | Financial modeling is a quantitative analysis commonly used for either asset pricing or general corporate finance. | |
| 24 | Walk me through a ‘cash flow statement.’ | | You’ll have to be well-prepared for this question. Start with the net income and go line by line explaining all major adjustments to arrive at cash flow from operating activities. Mention all the necessary parts that are associated with it. | |
| 25 | What is NPV? Where is it used? | | Net Present Value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows. NPV is used in capital budgeting to analyze the profitability of a projected investment or project. | |

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| Faculty Team Prepared | **S.Senthilkumar** | Signature: |

**HoD**