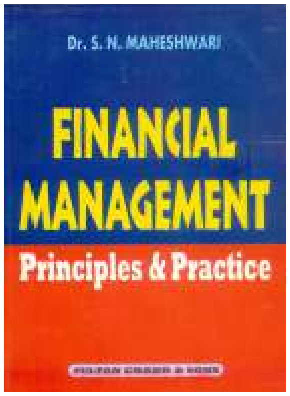

FINANCIAL MANAGEMENT-PRINCIPLES AND PRACTICE

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The fast pace of progression in today's global souk has yielded copious problems related to increasing rivalry and complex decision making, the dearth of which can trigger off catastrophic results. The opportune accessibility of pertinent statistics packaged into useful information can help to efficiently plow on the high level of commercial activity.The escalation in borrowing and loaning by business enterprises necessitates a universally accepted method for appraising the creditworthiness of the trading partner, occasioning usage of business credit ratings. Although, the method of credit rating is not impermeable as is evident from the colossal scams and frauds in the recent past, but as is said ***"Better to do something imperfectly than to do nothing perfectly"***, the stringent norms and enhanced vigilance of credit rating agencies in addition to ethical maneuvering of the concern's operations by the business administrators can prove to be pragmatic and expedient.

For this, the financial managers and executives are expected to have adequate comprehension of managing funds effectually or see the firm wallow in filth and squalor due to mismanagement and lack of upkeep. This calls for a thorough knowledge of the subject. The fourteenth and enlarged edition of the book titled "Financial Management: Principles and Practice" has been brought out congregating all the rudimentary, indispensable and vital concepts along with the related modules deemed necessary for understanding the subject better. The book under review has been revised by incorporating contemporary developments in the relevant chapters.

The author has meticulously divided the book into seven sections. The first five sections viz. "Foundations of Finance", "Financial Analysis", "Cost Analysis", "Funds Management" and "Miscellaneous" embrace the customary concepts of financial management along with recent developments and novel concepts in the respective areas. The sixth section, "Advanced Solved Problems", offers ample solved illustrations to the readers so as to assist them in cognizing and apprehending the concepts better. The last section, "Advanced Unsolved Problems and Appendices", provides opportunity to the readers to test their knowledge by attempting to solve the questions provided therein. Also, this section includes the present value and future value tables for the ease of the readers along with detailed explanation and analysis of Accounting Standard 20: Earnings Per Share under the heading Appendices.

SECTION A – "Foundations of Finance", covering fundamentals of the subject, has been sub-divided into five chapters wherein the author delves upon the meaning and scope of financial management, time value of money, valuation of securities, concepts relating to risk and return and the regulatory framework which guides the functions and operations of the business.

The rising number of scams is making it imperative to take cognizance of the gravity of the frauds and malpractices committed by business personnel. In this era of cut throat competition, it is merely the all-inclusive knowledge of finance and financial management which can safeguard the business from pre-carious mis-management of money. The comprehension of the subject facilitates the four broad decisions viz. funds requirement, financing, investment and dividend decision. The First Chapter: Financial Management: Meaning and Scope delves upon the afore-said decisions, financial forecasting as well as the role of finance manager. As against the traditional theories, an evolving concept, behavioral finance, asserts that investors are more susceptible to judgment and decision-making errors than making rational choices. Driven by subjective thinking, greed, extremes of emotion, incomplete information, fear and the whims of the crowd, investors constantly develop irrational expectancy about the imminent performance of companies and the overall economy, thus resulting in dropping the assumptions of traditional finance and falling prey to irrational investments. This budding and innovative concept has also been discussed in the first chapter.

Generally, a new investment is not anticipated to yield instant affirmative outcomes in the form of cash flows, therefore, it is imperative for the business to discern whether the future cash flows, as and when they arise, are worth the current investment or not. The concept of time value of money plays an integral role in such assessment and in making the best use of a financial player's limited funds.The author has discussed the various related valuation concepts in the *Second Chapter: Concepts In Valuation,* while the practical implementation of time value of money on valuation and appraisal of securities has been detailed in *Chapter 3: Valuation of Securities,* with the help of various illustrations. Thereafter, an analysis of risk return trade-off is useful for deciding the amount of risk that the investor is ready to bear while remaining unperturbed with the investments. The risk bearing capacity in relation to return varies from one person to the other. On the one hand,it is easy for some people to stand the equivalent of financial skydiving without batting an eye, while the others are terrified to ascent the fiscal ladder minus a secure harness. The Fourth *Chapter: Risk and Return* details the relationship between the two along with the criteria for evaluating various proposals so as to minimize risk.

