



FINANCIAL TREASURY AND FOREX MANAGEMENT

DIFFERENCE BETWEEN

➤ **BUSINESS RISK AND FINANCIAL RISK**

Sl. No.	BUSINESS RISK	Sl. No.	FINANCIAL RISK
1.	Risk of the firm for not meeting the customer preferences	1.	It refers to a situation where investments of a company does not generate sufficient cash flows to satisfy the debt obligations
2.	It is unavoidable	2.	It is avoidable
3.	The risk cannot be minimised	3.	If the firm does not use debt funds, there will be no risk
4.	Disclosed by net operating income and net cash flows	4.	Disclosed by difference in return of equity shareholders

➤ **FINANCIAL DISTRESS AND INSOLVENCY**

Sl. No.	FINANCIAL DISTRESS	Sl. No.	INSOLVENCY
1.	Condition where obligation met great difficulty	1.	Condition where obligation are not met
2.	Leads to bankruptcy	2.	Another form of bankruptcy
3.	It is short term	3.	It is forever
4.	Firm can recover	4.	Firm cannot recover
5.	This is cause	5.	This is effect

➤ **FINANCIAL STRUCTURE AND CAPITAL STRUCTURE**

Sl. No.	FINANCIAL STRUCTURE	Sl. No.	CAPITAL STRUCTURE
1.	It involves creation of long term and short term assets	1.	It involves long term capital development for creation of long term assets
2.	It includes capital structure and other liabilities	2.	It is the core element of Financial structure
3.	It lays out the policy of the firm	3.	It lays out the capital structure of the firm
4.	In the Balance Sheet it appears under the head Shareholders fund and non-Current liabilities	4.	Appears on whole Equities and liabilities side

➤ **NET PRESENT VALUE AND INTERNAL RATE OF RETURN**

Sl. No.	NET PRESENT VALUE	Sl. No.	INTERNAL RATE OF RETURN
1.	Present Value of expected cash flow less the initial cost of the project, discounted at Cost of Capital	1.	It is the Discount rate which equates present value of cash inflow with cash outflow
2.	Assumptions are more realistic and reliable	2.	Assumptions are less realistic and reliable
3.	Discount rate is known	3.	Discount rate is not known
4.	Cash flow can have only one NPV	4.	Cash flow have multiple IRR
5.	Interpretation is easier	5.	Difficult for the users to interpret



➤ NET PRESENT VALUE AND PROFITABILITY INDEX

Sl. No.	NET PRESENT VALUE	Sl. No.	PROFITABILITY INDEX
1.	Present Value of expected cash flow less the initial cost of the project, discounted at Cost of Capital	1.	Extension of the NPV technique
2.	Project accepted if NPV is positive	2.	Project accepted only if PI is greater than one
3.	Primary Capital Budgeting technique	3.	Secondary Capital Budgeting Technique
4.	It uses discounting technique	4.	It divides PV of inflows by PV of outflows

➤ HORIZONTAL CAPITAL STRUCTURE AND VERTICAL CAPITAL STRUCTURE

Sl. No.	HORIZONTAL CAPITAL STRUCTURE	Sl. No.	VERTICAL CAPITAL STRUCTURE
1.	The structure is quite Stable	1.	The structure is mostly Unstable
2.	Firm has zero debt component	2.	Firms capital structure constitutes of equity capital, preference capital and debt
3.	Expansion of the firm through equity or retained earning	3.	Expansion of the firm through debt
4.	Absence of debt results in lack of financial leverage	4.	Presence of debt results in financial leverage

➤ FINANCIAL LEASE AND SALE AND LEASE BACK

Sl. No.	FINANCIAL LEASE (CAPITAL LEASE)	Sl. No.	SALE AND LEASE BACK
1.	Long term, non-cancellable lease contracts are known as financial lease	1.	It is a sub part of financial lease
2.	Lessee will get an option to buy the asset after the end of lease period at nominal cost from lessor	2.	The assets are not physically exchanged but it all happens in record
3.	Transfer of assets take place, it's a real transaction	3.	This is nothing but a paper transaction
4.	Financial lease is very popular with high cost and high technology equipment	4.	Assets are subject to appreciation i.e. Land

