F.A.S.T
first attempt success tutorials

CA INTER

FINANCIAL MANAGEMENT

Version 5

JAN/MAY/SEPT 27

Handwritten **Concept Book**

CA Amit Sharma



INDEX

F.A.S.T
first attempt success tutorials

CHAPTER	01	Introduction to Cost & Management Accounting	1
CHAPTER	02	Ratio Analysis	5
CHAPTER	03	Leverage	15
CHAPTER	04	Cost of Capital	21
CHAPTER	05	Capital Structure	29
CHAPTER	06	Capital Structure Theory	33
CHAPTER	07	Dividend	39
CHAPTER	08	Cash Management	43
CHAPTER	09	Debtors Management	47
CHAPTER	10	Working Capital	55
CHAPTER	11	Investing Decision	67

CA AMIT SHARMA

01 CHAPTER
INTRO TO FINANCIAL MANAGEMENT



In layman language we can say that FM is made up of two terms :-

Finance





Management



Financial Management is that managerial activity which is concerned with planning and controlling of Finances. Or we can also say that it is related to management of Inflows & Outflows of Funds and includes 3 decisions:-

WHERE TO GET THE FUNDS FROM
- Equity
- Preference
- Debentures

WHERE TO INVEST THE FUNDS
- Capital expenditure
- Working capital

HOW MUCH DIVID TO BE PAID

1 PROFIT & LOSS STATEMENT

SALES	XX
− cost of goods sold [cogs]	(XX)
GROSS PROFIT	
	XX
− operating expenses (admin . selling & distr. exp)	(XX)
EARNINGS BEFORE INT & TAX [EBIT] or [Operating profit]	XX
− Interest expenses	(XX)
EARNINGS BEFORE TAX [EBT]	XX
− Tax expenses	(XX)
EARNINGS AFTER TAX [EAT] or [Net Profit]	XX
− Preference Dividend	(XX)
EARNINGS AVAILABLE TO EQUITY S/H [EATESH]	XX
− Equity Dividend	(XX)
Retained Earnings	XX

Sequence of payment

1. Interest to Debt Holders
2. Tax to Govt.
3. Pref. Divd to Pref S/Holder
4. Eq. Divid to Eq S/Holders



2 BALANCE SHEET

Equity share capital	xx	Fixed Assets	
Reserve and Surplus	xx	Plant	xx
Preference share capital	xx	Machine	xx
		Furniture	xx
Non Current Liability			
Debentures	xx	Current Assets	
Long term loan	xx	Inventory	xx
		Debtors	xx
Current Liability		Cash	xx
Creditors	xx	Bank	xx
Short term Loan	xx	Accumulated Loss	xx
Bank Overdraft	xx	Preliminary Expenses	xx
O/s expenses	xx	Advance pay of exp	xx
Advance Income	xx	Accrued Income	xx
	xxx		xxx

3 FINANCIAL ACCOUNTING V/S FINANCIAL MANAGEMENT

Financial Accounting generates info. relating to operations of organisation. The outcome of financial accounting is B/sheet, P/L and focuses on the accrual concept.

Financial Management use the information prepared by accounting dept. to take decisions wrt raising, investing funds focusing on actual pay or receipts.

NOTES



02
CHAPTER

RATIO ANALYSIS



Mr BB earned ₹ 1 lakh and was superhappy



Mr AB also earned ₹ 75000 and was happy

Question 1 :- Who among the both is more happy ??

Obviously Mr BB earned more and is more happy ??

Let's go in detail :-

- Mr BB invested ₹ 500.000 and earned ₹ 100.000
- Mr AB invested ₹ 150.000 and earned ₹ 50.000

Ques :- Now tell me who is more happy ??

BB earned :- $\frac{₹\,100.000}{₹\,500.000} \times 100\%$ = 20% on his investment.

AB earned :- $\frac{₹\,75.000}{₹\,150.000} \times 50\%$ = 50% on his investment.

In short, sometimes comparison gives us the exact real scenario which can not be revealed by the numbers and this is where ratio analysis comes into play.

Ratio is reffered as expressing two numbers in form of P/Q and when two items of financial statement of company are compared in the similar manner to get some meaningful info, it is called as Ratio Analysis.

So simply all we do in ratio analysis is pick two items from Profit & loss statement or Balance Sheet and then we try to compare them.

