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# FUNDAMENTALS OF FINANCIAL MANAGEMENT



Prasanna Chandra

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# Fundamentals of FINANCIAL MANAGEMENT

*Fourth Edition*



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*Bangalore*



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**Fundamentals of  
FINANCIAL MANAGEMENT**

*Fourth Edition*

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Financial Management for completing this work.



*To the memory of  
my beloved parents*

*Shri S.C. Shrimal  
and  
Smt. P.K. Shrimal*

# PREFACE

This book discusses the fundamental principles and techniques of financial management. Designed for the first course in financial management, it is aimed at students of B.Com., BBM, M.Com, ICSI, ICWAI, ICAI and MBA programmes.

## Changes in the Fourth Edition

Encouraged by the excellent response to the previous edition of the book, I revised several chapters to reflect contemporary developments and added a few sections to strengthen the book. The changes effected in this book are:

- The chapter on 'Financial Institutions' has been replaced by the chapter on 'The Financial System'.
- The chapters on 'Cost of Capital', 'Source of Long-term Finance', 'Raising Long-term Finance', and 'The Stock Market' have been substantially re-written.
- New sections have been added on 'Loan Amortisation', 'Value of Options', 'Share Buybacks', and 'Project Finance'.
- A number of minor changes have been made to reflect the current tax, accounting, and regulatory environment.

## Special Features

This book has been developed bearing in mind the needs of its target audience. Its special features are as follows:

- *Analytical approach* The book seeks to show how a wide range of financial decision situations should be analysed. An attempt has been made to describe the setting of various decisions and explain the analytical methods which are helpful in tackling them.
- *Numerous illustrations* Various concepts, tools, and the techniques of financial management have been illustrated with suitable examples. Wherever necessary two to three examples of gradually increasing complexity have been provided. In addition, at the end of chapters which discuss analytical methods, several additional illustrations have been provided.
- *Adequate treatment of financial environment* The regulatory framework, the tax system, financial markets, banking arrangements, and financial institutions have been discussed in reasonable detail so that the student becomes familiar with the environment which shapes corporate financial decisions.
- *Discussion of procedures* In several important areas of financial management like public issue of capital, term loan financing, budgeting, and working capital financing, procedural aspects have been discussed in reasonable detail. The purpose of this discussion is to give the reader a clear idea of 'how to go about' in the world of finance.

**ACKNOWLEDGEMENTS**

I owe a deep intellectual debt to the pioneers in the field who, through their rich and varied contributions, have greatly improved our understanding of various issues in finance. I am grateful to my students and participants of executive development programmes for providing the stimulus for writing this book. I am indebted to a number of academic colleagues and practising managers for sharing their insights and experiences with me.

I would like to express my thanks to Sandhya Rani for contributing a number of solved problems to this book and to my secretary Neelamba for her help in preparing the manuscript of the book. My profoundest gratitude, of course, is to my wife, Padma, for her support during this venture.

I sincerely request the readers to send their suggestions for improving this book.

PRASANNA CHANDRA



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