➤ NET INCOME APPROACH AND NET OPERATING INCOME APPROACH

Sl. No.	NET INCOME APPROACH	Sl. No.	NET OPERATING INCOME APPROACH
1.	According to NI approach capital structure decision is relevant to a company	1.	According to NOI approach capital structure decision is irrelevant to a company
2.	It changes the capital structure	2.	It does not lead to any change in the total value
3.	Value of firm= (Market Value of Debt + Market Value of Equity)	3.	Value of firm= EBIT/cost of equity capital
4.	If the degree of financial leverage is increased than the weighted average cost of capital will decline	4.	On the contrary NOI approach believes that the overall cost of capital is independent of the degree of leverage



➤ BONUS ISSUE AND STOCK SPLIT

Sl. No.	BONUS ISSUE	Sl. No.	STOCK SPLIT
1.	Bonus issue means company is giving additional shares to their shareholders	1.	It's the process to increase the liquidity of the stock
2.	The face value or par value remain unchanged	2.	The face value or par value is reduced
3.	This is a process of capitalization of reserves	3.	No capitalisation of reserves
4.	EXAMPLE	4.	EXAMPLE

➤ DEEP DISCOUNT BOND AND DISASTER BOND

Sl. No.	DEEP DISCOUNT BOND	Sl. No.	DISASTER BOND
1.	These are zero interest bond	1.	These are issued by company and institution to share the risk
2.	Sold at discounted value	2.	Mostly sold at par
3.	On the maturity face value is paid to the investors	3.	The coupon rates and the principal bonds are decided by the occurrence of the casualty of the disaster
4.	No interest on lock in period	4.	Bigger the losses the smaller the return

➤ CORPORATE FINANCE AND BUSINESS FINANCE

Sl. No.	CORPORATE FINANCE	Sl. No.	BUSINESS FINANCE
1.	It deals with the finance of business at the corporate level	1.	It deals with the all types of financial practices of a business enterprise
2.	It majorly refers to debt capital and long term loan	2.	It majorly refers to loan and overdraft facilities
3.	Specialized branch of business finance	3.	It is broader term as it includes both corporate and non-corporate finance
4.	Funding is done from public and the government	4.	Funding is done from private agencies or others

➤ CONTROL NEED OF WIDELY HELD COMPANIES AND CONTROL NEED OF CLOSELY HELD COMPANIES

Sl. No.	CONTROL NEED OF WIDELY HELD COMPANIES	Sl. No.	CONTROL NEED OF CLOSELY HELD COMPANIES
1.	These are those companies which are listed with stock exchange	1.	These are private companies which are not listed
2.	More control	2.	Less control
3.	Control in the hand of Board of Directors	3.	Control in the hand of Owners itself
4.	Promoters held significant %age of shares and they can influence share price, so control is required.	4.	Such control is not required here.



➤ CAPITAL BUDGETING AND CAPITAL RATIONING

Sl. No.	CAPITAL BUDGETING	Sl. No.	CAPITAL RATIONING
1.	It is a process in which business determines and evaluates potential expenses or investments that are large in number	1.	In CR firm fixes up the maximum amount that can be invested in a capital project during a given time period
2.	CB is of 3 types: 1) Mutually Exclusive projects 2)Capital Rationing 3) Accept reject decision	2.	CR is of 2 types: 1) Hard CR 2) Soft CR
3.	CB is broader term it includes Capital Rationing	3.	Cr is part of Capital Budgeting Technique

➤ EXPLICIT COST AND IMPLICIT COST

Sl. No.	EXPLICIT COST	Sl. No.	IMPLICIT COST
1.	EC is one that has occurred and is clearly reported as separate cost	1.	IC is a cost that has occurred but not initially shown
2.	Alternatively known as out of pocket cost	2.	Alternatively known as opportunity cost
3.	EC is actual cost outlay	3.	No actual cost outlay
4.	EXAMPLE: Salaries, rent wages etc.	4.	EXAMPLE: Interest on owners capital, rent on owner's building