TWO MOST IMPORTANT ELEMENTS OF RATIO ANALYSIS

Profit & loss Statement | Balance Sheet

1 PROFIT & loss STATEMENT

SALES	XX
− cost of goods sold [cogs]	(xx)
GROSS PROFIT	
	XX
− operating expenses (admin, selling & distr. exp)	(xx)
EARNINGS BEFORE INT & TAX [EBIT] or [operating profit]	XX
− Interest expenses	(xx)
Earnings before Tax [EBT]	XX
− Tax expenses	(xx)

Earnings After Tax [EAT] or [Net Profit]	xx
− Preference Dividend	(xx)
Earnings Available To Equity S/H [EATESH]	xx
− Equity Dividend	(xx)
Retained Earnings	xx

2 Balance Sheet

Equity share capital	xx	Fixed Assets	
Reserve and Surplus	xx	Plant	xx
Preference share capital	xx	Machine	xx
		Furniture	xx
Non Current Liability			
Debentures	xx	Current Assets	
Long term loan	xx	Inventory	xx
		Debtors	xx
Current Liability		Cash	xx
Creditors	xx	Bank	xx
Short term Loan	xx	Accumulated Loss	xx
Bank Overdraft	xx	Preliminary Expenses	xx
O/s expenses	xx	Advance pay of exp	xx
Advance Income	xx	Accrued Income	xx
	xxx		xxx

Let's understand some common confusing points

Total Assets	Capital Employed	Equity S/h Fund	Networth (OR) S/h equity (OR) Proprietary Ratio

Total Assets :- All the assets of the organisation or the asset side of the balance sheet and since in balance sheet, the aset side equals liability side so we can also say total of liability side

Fixed Assets ➕ Current Assets

Capital Employed :- Simply reffers to the total capital employed by the firm.

Equity ➕ R/surplus ➕ Debentures ➕ Pref s/cap
(minus any preliminary exp or accumulated loss)

But, we can also calculate it from ASSETS SIDE

Fixed Assets ➕ Current Assets ➖ Current Liab

Equity s/holders Fund :- Reffers to funds invested by Equity s/holders only

Equity share capital ➕ Reserves & Surplus
(minus any preliminary exp or accumulated loss)

Networth (OR)
Propietary Funds
(OR) S/holders Equity

:- All have same meaning i.e what are the funds given by equity and pref s/holders.

Equity + R/surplus + Pref s/cap
(minus any preliminary exp or accumulated loss)

But, we can also calculate it from ASSETS SIDE

Fixed Assets + Current Assets − Current Liability − Non-Current Liability

3 PROFITABILITY RATIOS (BASED ON SALES)

BASIC TRICK :- $\frac{\text{Any Income or Expense}}{\text{Sales}} \times 100\%$

- Gross Profit Ratio = $\frac{\text{G.profit}}{\text{Sales}} \times 100\%$
- Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Sales}} \times 100\%$
- Pre-Tax Profit Ratio = $\frac{\text{EBT}}{\text{Sales}} \times 100\%$
- COGS Ratio = $\frac{\text{COGS}}{\text{Sales}} \times 100\%$
- Operating Profit Ratio = $\frac{\text{EBIT}}{\text{Sales}} \times 100\%$
- Operating Exp Ratio = $\frac{\text{Operat. Exp}}{\text{Sales}} \times 100\%$
- Operating Ratio = $\frac{\text{COGS + Op.Exp}}{\text{Sales}} \times 100\%$
- Financial Expenses Ratio = $\frac{\text{Fin. Exp}}{\text{Sales}} \times 100\%$

④ PROFITABILITY RATIOS (BASED ON RETURN)

BASIC TRICK :- $\frac{\text{What you earned}}{\text{What you invested}}$ times

- Return on Equity = $\frac{\text{Earnings available to eq.s/holders}}{\text{Equity shareholders fund}}$
- Return on Capital Employed = $\frac{\text{Earnings before Interest \& Tax}}{\text{Total capital employed}}$
- Return on Assets = $\frac{\text{Earnings after tax}}{\text{Total Assets}} = \frac{\text{EBIT} - \text{tax \%}}{\text{Total Assets}}$
- Return on Investment = $\frac{\text{Profit}}{\text{Investment}}$

⑤ PROFITABILITY RATIOS (OWNER'S P.O.V)

Earnings Per Share (EPS)	Dividend Per Share (DPS)	Dividend Payout
$\frac{\text{Earnings avail. to eqs/h}}{\text{Total no. of eq. shares}}$	$\frac{\text{Total divid paid to eqs/h}}{\text{Total no. of eq. shares}}$	$\frac{\text{DPS}}{\text{EPS}}$

F.A.S.T
first attempt success tutorials

CA Inter Financial Management Concept Book

Clear COST-FM-SM with Amit Sharma

- Cleared All levels of CA in First Attempt.
- Secured AIR 30 in CA Inter.
- Articleship from one of the Big 4s (KPMG) & awarded with best performance on the first project.
- Industrial training from one of the top Investment Banking firm (Goldman Sach) in FPnA domain. Hence implementing practicing concepts of Cost FM & SM.



Book Highlights:

- The only single material for your exemption
- Color coded book covering all Imp Questions.
- Prepared in most concise & student friendly manner
- Best Material for First Time Learner - subsequent revision-Final 1.5 Days revision
- Covering all the amendments & concepts for the new course

Corp. Office : M-1, Trade Centre,Kanchan Bagh, South Tukoganj, Indore with 91 Centers Across in India **Contact :** 9584510000, 9522564050

Scan to Download FAST APP from Play Store

Want to Buy Books & Video Lectures
Scan this QR Code
Visit : www.fast.edu.in
Price :