Chapter Five: Regulatory Framework acquaints the readers with the prevalent legal framework as it is mandatory for all business enterprises to comply with various applicable laws, rules and regulations along with the latest amendments in the various acts. The emerging concept of limited liability partnership form of organization has also been elaborated upon.

Scrutiny of historical statistics to appraise the current as well as prospective financial health of a company is of paramount importance, especially for making critical decisions. A finance manager is required to have the requisite skill to understand and manage the business mastering the fluency in the language of finance as the goals of the business enterprise along with the measurement of their outcomes are in financial terms. It is vital to have the capability to read and comprehend financial data as well as present information in the form of financial reports.Meticulous analysis and extensive planning of finances can help supplement the financial success of any business. Considering the said significance, **SECTION B - "Financial Analysis"** has been broadly sub divided into four chapters, all of which characterize different methods, viz. comparative financial statements, common-size financial statements, trend percentages, funds flow analysis, cash flow analysis, cost-volume-profit analysis and ratio analysis, used by companies to analyze their financial statements. Ample illustrations and questions have been used by the author to aid better comprehension of these techniques and their practical implications.

The financial statement analysis alone does not suffice for better management. Extensive cost analysis is equally important. The business executives, particularly, financial analystsshould have good working knowledge about the pattern of cost behavior to expedite assessment, projections and other decisions relating to cost. **SECTION C** deliberates on **"Cost Analysis"** broadly encompassing the basic cost concepts, marginal costing and budgetary control.

The concept of cost and its components,different techniques and systems of costing, along with innovative concepts like activity based costing, back flush costing, life cycle costing and target costing have been discussed elaborately in the First *Chapter: Basic Cost Concepts.*

Companies and their clienteles persistently gauge costs and benefits. For this purpose, apposite resource allocation is a must, as for optimal domino effect, organization must distillate its resources where the excess of marginal revenue over the marginal cost is maximum, enhancing the vitality of marginal costing in decision making. Marginal costing acts as a tool of planning, monitoring and controlling costs based on selection of resource drivers and separation of costs into fixed and proportional components.The author has elucidated the same in great detail by segregating the basics from the practical applications into two chapters, the first of which titled, *Marginal Costing and Profit Planning,* tells apart marginal costing from absorption and direct from differential costing. It also explicates the rudiments of cost volume profit analysis, break even analysis, margin of safety, product pricing methods and their related concepts.

The implementation of marginal costing into real life decisions like determination of sales mix, exploring new markets, make or buy, discontinuance of a product line has been elaborated upon in the second chapter viz. *Decisions Involving Alternative Choices.* Copious illustrations in consort with systematic presentation and self-explanatory solution of the examples with proper working notes ensures effortless comprehension of the implications of various conceptslike key factor and differential costs in decision making.

Exploration of costs and their variability vis-à-vis actual and potential volumes empowers the finance manager to influence management decisions in the budgeting and reporting process. Judicious and precise comparison of budgets with actual operational results facilitates planning, scheduling, synchronization between departments, monitoring functional results,decision-making and impetus to personnel for achieving business objectives.For ensuring the realization of the plans, control is crucial as it puts into effect corrective measures where deviation is identified. Cost fluctuations caused by changes in operating levels are accurately predicted and incorporated. *The Fourth Chapter: Budgetary* Control accentuates the necessity for putting into place a budgetary control system in the organization. Also, the classification of budgets prepared in the organizations has been described systematically along with elucidation of concepts like sensitivity analysis, control ratios, responsibility accounting and zero based budgeting. The explanation in the chapter is quite comprehensive and simplifies the cognizance of the concepts and their applications in a very lucid and coherent manner.

The author has segregated **SECTION D – Funds Management** into eleven chapters broadly covering financial planning, capital structure, capital budgeting, working capital management, cost of capital, leverage and dividends, bonus and rights. The importance of an appropriate understanding of funds management cannot be overemphasized, as the lack thereof can lead to unbearable financial turmoil, irrespective of the financial reserves and repute of the organization. A company will certainly be profitable if the businessman recognizes the significance of finance in his business development cycle.

The overwhelming number of alternatives for investment or asset allocation has made it quite difficult to manage the finances of an enterprise, thus necessitating the creation of a sound financial plan. The existence of a comprehensive business plan acts as a chaperon for the overall smooth and effective functioning of the business and its absence can lead to the company losing its financial grip with disastrous consequences. *The First Chapter: Financial Planning: Meaning and Scope* deliberates upon the working capital forecasting and methods thereof, capitalization and its basis and causes, effects and remedies of under-capitalization and over-capitalization.

