A PROJECT REPORT ON

"A STUDY ON RISK MANAGEMENT IN FINANCIAL ACCOUNTING"

A Project Submitted to

University of Mumbai for Partial Completion of the Degree

of Bachelor in Commerce (Accounting and finance)

Under the Faculty of Commerce

By

'MR. JOTIBA SANTOSH PATADE'

T.Y.B.A.F (SEMESTER – VI)

PRN NO.:

Under the Guidance of

'ASST. PROF. DR. KISHOR CHAUHAN'

JNAN VIKAS MANDAL'S

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

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CERTIFICATE

This is to certify that **MR. JOTIBA SANTOSH PATADE** has worked and duly completed his Project work for the degree os Bachelor in Commerce (Accounting and Finance) under the Faculty of Commerce in the subject of **Management control** and his project is entitled, **"A STUDY ON RISK MANAGEMENT IN FINANCIAL ACCOUNTING"**. Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,

ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

DECLARATION

I the undersigned **MR. JOTIBA SANTOSH PATADE** here by, declare that the work embodied in this project work titled **"A STUDY OF RISK MANAGEMENT IN FINANCIAL ACCOUNTING",** forms my own contribution to the research work carried out by me under the guidance of **ASST. PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

(**JOTIBA SANTOSH PATADE**)

Certified by:

ASST. PROF. DR. KISHOR CHAUHAN.

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To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

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CHAPTER 1: INTRODUCTION

Financial risk management is a process that describes the practice of identifying, measuring, and controlling the financial risk carried by an organization. Note that we describe financial risk management as a both a process and a practice. A process is an ongoing activity. One cannot simply set a process in motion and let it go. There is no autopilot setting in financial risk management and in most other processes. Financial risk must be actively and continually managed. Financial risk management is also a practice.

Professionals such as physicians, dentists, and attorneys are said to practice their professions. This characterization recognizes and implies that perfection is never achieved, but that serious professionals are constantly honing their skills by facing different scenarios that require their knowledge, judgment, and experience. This is indeed what good financial risk management entails.

Notice also that we described financial risk management in terms of three activities:

1.1 Identifying risk

1.2 Measuring risk

1.3 Controlling risk

These actions combine to form the process of managing risk. First, we can hardly manage risk if we do not know what risks we have. Hence, we must identify the risks. But identifying risk does not mean one knows how much risk there is. For example, a person with a family history of colon cancer would probably know that he has a greater than average risk of contracting the disk.

But how much greater than average is this person's risk? On average one out of every 20 people will get colon cancer in their lifetimes. Is this person's risk two out of 20? Three out of 20? Good risk management in health and in finance requires knowing how much risk there is. And knowing what the risk is and how much risk there is does not mean controlling it.

The person with the high risk of colon cancer could choose to eat a low-fat diet and get frequent examinations as a means of controlling this risk. Or, as all too many do, he could hope that the bad luck will bypass him, a poor risk management strategy indeed with a very costly penalty if an adverse outcome occurs.

Identifying, measuring, and controlling financial risk are the primary top- down activities of financial risk management. There are other activities, some that come before, some that come after, and some that come in between. In this course we will study these activities in great detail later in this book. Risk management" helps an organization to identify, evaluate, analyze, monitor, and mitigate the risks that threaten the achievement of the organization's strategic objectives in a disciplined and systematic way (note the words "disciplined" and "systematic").

Although often viewed as defensive, risk management is a valuable offensive weapon in the manager's arsenal. In the quest for preferred outcomes, such as higher profit, returns, or share price, management does not usually get to choose the outcomes but does choose the risks it takes in pursuit of those outcomes. The choice of which risks to undertake through the allocation of its scarce resources is the key tool available to management. An organization with a comprehensive risk management culture in place, in which risk is integral to every key strategy and decision, should perform better in the long-term, in good times and bad, as a result of better decision making.

This executive summary presents the findings from two research projects on risk management which were funded by grants provided by CIMA. The first grant was for a pilot study comprising four mini-case studies. Our major focus in that study was on how risk impacted upon budgeting. The second grant was for a comprehensive survey and analysis of risk management in organisations and in particular how risk management impacted on both internal controls and on the role of the management accountant. Following the statistical analysis of the survey, interviews were conducted with survey respondents and risk management professionals in order to help us explain our findings. This summary therefore provides the results of these three phases of our research.

- A review of the practitioner and academic literature as it affects governance, risk management and management accounting.
- The four exploratory case studies.
- A comprehensive description of the survey design and results.
- Excerpts from the interview data in relation to the survey results.
- A summary of the research findings
- Implications for best practice.
- Risk Management is Important to Financial Accounting

Financial managers make decisions about how to acquire and allocate an organization's financial resources. These decisions are traditionally thought of as involving the analysis of long-term assets (typically called capital budgeting), short-term assets (cash and working capital management decisions about how much debt financing relative to equity financing to use (the capital structure decision), as well as how much to pay in dividends (the dividend decision). Financial managers also make decision about mergers and acquisitions, executive and employee compensation, the sale of securities through investment bankers, the arrangement of bank loans and issuance of commercial paper, international financial management problems, and operational planning and forecasting. Virtually all of these decisions are made facing considerable risk. But it has not been until recent years that risk has come to be viewed not simply as a factor that guides these decisions but as something to be actively managed. The closest financial managers have typically come to this view of financial risk management is in dealing with exchange rate fluctuations. The new approach is to view risk as a subject in itself, worthy of study and analysis in the context of financial management. To many financial managers, risk may seem like the proverbial 800-pound gorilla, a dangerous beast that must be harnessed and controlled in order that financial decisions can be correctly made. But in fact, risk can never be mastered, harnessed, or completely controlled.3 In fact, managing risk is somewhat like shooting at a moving target. Not only is there risk itself, but the risk can even change, something one might call the risk of risk. But that does not mean one can do nothing about risk.