➤ DEMATERIALISATION AND IMMOBILISATION

Sl. No.	DEMATERIALISATION	Sl. No.	IMMOBILISATION
1.	Process of conversion of physical shares into electronic	1.	Process of storing of physical share certificates with depository
2.	It is part of keeping shares in e forms	2.	Its function is merely safe keeping of shares. It handles huge paper work
3.	It is an institution or can be called organisation	3.	It is an in term diary
4.	Regulated by Depositories Act 1956	4.	Regulated by SEBI (Custodian of Securities) Regulation 1996

➤ INITIAL MARGIN AND MAINTENANCE MARGIN

Sl. No.	INITIAL MARGIN	Sl. No.	MAINTENANCE MARGIN
1.	It is the amount to be deposited while entering into a future transaction	1.	It refers to the minimum amount which trader is required to hold in his margin account
2.	IM is determined by the Exchange	2.	It provides safeguard against potential losses
3.	IM is set between 10% to 20% of the total value of the contract	3.	MM is set at 25% approx.
4.	Onetime payment for every future transaction	4.	Once MM is breached the margin account is to be restored to the initial level



RETURN ON CAPITAL EMPLOYED AND RETURN ON NET WORTH

SI. No.	RETURN ON CAPITAL EMPLOYED (ROCE)	SI. No.	RETURN ON NET WORTH (ROE)
1.	Net operating profit adjusted for taxes(NOPAT)/Total long term and short term source of funds	1.	Net Profit available for equity shareholders/Total equity funds
2.	Surplus of the company divided by total investment	2.	Provides info about the overall return that equity investors get after payment of interest charges to all the debt holder
3.	It indicates the efficiency with which company has utilized his funds	3.	It not only takes into account the overall return but also adjust the earning

➤ **VERTICAL CAPITAL STRUCTURE AND PYRAMID SHAPED CAPITAL STRUCTURE**

SI. No.	VERTICAL CAPITAL STRUCTURE	SI. No.	PYRAMID SHAPED CAPITAL STRUCTURE
1.	It is the most unstable capital structure	1.	It is indicative of risk averse conservative firms
2.	Constitutes Equity share capital, Preference share capital and debt, but any increment is done by debt	2.	Its large portion consisting Equity Share Capital and Retained Earning
3.	High Financial risk	3.	Low Financial risk
4.	Low retained Earning and High dividend Pay-out	4.	High retained Earning and Low dividend Pay-out

➤ **COMMODITY FUTURES AND FINANCIAL FUTURES**

SI. No.	COMMODITY FUTURES	SI. No.	FINANCIAL FUTURES
1.	The underlying assets is a commodity like oil, wheat, flour, etc.	1.	The underlying assets are financial assets like bonds, stocks, foreign exchange etc.
2.	In Commodity Futures there are quality issues	2.	In Financial Futures there are no quality issues
3.	These are generally monthly or seasonally settled	3.	These are generally settled 3-monthly
4.	It is settled by taking delivery	4.	It is cash settled

➤ **INTEREST RATE SWAP AND CURRENCY SWAP**

SI. No.	INTEREST RATE SWAP	SI. No.	CURRENCY SWAP
1.	It is based on notional principle	1.	It is based on actual principle
2.	Netting feature available	2.	Netting feature not available
3.	Default risk is low	3.	Default risk is high
4.	It involves only one currency	4.	It involves multiple currency

➤ **FORWARD CONTRACTS AND OPTIONS**

SI. No.	FORWARD CONTRACT	SI. No.	OPTION
1.	These are traded over the counter	1.	These are traded over the stock exchange
2.	It is binding on both the parties	2.	It is binding on buyer
3.	More suitable for hedging	3.	More suitable for speculation
4.	It is done for hedging purpose so there is no profit or loss	4.	In option buyer's profit is unlimited, loss is restricted to the premium



➤ FORWARD CONTRACT AND FUTURE CONTRACT

Sl. No.	FORWARD CONTRACTS	Sl. No.	FUTURE CONTRACTS
1.	It is traded over the counter	1.	It is traded over the exchange
2.	Less regulation	2.	Highly regulated
3.	Dealer is the counter party	3.	Clearing house is the counter party
4.	Counter party default risk exists	4.	No counter party default risk exists
5.	Transactions are customized	5.	Transactions are standardized
6.	Liquidity is low	6.	Liquidity is present

