[Frequently Asked Questions]

Financial Management Introduction Part: 1

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit – 1 Financial Management Introduction
Lecture No. & Title:	Lecture – 1 Financial Management Introduction Part: 1

Frequently Asked Questions

Q1. State the two major objectives of Financial Management

A1. The two major objectives of financial management are Profit maximization and wealth maximization. Profit maximization implies that the investment, financing and dividend decision should be taken in such a way that it maximizes profits. Wealth maximization means maximizing the net present value of a course of action.

Q2. State the major limitations of Profit maximization.

A2. Profit maximization suffers from the following limitations:

Ambiguous concept

Ignores time value of money

Ignores quality of benefits

Q3. Why wealth maximization is known as principle of additives?

A3. Since NPVs of different alternatives are additive in nature that is NPV(A)+ NPV(B)= NPV (A+B) so this is known as the principle of value additives.

Q4. what is the basis of wealth maximization?

A4. The objective of wealth maximization is based on the concept of cash flows and not on accounting profits and hence offers an unambiguous measure in making investment and financing decision.

Q5. Define financial management?

A5. According to James C. Van Horne (1972) financial management is defined as management concerned with the acquisition, financing and management of assets with some overall goal in mind.

Q6. Explain the traditional approach to financial management?

A6. According to the traditional view, the financial management is concerned with the raising of funds. Funds are raised at special occasions like at the time of mergers, reorganization, restructuring, liquidation and so on.

Q7. Explain the Modern approach to financial management?

A7. Modern approach is mainly concerned with the three important decisions like investment decisions, financing decisions and dividend policy decisions.

Q8. Explain the concept of investment decision?

A8. The investment decisions would determine what specific assets should the firm acquire? Investment decision would also mean deciding the right mixes of assets that is mix of current assets and fixed assets.

Q9. Explain the concept of financing decision?

A9. The financing decision relates to when and how to acquire funds and deciding the proper mix of debt and equity and determining the firm’s capital structure.

Q10. Define optimum capital structure?

A10. Optimum capital structure refers to the raising of funds through sources by which the value of the firm is maximized and the cost of capital is minimized.