Like shooting at a moving target, steadiness and a feel for how the target moves can improve one's aim. Building the knowledge and skills to manage risk will, therefore, make it much easier for a financial manager to make good decisions about capital budgets, working capital, and other such matters.

But having invested all of this time and energy into learning financial risk management, one must wonder whether it will really be worth it. Because you have probably had a previous finance course, you have likely learned that financial markets are pretty competitive. No one can predict what will happen in the financial world. In that case, why is it worthwhile to do something such as hedge the risk of adverse movements in exchange rates? Does it really matter? No one can foresee where exchange rates are going. If one eliminates the risk, isn't it as likely that a favorable move will occur as an unfavorable one? Is protecting against risk really worthwhile? As you will learn in this book, financial risk management can add value. Exactly how it adds value, however, is a somewhat controversial topic. Some economists claim that it can enable an organization to improve its credit rating, stabilize its cash flows, and, if it pays taxes, to reduce its Again, that is why risk management is practiced, realizing that perfection is unachievable. Taxes. The controversy lies in whether these conceptual ideas provide clear measurable benefits. We will discuss this point in more detail in Chapter 6. But more than anything else, financialrisk management can enable an organization to bear the risks it wants to bear and should be bearing and avoid those it should not bear.

The Risk Management Cycle

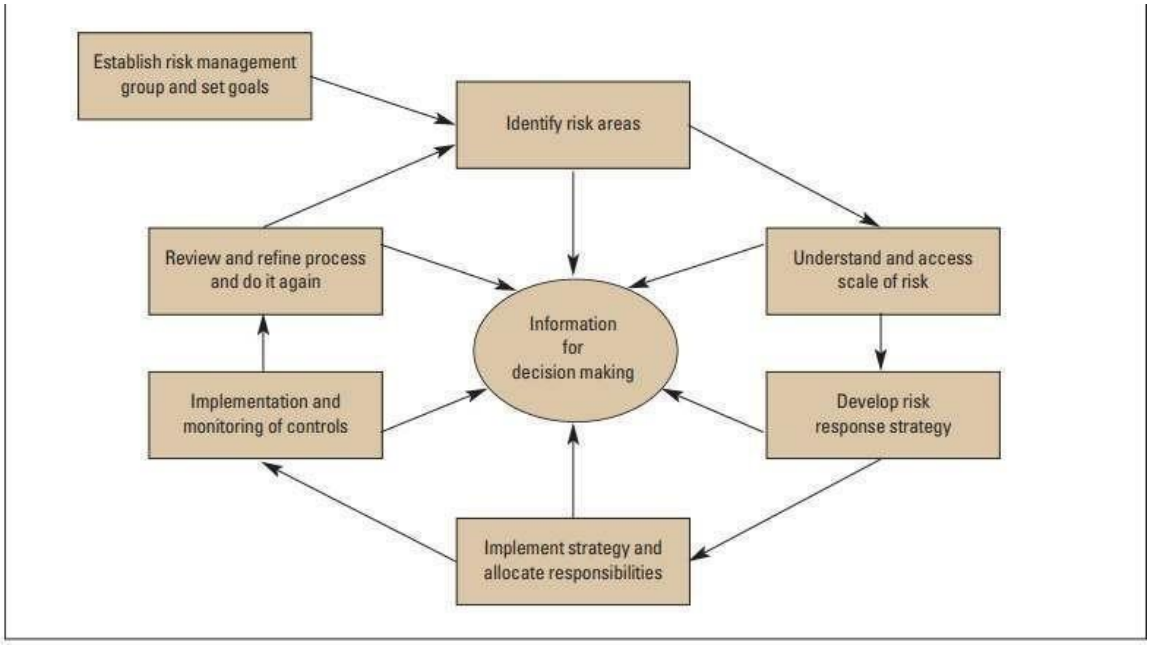

Figure 1

For example, airlines face many risks but the primary one is uncertainty in the price of jet fuel. Airlines are not energy companies; they are simply big consumers of energy. They have no competitive advantage in the energy market, at least not in the way an energy company might. Airlines have a competitive advantage in the market for the services — the demand for and supply of passengers and transportation of cargo. One does not have to look hard to see that successful airline, such as Southwest Airlines, have an extensive program of hedging their fuel costs on a fairly regular basis, while unsuccessful airlines hedge only sporadically or only a portion of their needs.4 Successful global pharmaceutical companies like Merck, Phizer, and Eli Lilly have extensive exchange rate hedging programs that protect the value of their foreign currency cash flows, which provide the funds to support their research and development of new drugs. They actively take risks in the markets for their products, but they avoid risks in exchange rate markets, where they have no competitive advantage in forecasting the future. In doing so, they add value for their shareholders. And adding value is what good financial decision making is all about

. A 2019 report by Accenture indicated that new investment risks are emerging with unprecedented speed. The top three new challenges appointed by specialists were disruptive technology, data breaches, and operational risks. Moreover, climate change has become a factor to be considered as property, infrastructure, and land damage pose new challenges.

The 2007 recession in the USA was caused by a combination of the housing boom of the early 2000s and low-interest rates, which resulted in investors offering home loans to individuals with insufficient credit. Their eventual inability to pay such loans led to a real estate meltdown, which caused an economic collapse, one of the worst the country (and world) has seen.

This is only one example of how financial decisions can affect people's lives at a national or even global level. There are many other factors today that put responsible financial managers in high demand…One second thing that people might ignore about "risk" is that some risks also represent an opportunity. Indeed, risk is often symmetric: if you have risk, you must also have an opportunity. Is this always the case? If we think about financial risks such as credit, market and liquidity risks, this should indeed be the case. Financial institutions typically get exposure to financial risks voluntarily. Why is that? The answer is quite straight forward: "to enjoy risk premiums". Market practitioners have an expression for this: there is no free lunch. In financial markets, if one wants to eliminate risks, the return obtained will be the risk-free rate. For financial institutions well able to perform the job described above in selecting risks, the risk premiums might offer attractive opportunities. This is why risk management is so important.