➤ OPEN ENDED SCHEME AND CLOSE ENDED SCHEME

Sl. No.	OPEN ENDED SCHEME	Sl. No.	CLOSE ENDED SCHEME
1.	In this scheme number of shares are not fixed	1.	In this scheme fund management sells limited number of shares
2.	Highly liquid scheme	2.	Mostly liquid scheme
3.	It is not required to be listed on stock exchange	3.	It is required to be listed on recognized stock exchange
4.	In this scheme fund itself buys back the surrendered share	4.	Shares of such mutual funds are traded in the secondary market
5.	Transaction take place at Net Asset Value(NAV)	5.	Two values are available Net Asset Value(NAV) and market trading price

➤ LEASE FINANCE AND HIRE PURCHASE

Sl. No.	LEASE FINANCE	Sl. No.	HIRE PURCHASE
1.	Lease rental is entirely revenue in nature for lessee	1.	Only interest element included in HP instalment is revenue in nature
2.	Lease rental consists 1)Finance Charge and 2) Capital Recovery	2.	HP instalments comprises of 1) Normal Trading Profit 2) Finance Charge and 3) Capital Recovery
3.	Right to use is transferred for a rental	3.	With an option to purchase. It is instalment credit
4.	No Option is provided to the lessee to purchase the goods	4.	Option is provided to hirer (user)

➤ FACTORING AND SECURITIZATION

Sl. No.	FACTORING	Sl. No.	SECURITIZATION
1.	It is a process of financing the receivables of a firm	1.	It is the process in which homogeneous illiquid assets are pooled and repackaged into marketable securities
2.	It mainly deals with trade receivables	2.	It mainly deals with receivables arising from loans and debts
3.	Factoring is of two types- Recourse and non-recourse factoring	3.	No such difference is there in securitization
4.	No securities are issued	4.	Marketable securities are issued against loans & receivables
5.	Collection work is done by the factor	5.	Collection work is done by originator or servicing agent



➤ FINANCE LEASE AND OPERATING LEASE

Sl. No.	FINANCE LEASE	Sl. No.	OPERATING LEASE
1.	Approximates the economic life of the asset	1.	Shorter than the economic life of the assets
2.	Burden of all expenses on lessee	2.	Burden of all expenses on lessee
3.	It is non-revocable contract i.e. it cannot be cancelled before expiration	3.	It is revocable contract
4.	Risk and rewards are passed on to the lessee	4.	Risk and rewards belongs wholly to lessor
5.	Lease period related to useful life of asset	5.	No relation to the life of asset

➤ FACTORING AND BILL DISCOUNTING

Sl. No.	FACTORING	Sl. No.	BILL DISCOUNTING
1.	It refers to management of book debts	1.	It is sort of borrowing from commercial bank
2.	In factoring there is high grace period	2.	In BD grace period is provided for low period
3.	It is not governed by any law	3.	It is governed by Negotiable Instrument Act
4.	Risk of bad debt is passed onto the factor	4.	Risk is retained by the company
5.	The parties are: Client, Factor, and Debtor	5.	The parties are Drawer and drawee

➤ INVESTMENT AND SPECULATION

Sl. No.	INVESTMENT	Sl. No.	SPECULATION
1.	It is regarded as pool of assets held for earning income in future	1.	It is an activity with high risk to achieve large capital gain
2.	It is done after loads of research	2.	It is done on market belief, insider information etc.
3.	It is done for long term horizon	3.	It is done for short term horizon
4.	It is based on fundamentally strong stock	4.	It is based on belief factor

➤ CURRENT ACCOUNT AND CAPITAL ACCOUNT IN BALANCE OF PAYMENT

Sl. No.	CURRENT ACCOUNT	Sl. No.	CAPITAL ACCOUNT
1.	Inflow and outflow of goods and services	1.	It records all international capital transaction
2.	It shows value of Good exported	2.	It shows value of Investment made abroad
3.	It shows value of Good imported	3.	It shows value of Investment made by Foreigner
4.	Service provided to foreigners	4.	Borrowing from foreigner
5.	Unilateral transfer e.g. Gift and donation	5.	Lending to foreigner



