

Ans 1 - Concept to Cost of Capital

⇒ Capital budgeting decision is directly related with financial decision because acceptance or rejection of an investment project depend on cost the firm will have to pay for financing.

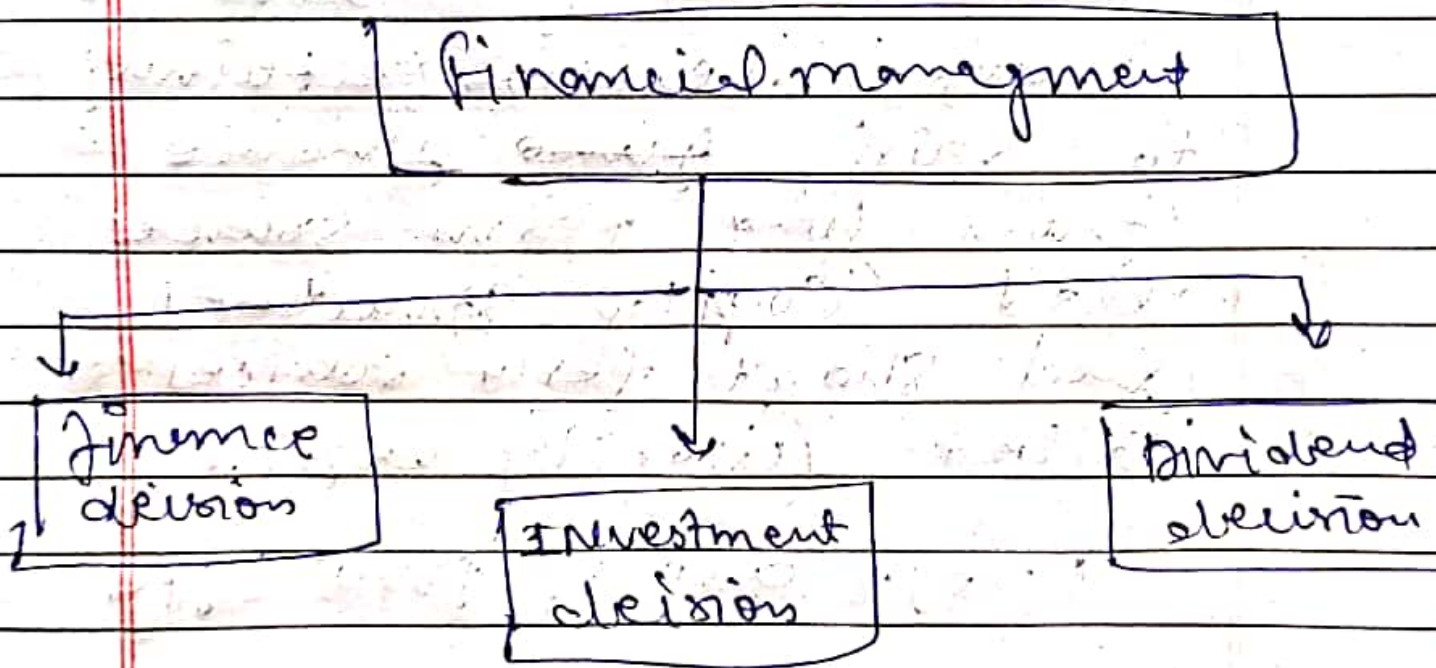
○ We know, the economically viable project is one which promise and expected return higher than the cost of capital.

What ever method of evaluating merits of the project are employed.

○ Finance manager must know what it will cost to the firm to raise capital necessary for the finance the projects.

a. The finance manager must therefore calculate the cost of capital of the firm before taking investment decisions.

SCOPE OF FM



management.

① Financial decision - In organization managers & effort to minimize the cost of procuring finance and using it in the most profitable manner.

(2) Investment decision →

Investment decision involves the evaluation of risk, measurement of cost of capital and estimation of expected benefit from a project.

(3) Financing decision - manager also

make decision pertaining to raising funds finance from long term sources called (Capital structure) and short term sources called (working capital)

There are of two types

(a) Financial planning decision

(b) Capital structure decision

(c) Dividend decision - These involve

decisions related to the portion of profit that will be distributed as dividend.

• Share holder always demand higher dividend