The following are the answers to the questions pertaining to Management, Marketing, Financial accounting and Management accounting in the II paper of the competitive test for the promotion to the post of Manager Grade IV in previous years with explanatory notes.

Question No :-1. In management, plan to achieve a certain task is:

a. Mission b. Vision c. Strategy d. Structure

Answer:-c. Strategy

Explanatory Note:- **The word strategy stems from Greek word 'strategia', which means a general or a commander in the army. Battles are fought based on well thought out strategies. Wars are always backed by strategies. Similarly, business can be referred to as battles fought with competition; battles that are based on business strategies. The success of a business or its victory over another in terms of capturing the market share is dependent on its strategy.**

A business strategy is the means by which it sets out to achieve its desired ends (objectives). It can simply be described as a long-term business planning. Typically a business strategy will cover a period of about 3-5 years (sometimes even longer).

Strategies are concerned with the scope of a business' activities i.e. what and where they produce. In the field of management, strategic management involves the formulation and implementation of the major goals and initiatives taken by an organization's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization operates.

Question No .2. The role of manager which encourages the employees to meet him frequently for consultation and discussion of their mental, physical and career problems is:

a. The conscience role b. The counsellor role

c. The Mediator role d. The problem Solver's role

Answer:- b. The counselor role

Explanatory note:-

COUNSELLING: A KEY TOOL FOR TODAY'S MANAGERS

There are many reasons why today's managers are turning to counselling as one of the methods, among many, of caring for their teams. Managers definitely feel responsible for the welfare of their workforce. More and more employers realize that productivity and passivity do not go hand in hand; only a healthy and a vibrant corporate environment can produce results. As management theories and practices keep evolving, radical changes also do take place in the HRM activities. In this context, the employers are taking to counselling as a way of helping their teams to manage the huge changes taking place in the organizations. Counselling can be seen as a way of enhancing mental as well as emotional health of the employees in the organization. The health of the employees could be disrupted or disturbed due to various professional or personal reasons. Change in the organizational culture can disorient, cause grieve; change is never easy. Counselling can be a way of helping or supporting employees as they try to cope with organizational change. Counselling itself can be an organizational change, which can bring values, a sense of acceptance and realization among employees of who they are and what they are capable of in the very dynamics of organizational life. It can also empower the troubled or distressed employees to learn to manage their lives, to take up social or professional responsibilities and also how important decisions can be made and executed.

Question No 3. Financing decisions do not include
a. Cost of capital **b. Capital structure**
c. Leverages **d. Dividend policy**

Answer :- d. Dividend policy

Explanatory note:- The Financing Decision **is a crucial decision made by the financial manager relating to the financing-mix of an organization. It is concerned with the borrowing and allocation of funds required for the investment decisions. Dividend policy is formulated based on Dividend decision.**

Question No 4.. Long term sources of borrowed funds do not consist of
a. Debentures **b. Term loans**

c. Public deposits **d. Certificate of deposit**

Answer :- d. Certificate of Deposit

Explanatory note:-

Sources of Long-term Finance

A business requires funds to purchase fixed assets like land and building, plant and machinery, furniture etc. These assets may be regarded as the foundation of a business. The capital required for these assets is called fixed capital. A part of the working capital is also of a permanent nature. Funds required for this part of the working capital and for fixed capital are called long term finance.

Purpose of long term finance

Long term finance is required for the following purposes:

1. **To Finance fixed assets : Business requires fixed assets like machines, Building, furniture etc. Finance required to buy these assets is for a long period, because such assets can be used for a long period and are not for resale.**
2. **To finance the permanent part of working capital: Business is a continuing activity. It must have a certain amount of working capital which would be needed again and again. This part of working capital is of a fixed or permanent nature. This requirement is also met from long term funds.**
3. **To finance growth and expansion of business:**

   Expansion of business requires investment of a huge amount of capital permanently or for a long period.

Sources of long term finance

The main sources of long term finance are as follows:

1. Shares: These are issued to the general public. These may be of two types: (i) Equity and (ii) Preference. The holders of shares are the owners of the business.