Risk management is also important since some risks are undesirable to the extent that they do not bring opportunity. If we think about the risk of an accident for an airline company, none would be ready to accept s risk. For financial institutions, the equivalent is called "operational risk". This has been defined by the Basel

Committee as "the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events". While exposure to financial risks might be rewarded by a risk premium, operational risk is only a cost. And it is hard to eliminate. Like companies involved in industry and transportation, financial institutions have to build a sound infrastructure to manage human errors and fraud. Audits and controls are thus important. But as at least as important is the fact that the firm can trust the people under its responsibility. As risk management experts

use to say “firms should build a risk management culture”. This represents values, knowledge and competences shared by people involved in the conduct of business throughout the company.

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This is only one example of how financial decisions can affect people’s lives at a national or even global level. There are many other factors today that put responsible financial managers in high demand…Sustainable economy

While some may believe financial risk pertains only to high-ranking CEOs and investors, it’s essential to understand how it affects everyone. A country’s population is entirely interconnected through its financial system, and poor financial decisions can lead to an unreliable market and a declining economy. Having a reliable financial market means a stable and sustainable economy, in which everyone will benefit from better living conditions.

Solve climate change risks

As mentioned, the reality of climate change can affect businesses and investments in many ways. Besides the physical risks of property damage, business disruption, and the need for relocation, factors like technological transition and policy changes need to be considered in a risk analysis.

However, the full scope of how climate change affects the economy is still unknown. Specialists believe the economic impact of climate change will only intensify over the following years, meaning that future professionals may encounter a very different scenario However, the full scope of how climate change affects the economy is still unknown. Specialists believe the economic impact of climate change will only intensify over the

future professionals may encounter a very different scenario from the one we see today. Cybersecurity Cyber risk is the number one threat to the global financial system, says U.S. Federal Reserve Chairman Jerome Powell. Financial institutions are prime targets for cyberattacks, and sector leaders have appointed cyber security to be at the top of their priorities, rising above every other potential risk. Risk managers need to develop strategies to effectively deal with the cyber threat in a world that relies on technology to keep the global economy afloat.

Cryptocurrencies

The recent boom in cryptocurrency assets can directly affect the overall financial system. A report by the Financial Stability Board has highlighted vulnerabilities in the crypto market, such as linkages with the regulated financial system, liquidity mismatch, and credit and operational risks. Blockchain intelligence companies have invested in risk management technology, but this remains a sector that will need to be followed closely as it further develops.

Geopolitics

Not many companies fully consider how geopolitics involves a variety of financial risks. Access to natural resources, proximity to countries in conflict, limits on foreign relations, corruption, and local culture are just some factors to consider in a risk analysis. Each location provides a particular financial scenario, and only by fully understanding this context can a business use it to its advantage.

Work opportunities

A specialized professional in financial risk management is necessary for every business. Many companies hire consultants or teams to anticipate exposure, quantify the risk, and plan mitigation strategies. As a risk specialist, you can work in sales, trading, marketing, banking, and many other sectors, while benefiting from the increasing demand for qualified professionals in the field.

In this section, we try to provide an idea about the basics concepts of risk management based on the literature review. This includes a generic definition of risk, risks management and their method.

The risk

The thematic of risk management is not new, but it is recent and not very studied in logistic chain (or supply chain), the first work that explicitly addresses for the risk management in the supply chain dating from 2003. The risk is present in many activities including the logistic in which one consequence of the risk that it is increasing and affect around all the logistic networks, therefore the managers need to make a great deal of effort to identify and manage risks. The meaning of risk can be differ from one person to another depending on their point of views, attitudes and experience what makes the study of risk more and more complex. Aven, proposed a basic risk theory based on brief selected review that over the last 15-20 years and he presented the evolution of risk concept in Oxford English Dictionary since 1679, we think that definition followed the environment evolution. Veland and Ave, proposed the same based classification of risk given by Aven and they used theses definition to discuss how the risk perspectives influence the risk communication between the decision-makers, the risk analysts, experts and lay people. Indeed, for Karimiazari et al, engineers, designers and contactors view risk from the technological perspective, lenders and developers tend to view it from the economic and financial side.

So, the question is: what is a risk? The first answer, the risk is the probability that an event or action may adversely affect the organization. For Mazouni, the risk is an intrinsic property of any decision, it is measured by a combination of several.

Factors (severity, occurrence, exposure to, etc.), although it is generally limited to two factors: severity and frequency of occurrence of a potentially damaging accidents that incorporate some exposure factors. In the BS OHSAS 18001 (British Standard Occupational Health and Safety Assessment Series), the risk is a combination of the likelihood of an occurrence of a hazardous

event or exposures to danger and the severity that may be caused by the event or exposure. In this context (BS OHSAS 18001), the concept of risk asks oriented questions: How severe would the impact on health and safety be if the hazardous event or exposure actually occurred?

The risk can be defined as an uncertain event or set of circumstance which, should it occur, will have an effect on achievement of one or more objectives. For Marhavilas et al, the risk has been considered as the chance that someone or something that is valuated will be adversely affected by the hazard, where the hazard is any unsafe condition or potential source of an undesirable event with potential for harm or damage. For Bakr et al, the word "risk" means that uncertainty can be expressed through probability. We can concluded that the risk is an probabilistic event that can exist and affect the activity of an organization positively (opportunity) or negatively Data and research methods

A literature review is a systematic, reproducible, and explicit way of identifying, evaluating, and synthesizing relevant research produced and published by researchers. Analyzing existing literature helps researchers generate new themes and ideas to justify the contribution made to literature. The knowledge obtained through evidence-based research also improves decision- making leading to better practical implementation in the real corporate world. As Kumar et al and Rowley and Slack recommended conducting an SLR, this study also employs a three-step approach to understand the publication pattern in the banking area and establish a link between bank performance, regulation, and risk.

