1) **Discuss the scope of financial administration.**

**Ans:** Some of the major scope of financial administration are as follows: 1. Investment Decision 2. Financing Decision 3. Dividend Decision 4. Working Capital Decision.

1. **Investment Decision:**
The investment decision involves the evaluation of risk, measurement of cost of capital and estimation of expected benefits from a project. Capital budgeting and liquidity are the two major components of investment decision. Capital budgeting is concerned with the allocation of capital and commitment of funds in permanent assets which would yield earnings in future. Capital budgeting also involves decisions with respect to replacement and renovation of old assets. The financial manager must maintain an appropriate balance between fixed and current assets in order to maximise profitability and to maintain desired liquidity in the firm.

Capital budgeting is a very important decision as it affects the long-term success and growth of a firm. At the same time it is a very difficult decision because it involves the estimation of costs and benefits which are uncertain and unknown.

2. **Financing Decision:**
While the investment decision involves decision with respect to composition or mix of assets, financing decision is concerned with the financing mix or financial structure of the firm. The raising of funds requires decisions regarding the methods and sources of finance, relative proportion and choice between alternative sources, time of floatation of securities, etc. In order to meet its investment needs, a firm can raise funds from various sources.

The financial manager must develop the best finance mix or optimum capital structure for the enterprise so as to maximise the long-term market price of the company’s shares. A proper balance between debt and equity is required so that the return to equity shareholders is high and their risk is low.

Use of debt or financial leverage effects both the return and risk to the equity shareholders. The market value per share is maximised when risk and return are properly matched. The finance department has also to decide the appropriate time to raise the funds and the method of issuing securities.

3. **Dividend Decision:**
In order to achieve the wealth maximisation objective, an appropriate dividend policy must be developed. One aspect of dividend policy is to decide whether to distribute all the profits in the form of dividends or to distribute a part of the profits and retain the balance. While deciding the optimum dividend payout ratio (proportion of net profits to be paid out to shareholders),

The financial manager should consider the investment opportunities available to the firm, plans for expansion and growth, etc. Decisions must also be made with respect to dividend stability, form of dividends, i.e., cash dividends or stock dividends, etc.

4. **Working Capital Decision:**

Working capital decision is related to the investment in current assets and current liabilities. Current assets include cash, receivables, inventory, short-term securities, etc. Current liabilities consist of creditors, bills payable, outstanding expenses, bank overdraft, etc.

Current assets are those assets which are convertible into a cash within a year. Similarly, current liabilities are those liabilities, which are likely to mature for payment within an accounting year.

2) **Write a note on various phases of Indian Budgetary Cycle.**

**Ans:** The process of approval is very significant in a responsible form of government. The cycle consists of four phases:

1. Preparation and submission;
2. Approval;
3. Execution; and
4. Audit

At any given point of time, several cycles would be in operation and would be overlapping. Nevertheless, various segments of a cycle have different operational life. Budget Preparation in India, budget preparation formally begins on the receipt of a circular from the Ministry of Finance sometime during September/October, that is, about six months before the budget presentation. The circular prescribes the time-schedule for sending final estimates separately for plan and non-plan, and the guidelines to be followed in the examination of budget estimates to be prepared by the department concerned. The general rule is that the person who spends money should also prepare the budget estimates. Budget proposals normally contain the following information:

i) Accounts classification
ii) Budget estimates of the current year
iii) Revised estimates of the current year
iv) Actuals for the previous year; and
v) Proposed estimates for the next financial year (which is the budget proper). Budget estimates normally involve:

a) Standing charges or committed expenditure on the existing level of service. This can easily be provided for in the budget, as it is more or less based on a projection of the existing trends.

b) New expenditure which may be due to:

i) expansion of programmes involving expenditure in addition to an existing service or facility; and

ii) new service for which provision has not been previously included in the \_\_ grants.

While (i) can be estimated with reference to progress made and the likely expenditure during the next financial year, budget provision for

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