2. Debentures: These are also issued to the general public. The holders of debentures are the creditors of the company.

3. Public Deposits : General public also like to deposit their savings with a popular and well established company which can pay interest periodically and pay-back the deposit when due.

4. Retained earnings: The company may not distribute the whole of its profits among its shareholders. It may retain a part of the profits and utilize it as capital. This practice is called <u>ploughing back of profit</u>.

5. Term loans from banks:

Many industrial development banks, cooperative banks and commercial banks grant medium term loans for a period of three to five years.

6. Loan from financial institutions:

There are many specialized financial institutions established by the Central and State governments which give long term loans at reasonable rate of interest. Some of these institutions are: Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Unit Trust of India (UTI), State Finance Corporations etc.

Question No 5. The performance measure of internal management as denoted by the incremental difference in the rate of return over a company's cost of capital is known as

a. Economic value added **b. Market value added**
c. Profit measure **d. Return on investment**

Answer :- a. Economic value added

Explanatory note:-

<u>MEANING AND CONCEPT OF ECONOMIC VALUE ADDED</u>

Economic value added is a new powerful management tool which is considered to be an important source of corporate governance. It is an alternate performance

measurement technique which is used to overcome the limitation of traditional measurement criteria by correlating with shareholder's wealth and action of a company's manager. EVA is a method to measure a company's true profitability and

to steer the company correctly from the viewpoint of shareholders. It helps the operating people to see how they can influence the true profitability. It improves profitability usually through the improved capital turnover.

Economic value added (EVA) **is an internal management performance measure that compares net operating profit to total cost of capital. Stern Stewart & Co. is credited with devising this trademarked concept.**

EVA = Net **Operating Profit** After Tax (NOPAT)-(**Capital** Invested **x** **WACC**)

WACC= Wighted Average Cost of Capital

Example:- **Assume that Company XYZ has the following components to use in the EVA formula:**

NOPAT = Rs300000
Capital Investment = Rs20, 00000
WACC = .056 or 5.60%

EVA =300000-(2000000x.056)= 188000

6. The concept of time-value of money does not imply that

a. Future is always uncertain and involves risk
b. People generally prefer to use money for satisfying their present needs
c. Cash flows of different periods in absolute terms are comparable
d. Opportunities available to invest money received at earlier dates enhance future earnings further.

Answer:- c. Cash flows of different periods in absolute terms are comparable.

Explanatory note:-

Time Value of Money(TVM) concept.

The time value of money (TVM) is the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received. TVM is also sometimes referred to as present discounted value. There is a maxim "a bird in hand is worth two birds in the bush.

The time value of money draws from the idea that rational investors prefer to receive money today rather than the same amount of money in the future because of money's potential to grow in value over a given period of time. For example, money deposited into a savings account earns a certain interest rate, and is therefore said to be compounding in value.

Question No.7:-

The classification of cash-flows in a Cash Flow Statement does not include.

a. Cash flows from operating activities
b. Cash flows from managing activities
c. Cash flows from financing activities
d. Cash flows from investment activities

Answer:- b. Cash flows from managing activities.

Explanatory note:-

Types of Cash flows in cash flow statement

There are three types of cash flows in cash flow statement. Cash flows are classified as operating, investing, or financing activities on the statement of cash flows, depending on the nature of the transaction.

Operating activities include cash activities related to net income. For example, cash generated from the sale of goods (revenue) and cash paid for merchandise (expense) are operating activities because revenues and expenses are included in net income.

Investing activities include cash activities related to noncurrent assets. Noncurrent assets include (1) long-term investments; (2) property, plant, and equipment; and (3) the principal amount of loans made to other entities. For example, cash generated from the sale of land and cash paid for an investment in another company are included in this category. (Note that interest received from loans is included in operating activities.)

Financing activities include cash activities related to noncurrent liabilities and owners' equity. Noncurrent liabilities and owners'

equity items include (1) the principal amount of long-term debt, (2) stock sales and repurchases, and (3) dividend payments. (Note that interest paid on long-term debt is included in operating activities.)

(will be continued)