Adequate capital is a pre-requisite for necessary investments, the financing of which can be both internal and external, involving specific costs of each source. The proportion of a company's capital obtained through debt and equity varies on the basis of numerous factors like managerial shareholdings, corporate strategy, cost of each source of capital and taxation. Firms tend to increase leverage in case of available attractive growth prospects or when poor operating performance diminishes equity value or compels borrowing. The concepts of capital structure as well as cost of capital are extremely important because theynot only influence the rate of return of the company, but also help in ascertaining the ability of the firm to survive in a period of recession or depression. The author has meticulously dedicated separate chapters to capital structure, cost of capital and leverage. Great pains have been taken to detail all possible areas of concern in a comprehensible manner. Also, the systematic elucidation will definitely help the readers to grasp the concepts effortlessly.

Chapter 3: Sources of Finance explicates in addition to the traditional classification, financial institutions and instruments, contemporary concepts like financial engineering, re-engineering and financial intermediation. The guidelines framed by SEBI with respect to mutual funds are have also been deliberated upon in the current edition of the book.

A business seeking investment of its available resources in a project is expected to understand the risks and returns involved and to evaluate the investment prospects to maximize shareholder's wealth. The acceptability of rate of return of different investment avenues is influenced by factors that are specific to the company as well as the project. Capital budgeting decision is imperative for any business as it involves sizable, long term, irrevocable outlay of funds. The basics of capital budgeting and techniques for project selection are elaborated upon in *Chapter 5: Basics of Capital Budgeting* and incorporation of risk in these decisions has been discussed at length in *Chapter 6: Risk Analysis in Capital Budgeting* using plentiful solved illustrations so as to adequately emphasize all relevant concepts. Also, the net terminal value method has been incorporated to have an all-inclusive discussion on the methods of capital budgeting.

Fixed assets alone are not sufficient to run the business. Adequate liquid resources are equally important to maintain day-to-day cash flow, not just in the short run. Maintaining sufficient liquidity is essential to ensure the subsistence and growth of the business in the long-term as well.The various elements of effective working capital management, the management of cash, inventory, accounts receivable and accounts payable have been dealt with using practical problems in *Chapter 7: Working Capital Management.* Also, the author has introduced novel concepts like financial distress and financial insolvency in the chapter along with the addition of stone model of cash management to the other models specified in previous edition. The suggestions of various committees viz. Dehejia Committee, Tandon Committee, Chore Committee have been elaborated upon in *Chapter 8: Working Capital Control and Banking Policy.*

A separate unit, **Section E - Miscellaneous** includes topics like valuation of goodwill and shares, lease financing, investment portfolio management, social cost benefit analysis, international financial management, effect of inflation and financial management in public sector enterprises in distinct chapters.The relevant amendments in the legal and regulatory framework have been integrated to provide up-to-date information to the readers. The recent developments in tax structure for the Assessment Year 2013-14 have been incorporated in *Chapter 2: Tax implications and Financial Planning*. Also, *Chapter 3: Industrial Sickness* has been amended to include the steps for rehabilitation of sick units by improving credit flow to SME sector as issued by RBI in alliance with the government of India.

With the increasing pace of change leading to companies competing in pursuit of excellence and competitive advantage by trialing with newconcepts, strategies, tools and ideas, corporate restructuring assumes paramount importance. *Chapter 6: Corporate Restructuring: Mergers, Amalgamations and Acquisitions* deliberates upon the objectives and various forms of corporate restructuring. The approaches for determining exchange ratio have been discussed at length using practical examples.

Legal and procedural aspects of amalgamation and acquisition along with the tax implications have been discussed adequately. The author has also incorporated the important mergers and takeovers in India during the period of 2007 – 2011.

Diversified areas relating to finance have been stressed upon in this unit. Recent concepts like inflation accounting,social accounting and price level accounting have also been included.

The last two units help the reader to practice what has been learnt in the book in the form of advanced, solved and unsolved problems.The units encompass questions for all stratums of readers. Ample number of questions helps the amateurs to practice till they gain expertise.

Linguistically, the book is quite lucid and self-explanatory, advantageous for, both, a novice as well as anexpert. The coherent elucidation of nitty-grittyacts as an aid to the beginners while the advanced user benefits from the in-depth knowledge and exhaustive coverage of the relevant concepts and topics. Numerous illustrations along with systematic and detailed workings thereofimprove intelligibility and facilitate augmented comprehension of the subject.The assimilation of questions from recent university and professional examinations further boosts the substance of the book.

The book is of immense value for academicians as well as for students preparing for examinations like CA, CS and CMA conducted by various professional bodies in addition to post graduate examinations viz. M.Com and MBA of various universities. The book under review will provide assistance to working professionals and practicing business managers as it provides context and knowledge to take effective and well-informed decisions.It is an indispensable resource for the readers as it provides a holistic view with the all-inclusive text, relevant updations, illustrative features and exhaustive practical exposure.