

# **Intermediate Course**

# **Study Material**

## **(Modules 1 to 2)**

---

## **PAPER 8A**

# **Financial**

# **Management**

## **MODULE – 2**



**BOARD OF STUDIES**  
**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

This study material has been prepared by the faculty of the Board of Studies. The objective of the study material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the study material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© ***The Institute of Chartered Accountants of India***

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Edition	:	July, 2019
Website	:	<a href="http://www.icai.org">www.icai.org</a>
E-mail	:	bosnoida@icai.in
Committee/	:	Board of Studies
Department	:	
ISBN No.	:	
Price (All Modules)	:	₹
Published by	:	The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.
Printed by	:	

# CONTENTS

## MODULE – 1

- Chapter-1: Scope and Objectives of Financial Management
- Chapter-2: Types of Financing
- Chapter-3: Financial Analysis and Planning-Ratio Analysis
- Chapter-4: Cost of Capital
- Chapter-5: Financing Decisions-Capital Structure
- Chapter-6: Financing Decisions-Leverages

## MODULE - 2

- Chapter-7: Investment Decisions
- Chapter-8: Risk Analysis in Capital Budgeting
- Chapter-9: Dividend Decisions
- Chapter-10: Management of Working Capital

## **DETAILED CONTENTS: MODULE – 2**

---

### **CHAPTER 7 : INVESTMENT DECISION.....7.1-7.72**

7.1	Introduction .....	7.2
7.2	Purpose of Capital Budgeting .....	7.3
7.3	Capital Budgeting Process .....	7.4
7.4	Types of Capital Investment Decisions.....	7.5
7.5	Estimation of Project Cash Flows .....	7.7
7.6	Basic Principles for Measuring Project Cash Flows .....	7.12
7.7	Capital Budgeting Techniques .....	7.17
7.8	Traditional or Non-Discounting Techniques.....	7.17
7.9	Discounting Techniques .....	7.25
7.10	Summary of Decision Criteria of Capital Budgeting Techniques .....	7.49
7.11	Special Cases of Capital Budgeting .....	7.50
	Summary .....	7.61
	Test Your Knowledge.....	7.62
	Answers/Solutions .....	7.68

### **CHAPTER 8 : RISK ANALYSIS IN CAPITAL BUDGETING.....8.1-8.31**

8.1	Introduction to Risk Analysis in Capital Budgeting.....	8.2
8.2	Sources of Risk .....	8.3
8.3	Techniques of Risk Analysis in Capital Budgeting .....	8.4
8.4	Statistical Techniques.....	8.5

8.5	Conventional Techniques.....	8.12
8.6	Other Techniques.....	8.17
	Summary .....	8.25
	Test Your Knowledge.....	8.26
	Answers/Solutions .....	8.30

## **CHAPTER 9 : DIVIDEND DECISION ..... 9.1-9.43**

9.1	Introduction .....	9.2
9.2	Meaning of Dividend.....	9.2
9.3	Significance of dividend policy.....	9.3
9.4	Forms of dividend .....	9.4
9.5	Relationship between retained earnings and growth.....	9.5
9.6	Determinants of Dividend Decisions .....	9.6
9.7	Practical Considerations in Dividend Policy.....	9.8
9.8	Theories of Dividend .....	9.12
9.9	Stock Splits.....	9.31
	Summary .....	9.36
	Test Your Knowledge.....	9.36
	Answers/Solutions .....	9.39

## **CHAPTER 10 : MANAGEMENT OF WORKING CAPITAL..... 10.1-10.128**

	<b>UNIT I : INTRODUCTION TO WORKING CAPITAL MANAGEMENT .....</b>	<b>10.3</b>
10.1	Meaning and Concept of Working Capital.....	10.3
10.2	Significance of Working Capital.....	10.5
10.3	Determinants of Working Capital .....	10.7

10.4 Management of Working Capital .....	10.8
10.5 Estimating Working Capital Needs.....	10.14
10.6 Operating or Working Capital Cycle .....	10.14
<b>UNIT II : TREASURY AND CASH MANAGEMENT.....</b>	<b>10.32</b>
10.7 Treasury Management : Meaning .....	10.32
10.8 Functions of Treasury Department.....	10.32
10.9 Management of Cash.....	10.33
10.10 Methods of Cash Flow Budgeting .....	10.36
10.11 Cash Management Models.....	10.52
10.12 Recent developments in Cash Management .....	10.55
10.13 Management of Marketable Securities .....	10.59
<b>UNIT III : MANAGEMENT OF INVENTORY.....</b>	<b>10.61</b>
10.14 Inventory Management .....	10.61
<b>UNIT IV : MANAGEMENT OF RECEIVABLES.....</b>	<b>10.64</b>
10.15 Meaning and Objective .....	10.64
10.16 Aspects of Management of Debtors.....	10.64
10.17 Factors Determining Credit Policy.....	10.65
10.18 Factors under the Control of the Finance Manager .....	10.66
10.19 Approaches to Evaluation of Credit Policies.....	10.66
10.20 Financing Receivables .....	10.74
10.21 Innovations in Receivable Management.....	10.77
10.22 Monitoring of Receivables.....	10.82
<b>UNIT V : MANAGEMENT OF PAYABLES (CREDITORS).....</b>	<b>10.86</b>
10.23 Introduction .....	10.86

10.24 Cost and Benefits of Trade Credit.....	10.86
10.25 Computation of Cost of Payables.....	10.87
<b>UNIT VI : FINANCING OF WORKING CAPITAL .....</b>	<b>10.89</b>
10.26 Introduction .....	10.89
10.27 Sources of Finance.....	10.90
10.28 Working Capital Finance from Banks.....	10.93
10.29 Forms of Bank Credit.....	10.93
10.30 Maximum Permissible Bank Finance (MPBF) – Tandon Committee.....	10.94
Summary .....	10.98
Test Your Knowledge .....	10.99
Answers/Solutions .....	10.112

## **APPENDIX**

Financial Tables .....	1-5
------------------------	-----