

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	:	September, 2021
Website	:	www.icai.org
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 DECISIONS.....7.1-7.98

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.....	7.18
7.9	Discounting Techniques	7.25
7.10	Summary of Decision Criteria of Capital Budgeting Techniques	7.50
7.11	Special Cases of Capital Budgeting.....	7.51
	Summary	7.69
	Test Your Knowledge.....	7.70
	Answers/Solutions	7.82

CHAPTER 8 : RISK ANALYSIS IN CAPITAL BUDGETING.....8.1-8.40

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.....	8.13
8.6	Other Techniques.....	8.18
	Summary.....	8.29
	Test Your Knowledge.....	8.29
	Answers/Solutions.....	8.35

CHAPTER 9 : DIVIDEND DECISION9.1-9.51

9.1	Introduction.....	9.2
9.2	Meaning of Dividend.....	9.3
9.3	Forms of dividend.....	9.3
9.4	Significance of dividend policy.....	9.5
9.5	Relationship between retained earnings and growth.....	9.6
9.6	Determinants of Dividend Decisions.....	9.7
9.7	Practical Considerations in Dividend Policy.....	9.9
9.8	Theories of Dividend.....	9.13
9.9	Stock Splits.....	9.33
	Summary.....	9.38
	Test Your Knowledge.....	9.39
	Answers/Solutions.....	9.44

CHAPTER 10 : MANAGEMENT OF WORKING CAPITAL..... 10.1-10.146

	UNIT I : INTRODUCTION TO WORKING CAPITAL MANAGEMENT.....	10.3
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	10.9
10.5	Estimating Working Capital Needs.....	10.15
10.6	Operating or Working Capital Cycle.....	10.16
UNIT II : TREASURY AND CASH MANAGEMENT		10.34
10.7	Treasury Management : Meaning.....	10.34
10.8	Functions of Treasury Department.....	10.34
10.9	Management of Cash.....	10.36
10.10	Methods of Cash Flow Budgeting	10.38
10.11	Cash Management Models.....	10.55
10.12	Recent developments in Cash Management.....	10.58
10.13	Management of Marketable Securities.....	10.62
UNIT III : MANAGEMENT OF INVENTORY		10.64
10.14	Inventory Management	10.64
UNIT IV : MANAGEMENT OF RECEIVABLES		10.67
10.15	Meaning and Objective	10.67
10.16	Aspects of Management of Debtors.....	10.67
10.17	Factors Determining Credit Policy.....	10.68
10.18	Factors under the Control of the Finance Manager	10.69
10.19	Approaches to Evaluation of Credit Policies.....	10.69
10.20	Financing Receivables.....	10.78
10.21	Innovations in Receivable Management.....	10.84
10.22	Monitoring of Receivables.....	10.90
UNIT V : MANAGEMENT OF PAYABLES (CREDITORS).....		10.93
10.23	Introduction.....	10.93

10.24 Cost and Benefits of Trade Credit.....	10.93
10.25 Computation of Cost of Payables.....	10.94
UNIT VI : FINANCING OF WORKING CAPITAL	10.97
10.26 Introduction.....	10.97
10.27 Sources of Finance.....	10.98
10.28 Working Capital Finance from Banks.....	10.101
10.29 Forms of Bank Credit.....	10.102
10.30 Maximum Permissible Bank Finance (MPBF) – Tandon Committee	10.102
Summary	10.106
Test Your Knowledge.....	10.108
Answers/Solutions	10.123
 APPENDIX	
Financial Tables	A.1-A.8