**Financial Management**

**Short Question Answer**

**Chapter 01:**

**1. Define Financial Management.**

Financial management is that specialized activity which is responsible for obtaining and affectively utilizing the funds for the efficient functioning of the business and, therefore, it includes financial planning, financial administration and financial control.

**2. State the primary objective of Financial management.**

To maximize the shareholders wealth.

**3. State the decisions involved in Financial management.**

a) Investment decision b) Financing decision c) Dividend decision

**4. What is meant by Financial Planning?**

Financial planning means deciding in advance, the financial activities to be carried on to achieve the basic objective of the firm. The basic objective of the firm is to get maximum profits out of minimum efforts.

**5. What are the objectives of financial planning?**

a) to ensure availability of fund whenever

b) to see that the firm does not raise funds

**6. What is Working Capital ?**

The capital required for day to day operations of the business is called Working capital.

**7. State the difference between gross working capital and net working capital.**

Gross working capital is the sum/ aggregate of the current assets, whereas

Net working capital = Current assets – current liabilities.

**8. What is meant by capital budgeting decision?**

A long term Investment decision is called capital budgeting decision.

**9. When is financial leverage considered favorable?**

Financial leverage is considered favorable when return on investment is higher than the cost of debt.

**10. How does production cycle effect working capital?**

Working capital requirement is higher with longer production cycle.

**11. What do you mean by floatation cost?**

Cost incurred for raising funds.

**12. What is capital structure of a company?**

Capital structure is the relative proportion of different sources of long term finance. In other words Capital structure of a company refers to the make up of its capitalization

**15. Define current assets and Give four examples.**

Current assets also called as floating assets or fluctuating assets are short term assets whose value fluctuates in the short period. These assets are required to pay off the current liabilities. For e.g. cash in hand/Bank, Inventory, Debtors. Bills receivable, Marketable securities etc.

**16. Define shareholder wealth maximization.**

Maximizing the price of existing common stock.

**17. Which of the following cold of the form are synonymous (equivalent) to the maximization of shareholder wealth.**

Maximization of the total market value of the firm’s total stock

**18. A corporate treasures is typically responsible for what duties?**

Capital expenditures, Credit management, Cash management

19. What are the two components of shareholders' equity?

a. Contributed capital

b. Retained earnings