Financial Accounting: What is it, Importance and Examples

You'll be forgiven for thinking financial accounting is a complicated topic, reserved for accountants, analysts, and general number crunchers. Although it can be complex at times, it's an important subject that all professionals need to understand to ensure compliance and profitability. In this post, we'll take the mystery out of financial accounting, using easy-to-understand examples to explain what it is and why it's important

What is financial accounting?

In simple terms, financial accounting is the practice of accounting for all money going in and out of an organization. It involves recording, classifying, summarizing, and analyzing all financial transactions.

Recording – Transactions are recorded as either a debit or a credit. When funds come into a business, that's a credit. And when they go out, it's a debit.

Classifying – There are several categories used to determine types of transactions:

Revenue. This is generally from the sales of goods or services. Expenses. These are business costs, like salaries, office rents, and services

Assets. This is the value of what a business owns. Assets may be physical (known as tangible), like property and equipment. Or non-physical (known as non-tangible), like a database of clients and software patents – think intellectual property.

Liabilities. This is what a business owes. It's not just debt, but also forecasted outgoings. Examples include mortgages, payroll, and payments owed to suppliers.

Equity. This is what's left over after deducting liabilities from assets. It's what the business owner and shareholders own.

Summarizing – The transactions are summarized into different reports (we'll look at this later in the post)

Analyzing – Data and information is analyzed to help make business decisions

There are two different types of financial accounting: cash and accrual. Cash accounting is generally only used for employee cash expenses, such as client meals and travel costs. Accrual accounting is all-encompassing and accounts for all business transactions.

What are the principles of financial accounting?

The practice of financial accounting is based on a series of principles, with the five major ones being:

Revenue principle – All income to a business is recorded when a client or customer accepts the goods or services – not necessarily when they pay for it.

Expense recognition principle – All expenses are recorded when a business confirms goods or services from a third party – not when they're billed for it.

Matching principle – Each bit of revenue should be matched with corresponding expenses. For example, a marketing agency charges a client to set up their website. The agency's expenses for this project include the hosting, domain, and the developer's time. These costs must be matched to the project.

Cost principle – Historical costs of assets and liabilities should be used, and not current or resell costs. For example, real estate value changes over time but in financial accounting, it's historical, and not current, the value must be used. This is known as cost accounting.

Objectivity principle – Only factual and verifiable data should be used on financial accounting, not subjective or estimated figures

These principles form what is known as GAAP Generally Accepted Accounting Principles.

Who uses financial accounting?

External stakeholders use financial accounting to see the current state of business. For example, shareholders will want to see financial reports before deciding to invest in a business. While suppliers need to see a firms' financial health before extending credit for services. Next, brokers use a company's financial reports to determine the value of its stocks and shares. And auditors, governments, and regulatory bodies rely on financial reporting to ensure legal and tax compliance.

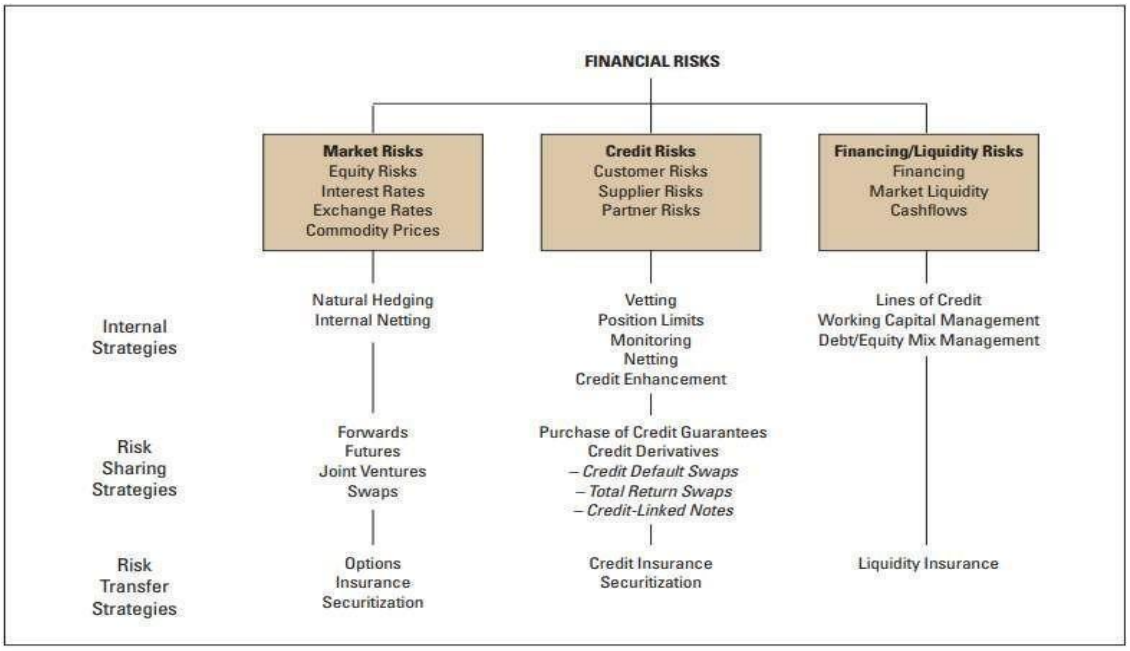
Financial accounting should not be confused with managerial accounting, which is used internally by managers (hence the name) to help guide decision-making within a business. Whereas financial accounting, as we've just established, serves external stakeholders.