FOREIGN DIRECT INVESTMENT AND PORTFOLIO INVESTMENT

Sl. No.	FOREIGN DIRECT INVESTMENT	Sl. No.	PORTFOLIO INVESTMENT
1.	It plays important role in Economic Development	1.	Investment in secondary market like purchase of shares, debentures and other securities from Stock Exchange
2.	Foreign investment in equity capital is under SEBI/RBI	2.	Foreign Institutional Investors needs registration from SEBI to make portfolio investment in India
3.	It has two routes 1) Automatic and 2) Approval route	3.	No permission from RBI up to prescribed limit
4.	It also has a role in enhancing export	4.	It is able to deliver a steady rate of return.
5.	Keen competition among countries to attract	5.	It is risk diversification among various investment

➤ **HIGH GROWTH FUND AND GROWTH ORIENTED FUND**

Sl. No.	HIGH GROWTH FUND	Sl. No.	GROWTH ORIENTED FUND
1.	A fund that attempt to achieve highest capital gains	1.	A diversified portfolio that has capital appreciation as its primary goal with little or no dividend pay out
2.	Funds are only for non-risk averse investors willing to accept a high risk return	2.	Consist of companies with above average growth in earning to reinvest for expansion
3.	They tend to perform very well in economic upswing and very poorly in economic downturns	3.	GOF requires tolerance of risk and holding time horizon 5 to 10 years
4.	Less volatile than GOF	4.	More volatile
5.	A fund that attempts to achieve highest Capital Gain	5.	Most growth fund offers higher potential capital appreciation but usually at above average risk

➤ **NETTING AND MATCHING**

Sl. No.	NETTING	Sl. No.	MATCHING
1.	It refers to potential flows within the group companies	1.	It extends from group companies to third party companies
2.	Intra firm transactions	2.	Inter, Intra both transactions
3.	It increases central control	3.	An extension of the matching idea is setting up a foreign currency bank account
Both the terms are used interchangeably, but there are distinctions.			

➤ **CAPITAL MARKET LINE AND SECURITY MARKET LINE**

Sl. No.	CAPITAL MARKET LINE	Sl. No.	SECURITY MARKET LINE
1.	It is efficient frontier under Capital Market Theory	1.	It is the equation of CAPM
2.	Its objective is to determine optimum portfolio	2.	Its objective is to explain asset pricing
3.	Only applicable to efficient portfolio	3.	Applicable to efficient portfolio as well as individual securities
4.	The risk is defined as total risk (r)	4.	Risk is defined as undiversifiable market risk



➤ HEDGING APPROACH AND CONSERVATIVE APPROACH

Sl. No.	HEDGING APPROACH	Sl. No.	CONSERVATIVE APPROACH
1.	More risky	1.	Less risky
2.	Arrangement of funds required often	2.	No financing problems faced
3.	Lower cost of finance	3.	Cost of finance is high
4.	Net working Capital requirement is negligible	4.	Amount of resources are blocked in temporary working capital

➤ TREASURY MANAGEMENT AND FINANCIAL MANAGEMENT

Sl. No.	TREASURY MANAGEMENT	Sl. No.	FINANCIAL MANAGEMENT
1.	It is concerned with execution of plan of finance	1.	It is concerned with coordination and planning of finance
2.	Concerned with mainly monitoring the income and expenses budget	2.	Concerned with preparation of financial statement of firm
3.	Concerned with maintenance of liquidity in short term	3.	Long range financial blue print for firms
4.	Concerned with net current assets of the firm	4.	Concerned with net current assets & Fixed asset both
5.	Treasury Manager is concerned with short term investments	5.	Financial manager concerned with long term and strategic management

➤ TREASURY MANAGEMENT AND LIQUIDITY MANAGEMENT

Sl. No.	TREASURY MANAGEMENT	Sl. No.	LIQUIDITY MANAGEMENT
1.	It is concerned with execution of plan of finance.	1.	The main theme is effective management of cash.
2.	Concerned with mainly monitoring the income and expenses budget.	2.	Concerned with minimizing overall currency risk and maintaining liquidity position of a business.
3.	It is possible to talk treasury management and not to discuss liquidity management.	3.	It is part of Treasury management.
4.	Concerned with net current assets of the firm	4.	Concerned with cash flow forecasting.

