



1ST EDITION

# FINANCIAL MANAGEMENT 2

KU AHMISUHAI BINTI KU AHMAD  
RAJA NAZIMA BINTI RAJA AHMAD  
DR NURUL YASMIN BINTI JU @ AHMAD

---

# **FINANCIAL MANAGEMENT 2**

**First Edition**

**Ku Ahmisuhaiti Ku Ahmad  
Raja Nazima Raja Ahmad  
DR Nurul Yasmin Ju @ Ahmad**

*Jabatan Perdagangan  
Politeknik Port Dickson  
KM14, Jalan Pantai  
71050 Si Rusa  
Negeri Sembilan  
Tel: 06-6622000  
Fax: 06-6622026*

*Ku Ahmisuhaiti Binti Ku Ahmad  
Raja Nazima Binti Raja Ahmad  
Dr Nurul Yasmin Binti Ju Ahmad  
First Edition 2023*

*All rights reserved.*

*No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of Politeknik Port Dickson.*

*Politeknik Port Dickson  
KM14, Jalan Pantai  
71050 Si Rusa  
Negeri Sembilan*

***ISBN***

## *Preface*

---

*Financial Management 2* is especially written for Polytechnic students who are pursuing Diploma Accountancy (DAT). Designed in line with the latest syllabus prescribed in Malaysian polytechnics, it covers five essential chapters: Working Capital Management, Short Term Financing, Long term Financing (Shares and Bond Valuation), Capital Budgeting and Financial Leverage that are all written for easy understanding.

The concept in this book are explained in clear and simple language, with example and solution. Each chapter is further supported with well-designed exercises that will enhance the students analytical and thinking skills. Focus for Exam questions throughout each chapter help students to have a better understanding of the concept and theories. It will help students to familiarize exam format and tackle exam type questions.

We would like to acknowledge the assistance and encouragement of our friends and colleagues who have in one way or another contributed to the successful publication of this book.

**Ku Ahmisuhaiti Ku Ahmad  
Raja Nazima Raja Ahmad  
DR Nurul Yasmin Ju @ Ahmad**

# Contents

<b>Preface</b>	<b>iii</b>
<b>Chapter 1: Working Capital Management</b>	<b>1</b>
1.1 Working Capital Policies and Cash Management	1
1.2 Inventory Control	12
1.3 Receivables Control	20
Focus On Exam	27
Review Questions	28
<b>Chapter 2: Short Term Financing</b>	<b>30</b>
2.1 Definition of Short term Financing	30
2.2 Sources of Short term Financing	31
2.3 Unsecured Financing	31
2.4 Secured Financing	38
Focus On Exam	41
Review Questions	44
<b>Chapter 3: Long Term Financing</b>	<b>46</b>
3.1 Shares and Bond valuation	46
3.2 Value of Bonds	46
3.3 Value of Shares	52
Focus On Exam	56
Review Questions	58
<b>Chapter 4: Capital Budget</b>	<b>59</b>
4.1 Definition of Capital Budgeting	59
4.2 Capital Budgeting Process	59
4.3 Initial Investment/Initial Outlay (IO)	59
4.4 Annual Cash Flow After Tax	64
4.5 Terminal Cash Flow	66
4.6 Capital Budgeting Technique	71
Focus On Exam	82
Review Questions	87
<b>Chapter 5: LEVERAGE</b>	<b>88</b>
5.1 Financial Risk and Business Risk	88
5.2 Break-Even Analysis	88
5.3 Leverage in The Area of Finance	88
5.4 Degree of Operating Leverage (DOL)	89
5.5 Degree of Financial Leverage (DFL)	89
5.6 Degree of Combined Leverage (DCL)	90
Focus On Exam	93
Review Questions	100