Financial Reporting

Accountants use a firm's accounting information to create reports. These reports usually come in the form of a financial statement and are generally published on a monthly, quarterly, or annual basis. They're circulated to a firm's external stakeholders and subject to audits to ensure veracity and accuracy. Collectively, they show a business' financial performance over a period of time, known as an accounting period.

Risk Management Tools for Different Categories of financial Risk

Figure 2



These are the different types of financial statements that exist:

Income Statement

Also known as 'profit and loss (P+L)', this report starts with a record of all revenue over a period of time. It then deducts all matching expenses during the same period and what's left over is the profit or loss. This is what's known as a firm's net income or bottom line.

Income statements are used to determine a company's profit margins, which you can read more about here.

Balance Sheet

Also known as a statement of financial position, this report provides a snapshot of a company's financial health at a given moment in time. It takes into account assets, liabilities, and equity. This report shows what a business owns (assets) like accounts receivable, what it owes

(liabilities) like accounts payable. Then what's left over is the equity and this determines what a company is currently worth.

It's called a balance sheet because the sums will always balance. For example, a business decides to renovate its offices and the work costs a total of $50,000. It uses $20,000 in cash to pay for it (equity) and $30,000 of debt to pay for the remainder (liability).

Balance sheets are used by investors, analysts, and shareholders to help assess a firm's financial standing. As it's a snapshot, it doesn't show trends or changes over a period of time. Instead, it's compared with previous balance sheets to track changes in a business' finances.

Cash Flow Statement As the name suggests, the statement of cash flows is a report that tracks cash coming in and out of a business during a period of time. Stakeholders use this report to determine how well a business manages its cash.

The report is made up of 3 different types of cash flows:

Operational activities. This includes the sale of goods and services (money coming in) and salaries and supplier payments (money going out)

Investment activities. This tracks any changes to a business' liabilities and assets in their cash equivalents. For example, the purchase of new software would appear in this section as cash out, as it's a cost. The sale of assets, like property or equipment, would be an example of cash in.

Financing activities. This section of the cash flow statement reports on money coming in and out through investments, debt and bonds.

Resource Management

The cash flow report adds up the sum of these three categories to give an overall cash flow. This statement accompanies the balance sheet and income statement and also helps determine the financial health of a business. The more liquidity a business has, the better a firm's financial

position and the more capital they have to invest and grow. Whereas a business with a poor cash flow represents a risk for investors and lenders.

Under GAAP and different local laws and regulations, firms are obliged to publish financial information and maintain bookkeeping records. Regulatory bodies, like the IRS and financial institutions like the financial accounting standards board, ensure compliance. And to help them with laws and understand their financial data, firms hire certified public accountants (CPA).

Why is financial accounting important?

Bookkeeping and publishing financial statements are important for the following reasons:

Communication with external stakeholders – Lenders, investors, and shareholders are just some of the third parties who use financial data to determine a business' financial health. These external users then interpret this information to decide how much to invest or lend.

Transparency – By publishing their accounts and data, businesses are transparent in disclosing their financial performance. We'll look into more reasons why transparency is important later in this post.

Compliance – Not only do they need to comply with laws and tax regulations, but also with international financial reporting standards (IFRS). Several accounting bodies ensure compliance, such as Financial Accounting Standards Board (FASB) in the US.

Data-driven decision making – Management accounting is the practice of internal reporting of financial data. This allows for company bosses to see trends and overall business performance, which will help better inform their decisions.

Project Profitability

How to keep profitability in order?

One of the biggest benefits of reporting financial data is that it helps analysts and managers understand their business and therefore improve its profitability. Let's take a look at how you can keep profitability in order.

Understand your gross profit margins.

Use income statements to help you understand your gross profit margins on the services you provide. This will help you to identify performance strengths and weaknesses in the delivery of projects and optimize accordingly.

Optimization could include controlling costs of goods and services, changing prices, and managing employee time. We'll look at these points a little further down, and you can read about gross profit margins here.

Understand your operating profit margins.

Your financial statements will also help you to get a better idea of your operating profit margins. This metric takes into account all costs in the overall running of the business, such as office rents. By understanding this figure, you'll see how efficiently your business is run which then allows you to make improvements.

For example, a business may have a high gross profit margin but low operating margins. This could be a sign of inefficient internal processes or high expenses.

You can read more about different types of project margins here.

Control your costs.

Following on from the last point, use your financial statements to closely monitor your costs and any changes over time. These reports break down and itemize expenses, allowing the reader to see where money is being spent. For example, the Covid-19 pandemic means remote working has become standard and company offices are no longer in use. So a business could decide to switch to a remote-only model, downsize their office or use a co-working space to save on office rents and reduce costs.

Correctly charge for projects and services.

This may sound like a no-brainer, but many professionals and firms undercharge for their services. There are several reasons for this: underestimating how long a project will take, scope creep, and not charging the client for all billable activities.

For example, an accountant charges $100 per hour and quotes a project at $1500 – expecting it to take 15 hours. But in practice, it takes much longer, as the accountant didn't accurately know how long the work would take to complete. Nor did they factor in client meeting time and admin. The project ends up taking 20 hours, reducing the hourly rate to $75. This extra 5 hours also delays the accountant and prevents them from taking on more projects sooner, further affecting profitability.

Track time spent on all activities.

Following on from the previous point, professional service providers should track all time spent on client work. By tracking all hours, firms and individuals can build up an accurate picture of how long different types of projects take. They can then use this data to correctly charge for future projects, as they know how long similar projects took to complete.

Automate your processes

Along with tracking time, firms should look to automate as many processes as possible. Through automation of time-consuming tasks, businesses will free up their employees' time so they can spend more hours on billable work. For example, a graphic designer should spend their time on client work, and not administrative tasks like invoicing and tracking hours. By automating these processes, the graphic designers can take on more work in the same amount of hours.