➤ BEARER DEBENTURE AND REGISTERED DEBENTURE

Sl. No.	BEARER DEBENTURE	Sl. No.	REGISTERED DEBENTURE
1.	It is not registered in the register of company	1.	These are those debentures which are registered in the register of the company
2.	It is like a bearer cheque	2.	It is not like bearer cheque
3.	Deemed to be negotiable instrument	3.	Such debentures are treated as non-negotiable instruments
4.	It is transferable by mere delivery	4.	Transferable through procedures & formalities
5.	On transfer no stamp duty payable	5.	Stamp duty payable



FINANCIAL VIABILITY OF A PROJECT AND COMMERCIAL VIABILITY OF A PROJECT

Sl. No.	FINANCIAL VIABILITY OF A PROJECT	Sl. No.	COMMERCIAL VIABILITY OF A PROJECT
1.	For a project to be successful it should be both financially and commercial viable	1.	It is a step ahead of a Financial Viability
2.	FV is necessary to support profit motive	2.	It indicates the possibility of a project to be carried out as planned
3.	It deals with cash inflow and cash outflows	3.	CV if it's able to market its product competitively in the domestic and international market with profit
4.	FV when PV of cash inflow is greater than PV of cash outflows	4.	The ability of a business, product, or services to compete effectively and to make profit

➤ **FINANCIAL VIABILITY OF A PROJECT AND COMMERCIAL VIABILITY OF A PROJECT**

Sl. No.	FINANCIAL VIABILITY OF A PROJECT	Sl. No.	TECHNICAL VIABILITY OF A PROJECT
1.	For a project to be successful it should be both financially and commercial viable	1.	It is conducted with an objective to provide that the project will not face any technical hindrances
2.	FV is necessary to support profit motive	2.	Considers following factors 1) Availability of viable technology 2) Production processes 3) Suitability of the technology.
3.	It deals with cash inflow and cash outflows	3.	It evaluates technical needs
4.	FV when PV of cash inflow is greater than PV of cash outflows	4.	

➤ **SENSEX AND NIFTY**

Sl. No.	SENSEX	Sl. No.	NIFTY
1.	Most popular stock market indices in India came into existence in 1986	1.	NIFTY came into existence in the year 1995
2.	It is a basket of 30 stocks with base year 1978-79 and base value	2.	It comprises of 50 stocks representing 21 sectors of the economy
3.	The figures provided by SENSEX shows relative prices of share of such companies	3.	Nifty can also be used for various portfolio management purposes
4.	SENSEX is the stock market index for BSE Ltd	4.	NIFTY is the stock market index for NSE Ltd

➤ **CLEARING MECHANISM AND SETTLEMENT MECHANISM**

Sl. No.	CLEARING MECHANISM	Sl. No.	SETTLEMENT MECHANISM
1.	Actual process of updating the accounts of the trading parties	1.	Actual exchange of money and securities between the parties of a trade the settlement date
2.	Most securities are settled in 2 days while government bonds and options are settled the next business day (T+1)	2.	Most settlement of securities is done electronically
3.	Every clearing member is required to maintain and operate a clearing account	3.	Futures contracts are all cash settled



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- **OTHER DIFFERENCES TO LEARN**

- FINANCIAL ASPECT OF PROJECT APPRAISAL AND ECONOMIC ASPECT
- EFFICIENT PORTFOLIO AND OPTIMAL PORTFOLIO
- SEMI STRONG FORM OF THEORY AND STRONG FORM THEORY
- CAPS AND COLLARS
- INTEREST RATE PARITY AND PURCHASING POWER PARITY

- **TIPS FOR FTFM THEORY PORTION**

- Theory is equally important
- One must go through all the chapters theory
- Don't go for superficial study, get the basics right
- Time management is the key
- DIFFERENCE BETWEEN is a sure shot 16-20 marks in theory portion, can get the best marks in these theory portion.
- Difference between can also be answered in statement form.
- These difference can also be used to answer another theory answers

For Example: if short note come on SETTLEMENT MECHANISM then a student can answer the above 3 points of differences between CLEARING MECHANISM AND SETTLEMENT MECHANISM

Always Remember:-

*“Failure is not the opposite of success...
It is a part of success...”*