**Financial Management**

**Section (A)**

**Short Questions**

**Ques1.** Discuss the role of strategic human resource management (SHRM) in achieving competitive advantage for organizations. Include specific examples of how SHRM practices can align with overall business strategy to enhance organizational performance.

**Ques2.** Explain the relationship between risk and return in capital markets. How can an investor use this relationship to make informed investment decisions? Provide an example to illustrate your answer.

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**Section (B)**

**Case Studies**

**Case Study1:**

***Financial Analysis and Valuation at Zenith Corporation***

**Introduction:** Zenith Corporation, a multinational manufacturing firm, was looking to optimize its financial performance and enhance shareholder value. The company’s financial analysts recommended focusing on three key financial concepts: Economic Value Added (EVA), the Discounting or Present Value Concept, and the Valuation of Bonds or Debentures.

**Background:** Established in 1985, Zenith Corporation had grown to become a leader in the manufacturing sector, producing a wide range of industrial equipment. By 2021, the company faced increasing competition and pressure to deliver higher returns to its shareholders. The management decided to undertake a comprehensive financial analysis to identify areas for improvement and strategies to enhance shareholder value.

**Key Issues Identified:**

**Suboptimal Capital Utilization:** There was a need to assess whether the company’s capital was being utilized effectively to generate returns above the cost of capital.

**Investment Decision-Making:** The company needed a robust framework to evaluate potential investments and ensure they contributed positively to the firm’s value.

**Interventions and Strategies:**

To address these issues, Zenith Corporation’s financial team applied the concepts of EVA, present value, and bond valuation as follows:

**Economic Value Added (EVA):** EVA was used to measure the company’s true economic profit. The financial team calculated EVA by subtracting the company’s cost of capital from its net operating profit after taxes (NOPAT). This metric provided insights into whether the company was creating value for its shareholders. By focusing on EVA, Zenith aimed to improve its capital allocation decisions and operational efficiency.

**Present Value Concept:** The present value (PV) concept was employed to evaluate investment opportunities. By discounting future cash flows to their present value using an appropriate discount rate, the financial team could determine the viability of potential projects.

**Valuation of Bonds and Debentures:** Accurate valuation of bonds and debentures was critical for both issuing new debt and managing existing debt. The financial team used present value techniques to calculate the fair value of these instruments, considering factors such as coupon rates, maturity periods, and market interest rates.

**Case Study Questions:**

**Ques1.** How did Zenith Corporation use the concept of Economic Value Added (EVA) to enhance shareholder value?

**Ques2.** What is the importance of the present value concept in evaluating investment opportunities?

**Ques3.** How did the valuation of bonds and debentures benefit Zenith Corporation’s financial planning?

**Ques4.** What impact did the EVA analysis have on Zenith Corporation’s resource allocation?

**Ques5.** How did applying the present value concept influence Zenith Corporation’s project selection process?

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**Case Study2:**

**Receivables Management at Apex Manufacturing Ltd.**

**Introduction:** Apex Manufacturing Ltd., a mid-sized company specializing in producing industrial machinery, experienced significant growth over the past decade. However, with increased sales came the challenge of managing a larger volume of receivables. This case study explores the characteristics of receivables, the meaning and objectives behind managing them, the associated costs and benefits, various modes of payments, and the factors influencing the size of investment in receivables.

**Background:** Founded in 2000, Apex Manufacturing Ltd. quickly established itself as a reliable supplier of high-quality industrial machinery. By 2020, the company’s annual revenue had grown substantially, and its client base had expanded globally. With this growth, Apex faced challenges in managing its accounts receivable effectively, which impacted its cash flow and working capital.

**Costs and Benefits:** Managing receivables involves certain costs, including administrative expenses related to billing, collections, and record-keeping; bad debts, representing losses from customers who fail to pay; and financing costs, which are the interest expenses on borrowed funds due to delayed payments. The benefits of managing receivables effectively include increased sales by attracting more customers through credit offerings, enhanced customer loyalty due to flexible payment terms, and a competitive advantage through attractive credit terms.

**Modes of Payments:** Various payment modes can be employed to manage receivables, including cash payments (immediate payment upon delivery), credit cards, bank transfers (direct transfers from customer bank accounts), checks, and electronic payments via online platforms and digital wallets.

**Factors Influencing the Size of Investment in Receivables:** Several factors affect the size of investment in receivables, including the company’s credit policy, which defines the terms and conditions under which credit is extended to customers; sales volume, as higher sales typically lead to higher receivables; customer payment behavior, or the promptness of customers in settling their dues; economic conditions, as downturns can increase the risk of bad debts; and industry standards, which dictate norms and practices regarding credit terms within the industry.

**Case Study Questions:**

**Ques1.** What are the primary objectives of managing receivables at Apex Manufacturing Ltd.?

**Ques2.** What costs are associated with managing receivables, and how did Apex address these costs?

**Ques3.** How do credit policy and customer payment behavior influence the size of investment in receivables?

**Ques4.** What benefits did Apex Manufacturing Ltd. gain from offering early payment discounts?

**Ques5.** How did the use of factoring services impact Apex Manufacturing Ltd.'s receivables management?

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**Section (C)**

**Subjective Questions**

**Ques 1.** Discuss the significance of capital budgeting in financial management and elaborate on the various methods used for capital budgeting appraisal. Your answer Should include:

1. Definition and importance of capital budgeting.
2. The process of capital budgeting.
3. Different capital budgeting appraisal methods (e.g., Net Present Value, Internal Rate of Return, Payback Period, Accounting Rate of Return, and Profitability Index).

**Ques2.** Discuss the significance of the Capital Asset Pricing Model (CAPM) in financial management. How does CAPM assist in determining the expected return on an investment, and what are its limitations? Illustrate your answer with an example.

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