Invest in project management software To help track time and automate processes, consider investing in a project management platform like COR. These tools automate time tracking for your employees and contractors which removes the risk of human error. It also makes it easy for your team members, so they're less likely to object to recording their hours. These tools also centralize communication and data, which allows for transparency.

By automating processes and tracking time, you'll also be looking after your team's wellbeing. Time tracking means they'll quote more accurately and therefore earn a higher fee. While automating processes alleviates them from time-consuming tasks which helps avoid burnout. With fairly paid team members who aren't overworked, you'll attract and nurture greater talent which means higher quality deliverables. And of course, with high standards of work, you can charge higher rates.

Data and transparency are also key to negotiating higher fees. Project management platforms automate reports, making them easy to generate and read. Businesses can then show these reports to their clients to help justify project costs. If your client knows your hourly rate, you can use historical data of project completion time frames to make your pricing transparent. If clients understand your prices, they're more likely to accept your proposal than your competitors'.

CHAPTER 2: RESEARCH METHODOLOGY

Research Methodology

Risk Management- Important Objectives and Goals for businesses today

The most important objective for any business today is to enhance the safety of investors. The objective of risk management is to identify risk at an early stage and take the necessary steps or measures to mitigate its harmful effects. Historic information is analyzed to understand a trend and to foresee all future unfortunate events. The objectives are as follows:

Identify:

The first and the most important objective is to identify various types of risks arising out of uncertainty.

Risk management helps in evaluating the source of risk in business and developing a proper understanding of the causes.

The Risk Manager is responsible for identifying areas where losses can take place and determining the best way to handle various risks.

Risk Managers collect information from different sources to identify minor and major exposures to losses.

One example is the misuse of the internet by employees using emails which can lead to the theft of confidential information.

Measure:

The other objective is risk measurement. Once the above mentioned step is completed, the next step involves creating a system to measure the identified risks and quantify their potential impact.

Let us understand through an example. The probability of floods or drought is completely dependent on the weather conditions, which have a direct impact on the crops.

These important details will help farmers get an overview of the degree of risk involved with each variable along with the value that is at risk.

Monitor:

The next risk management objective includes continuous monitoring once the first two steps are completed,which are the identification and measurement of risks.

Let us continue with the above example. It is very difficult to accurately predict the weather, significantly for longer periods.

Checking the weather forecast continuously is a form of risk monitoring. The farmer must also keep an eye on the market prices for the crops to monitor price risk.

Control:

The objective of risk management is to control risks. When the potential risks are identified, measured, and monitored, then the final objective is to find out ways to deal with or control those risks.

Every business must consider the size of the risk and compare it with the cost of controlling it. It helps in evaluating whether the risk is worth spending time and money on.

Risks can be controlled through any of the four methods, which are transferring, treating, tolerating, and terminating.

Transfer:

Did you know that risks can be transferred using contracts? Yes, this is possible through sales or insurance contracts.

Continuing with the earlier example, one option could be an insurance policy for crops against adverse weather conditions.

Another option is a sale contract which is usually suitable for high-value low probability risks. Coming to the real-life events, when Russia invaded Ukraine in February 2022, companies that had close ties to Russia were unprepared. Many executives consider this event as a black swan event. Wondering what are black swan events? We have covered this topic in our previous blogs. For some, it is a grey rhino event. No matter how we classify it, the war in Ukraine is a high geopolitical risk that is still unpredictable.

Businesses face a lot of uncertainty which can lead to a possible collapse in confidence and an even higher risk of recession.

Boost your knowledge in the Finance Domain with the Financial Risk Manager Course from Edu Pristine.

Expertise in risk management, data analytics, artificial intelligence, and other emerging technologies can help in mitigating the severe impacts of risk.

FRM course can help in building a successful career in the domain of Financial Risk Management. The FRM course covers all the aspects of risk management in depth. To know

more about the FRM course in India and FRM course eligibility, feel free to contact our counsellors, who would be more than happy to assist you. All the best and happy learning.

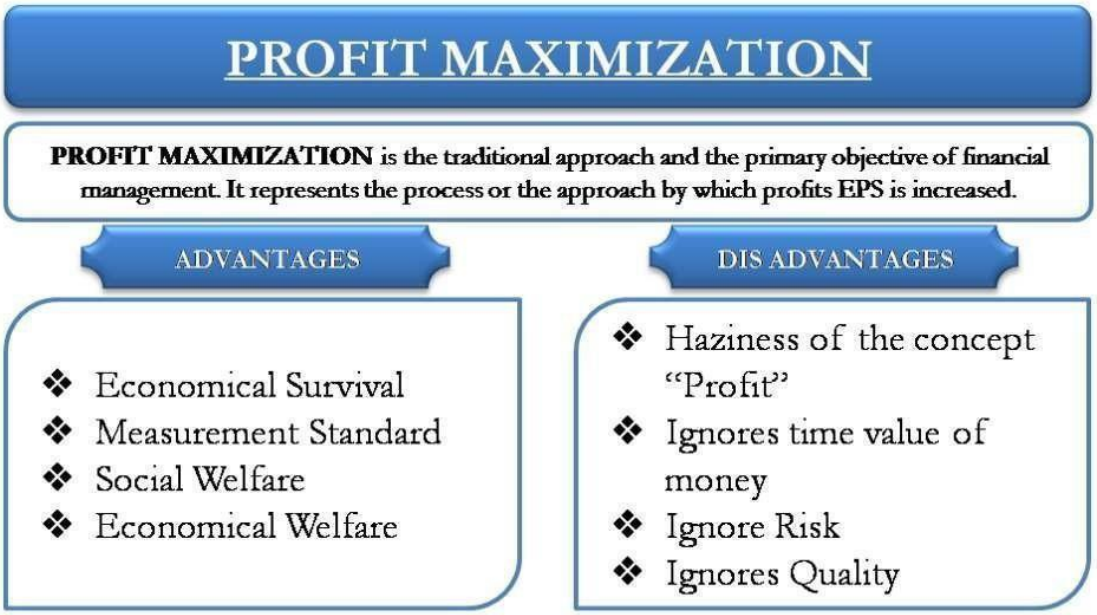
Objectives of Financial Management

Financial Management refers to the process of efficient acquisition, utilization, and distribution of finance and then disposal of surplus or profit to run the organization smoothly. Financial management helps in finding the answer to various questions like what should be the size and composition of fixed assets, what should be the amount and composition of current assets, what should be the amount of long-term and short-term financing, what should be the fixed debt- equity ratio in the capital, etc.

