# Victoria University of Bangladesh

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# FIN-322



## Ans: to: the: Q: NO: (1)

Finance is a term for matters regarding the management, creation, and study of money and investments. It involves the use of credit and debt, securities and investment to finance current projects using future income flows. Because of this temporal aspect, finance is closely linked to the time value of money, interest rates and other related topics.

The 6A's of Financial management are:

(1) Assessment: Assessing your current financial situation, including

your income, expenses, and debt.

② Awareness: Being aware of financial opportunities and risks, and understanding the impact of different financial decisions.

③ Aim: Setting financial goals and objectives.

④ Actions: Taking action to achieve your financial goals, such as budgeting, saving and investing.

⑤ Analysis: Analyzing your finacial performance and making adjustments as needed.

⑥ Assistance: Seeking assistance from financial professionals,

such as a financial advisor or accountant when necessary.

It's important to note that financial management is a lifelong process and the 6 A's should be reviewed and updated and updated regularly to ensure that you are on track to achieving your financial goals.

Ans: to: the: Q: no: 2

Risk and return in financial management is the risk associated with a certain investment and its returns. Usually, high-risk investments yield better financial returns, and low-risk investments

yield lower returns. That is the risk of a particular investment is directly related to the returns earned from it.

## Types of Risk

Broadly speaking there are two main categories of risk: systematic and unsystematic. Systematic risk is the market uncertainty of an investment, meaning that it represents external factors that impact all (or many) companies in an industry or group. Unsystematic risk represents the asset-specific uncertainties that can affect the performance

of an investment.

Below is a list of the most important types of risk for a financial analyst to consider when evaluating investment opportunities:

1. Systematic Risk - The overall impact of the market
2. Unsystematic Risk - Asset-specific or company-specific uncertainty.
3. Political/Regulatory Risk - The impact of political decisions and changes in regulation
4. Financial Risk - The capital structure of a company (degree of

of financial leverage on debt burden)

(5) Interest Rate Risk - The impact of changing interest rates.

(6) Country Risk - Uncertainties that are specific to a country.

(7) Social Risk - The impact of changes in social norms, movements and unrest

(8) Legal Risk - Uncertainty related to lawsuits on the freedom to operate.

## Ans: to: the: Q: No: (4)

Cost of capital is a company's calculation of the minimum return that would be necessary in order to justify undertaking a capital budgeting project, such as building a new factory. The term cost of capital is used by analysts and investors but it is always an evaluation of whether a projected decision can be justified by its cost. Investors may also use the term to refer to an evaluation of an investment's potential return in relation to its cost and its risks.

Cost accounting is an accounting Process that measures all of the costs associated with production including both fixed and variable costs. The purpose of cost accounting is to assist management in decision-manking processes that optimize operations based on efficient cost management. The costs included in cost accounting are discussed in detail below.

Direct Costs:

Direct costs are related to producing a good or service. A direct cost includes raw materials, labor, and

expense on distribution costs associated with producing a product. The cost can easily be traced to a product department or project.

## Indirect Costs:

Indirect costs on the other hand are expenses unrelated to producing a good a service. An indirect cost cannot be easily traced to a Product, department, activity or project. For example, with Ford the direct costs associated with each vehicle include tires and steel.

## Fixed Costs:

Fixed costs do not vary with the number of goods or services a company produces over the short term. For example suppose a company leases a machine for production for two years. The company has to pay $2,000 per month to cover the cost of the lease, no matter how many products that machine is used to make. The lease payment is considered a fixed cost as it remains unchanged.

## Variable Costs:

Variable costs fluctuate as the level of production output changes. Contrary to a fixed cost. This type of cost varies depending on the

number of products a company produces. A variable cost increases as the Production volume increases and it falls as the production volume decreases.

## Sunk Costs:

Sunk costs are historical costs that have already been incurred and will not make any difference in the current decisions by management. Sunk costs are those costs that a company has committed to and are unavoidable or unrecoverable costs.

Ans: to: the: Q. No: 7

Financial instruments are assets that can be traded, or they can also be seen as packages of capital that may be traded. Most types of financial instruments provide efficient flow and transfer of capital throughout the world's investors. These assets can be in the form of cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of one's ownership in some entity.

Financial instruments may be divided into two types:

1. Cash instruments
2. Derivative instruments.

## ① Cash Instruments:

- The values of cash instruments are directly influenced and determined by the markets. These can be securities that are easily transferable. Stocks and bonds are common examples of such instruments.
- Cash instruments may also be deposits and loans agreed upon by borrowers and lenders. Checks are an example of a cash instrument because they transmit payment from one bank account to another.

## ② Derivative Instruments:

- The value and characteristics of derivative instruments are

based on the vehicle's underlying components such as assets interest rates or indices.

- An equity options contract such as a call option on a particular stock for example is a derivative because it derives its value from the underlying shares. The call option gives the right but not the obligation, to buy shares of the stock at a specified price and by a certain data. As the price of the underlying stock rises and falls so does the value of the option, although not nessarily by the same percentage.