A financial manager is responsible for making the decisions to bring effective financial management to the organization. His/her decisions should be gainful for the shareholders as well as the company. So the decisions which increase the value of the share in the market are considered to be good and fruitful. Increased value of shares fulfills many other objectives also but it does not means that the manager should use manipulative activities to raise the prices of the shares. This boom must come with the growth of the organization, with the increase in profits, and with the satisfaction of all the parties which are directly or indirectly associated with the firm.

Some of the prime objectives of financial management are as follows:

1. **Profit Maximization**



A business is set up with the main aim of earning huge profits. Hence, it is the most important objective of financial management. The finance manager is responsible to achieve optimal profit in the short run and long run of the business. The manager must be focused on earning more and more profit. For this purpose, he/she should properly use various methods and tools available.

2. Wealth Maximization

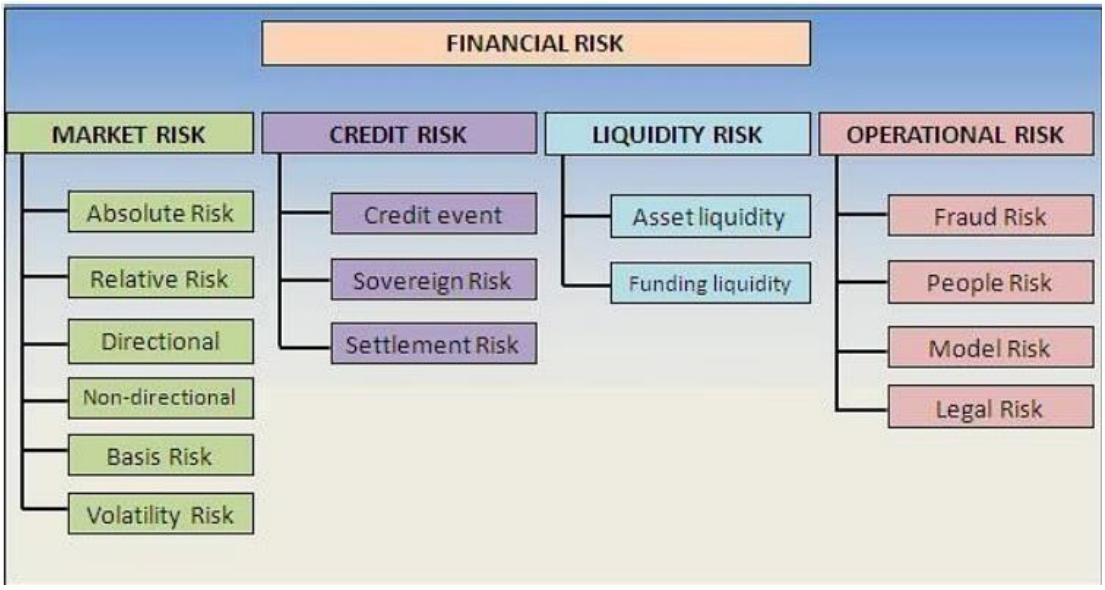
Shareholders are the actual owners of the company. Hence, the company must focus on maximizing the value or wealth of shareholders. The finance manager should try to distribute maximum dividends among the shareholders to keep them happy and to improve the goodwill of the company in the financial market. The declaration of dividend and payout policy is decided with the help of financial management. A proper dividend policy related to the declaration of dividends or retaining the company's profit for future growth and development is part of dividend decisions. But this is based on the performance of the company and the amount of profit earned. Better performance means a higher value of shares in the financial market. In nutshell, the finance manager focuses on maximizing the value of shareholders.

3. Maintenance of Liquidity

With the help of proper financial management, the manager can easily monitor the regular supply of liquidity in the company. But it is not as easy as it sounds. To maintain the proper cash flow, the manager must keep an eye over all the inflows and outflows of money to reduce the risk of underflow and overflow of cash. The finance manager is responsible to maintain an optimal level of liquidity in the organization. Healthy cash flow means a higher possibility of survival and success of the business. Because it helps the business to deal with uncertainty, timely payment of dues, getting cash discounts, making day-to-day payments without delays, etc.

4. Proper Estimation of Financial Requirements

Financial management also helps the finance manager in estimating the proper financial needs of the company. This means the estimations related to the requirement of capital to start or run a business, the need for fixed and working capital of the company, etc., can be done with effective management of finance. If this management will not be present in the company then there will be a higher possibility of having a shortage or surplus of finance. For this estimation, a financial manager checks various factors like the technology used by the organization, the number of employees working, the scale of operations, and the legal requirements of the company to run its business.



5. Proper Mobilization

Financial management helps in the effective utilization of sources of finance. It means without wasting them and getting the maximum benefit from the available resources. The finance manager is responsible for managing the different sources of funds such as shares, debentures, bonds, loans, etc. So, after estimating the financial requirements, the manager must decide which source of the funds he/she should use to avail the maximum benefit.

6. Proper Utilization of Financial Resources

With proper financial management, the organization can make optimum utilization of financial resources. To achieve this, a financial manager has various tools that he/she can use. They include managing receivables, better management of inventory, and effective payment policy in hand. This will not only save the finance of the organization but will also reduce the wastage of other resources.

7. Improved Efficiency

Financial management is also beneficial in increasing the efficiency of all sections and departments of the organization. If the finance is effectively distributed to all the departments then they will work efficiently. It will support the company to achieve its targets easily which will be further helpful for the growth of the entire company.

8. Meeting Financial Commitments with Creditors

Financial management is helpful in the timely payment of dues to the creditors. The financial manager can list out the creditors, their due amount, and due date from the financial accounts and can make their payments on time. This will increase the goodwill of the company in the market and creditors will also provide the goods to the company on credit without having any problem. So, if there will be strong management of finance then the company will be able to meet the financial commitments with creditors easily.

9. Creating Reserves

The business environment is full of uncertainty such as sudden changes in customers' preferences, climate change, natural calamity, change in technology, etc. To overcome such unplanned issues, the company should have a sufficient amount in the form of reserves. The company can create reserves over the year by having an optimal dividend payout policy. The company should also keep some part of profits in the form of reserves. The reserves are not only helpful in dealing with unwanted situations but also to expand the business and face contingencies in the future. This benefit can only be taken if the company has effective management of finance.

10. Decreases the Cost of Capital

This objective includes measuring the cost of capital, risk evaluation, and calculating the approximate profits out of a particular project. Financial managers are responsible for the effective investments of available funds in the current or fixed assets to get the maximum benefits or ROI.

11. Decreases Operating Risk

There are lots of risks and uncertainties that a financial manager has to face in the day-to-day operations of the business. Financial management helps in reducing these issues and gives the solutions to deal with the problems. It can avoid the high-risk allocation of capital for the expansion and growth of the business. Other than this, FM also tells how the decisions can be taken with a proper consultancy.

12. Balanced Structure

Financial management also provides a balanced capital structure to the company. In other words, it brings a proper balance between the various sources of capital such as loans, equity, bonds, retained earnings, etc. This balance is required for flexibility, liquidity, and stability in the organization as well as the economy.

13. Developing Financial Scenarios

With the help of financial management, financial scenarios can be developed. It can be done by forecasts and the current state of the company. But for this purpose, the financial manager has to assume a wide range of possible outcomes as per the current and future market conditions.

14. Measure Your Success

The prime motive of any organization is to earn huge profits. So, we can say that the success of a company is based on its revenue. Financial management not only helps in earning more revenue but also in measuring the success of the company. With proper financial reports or accounts, the organization can compare its current year's performance with the previous year's performance.

Other than this, the financial manager can also compare the performance of the organization with the performance of the competitors in the market. Such information motivates the management team as well as all the employees to work harder for the company's growth.

15. Optimizing Marketing Activities

Marketing plays a huge role in the revenue of a firm. A company advertises its products or services through different means of marketing. But marketing is a department that demands more funds. So, before investing in any advertising campaign, it is a must to figure out what return the company can get from investing in that campaign. And if the program is not giving the expected returns to the company then it should be optimized or temporarily stopped. That's why the financial manager should check the reports prepared by the marketing department regarding the returns from any advertising campaign and then he/she should manage and allocate the funds by keeping the results in mind.

16. Business Survival

In this era of high competition, it is not easy for a company to survive in the market and earn profits. Hence, the finance manager should take the big decisions carefully after consulting with the experts.

If the company follows perfect financial management then it can get the benefits of all the given objectives which will be helpful in the long-run survival of the business with a higher turnover and goodwill.

Financial risk management seeks to achieve the following key objectives:increase the probability of budget and strategic objectives being met, limit cash flow volatility, ensure short-term financial liquidity, optimize the expected level of cash flows and risk,support operating, investment and financial processes, and create value in the long term.

With a view to implementing the above objectives, the Group has put in place relevant tools and developed a number of documents, approved at the relevant decision-making levels, defining the framework for ensuring effectiveness and safety of the Group’s financial activities, including:

The methodology for quantifying exposures to

particular risks, The time horizon for hedging a given

risk, Acceptable financial instruments,

The method of assessing financial risk

management, Limits within risk management,

The reporting method,

Credit limits,

Documentation and operating standards.

Division of responsibilities for execution of transactions, risk analysis and control, as well as documentation of and accounting for transactions, among various corporate units.

The Parent monitors and reports all managed market risks on an ongoing basis. Grupa LOTOS S.A. uses liquid derivatives which can be measured by applying commonly used valuation models. Valuation of derivative financial instruments is performed based on market inputs provided by reliable sources. Opening positions with respect to risks which do not arise as part of the Group's core business is prohibited.

In 2016, the Parent continued to apply the hedge accounting policies implemented in 2011 and 2012 with respect to its cash flows (i.e. foreign-currency facilities used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sale transactions). The objective of the study is to see how businesses can be prepared & cope with financial risks that are possible to control or mitigate for value creation.The objective of the study is to see how businesses can be prepared & cope with financial risks that are http://riskmanagemnet.banking-business-review.com possible to control or mitigate for value creation.

The research methodologies of the thesis include a combination of a theoretical analysis through a critical perspective to the Corporate Risk Management literature and an empirical case study from Maersk-A.P. Moller Group and a few Danish Banks illustrations.

The data presented were collected both from primary and secondary sources. The primary sources were retrieved through interviews and first hand document from Maersk-A.P Moller Group and Danske Bank. The secondary sources were retrieved from annual reports, books, journals, internet and magazines. The case of Danske Bank is inserted in chapter 3 and chapter 4 together with the theoretical analysis by the method of quantitative analysis.

The case study of Maersk A.P Moller Group has been chosen because this company is one of the largest companies in Denmark and Risk Management is their important task to prevent the group from losses. Interviews have been conducted within Maersk-

A.P. Moller Group by meeting with two senior management people of Risk Management team from their Group Finance and Maersk Line Finance. The case study of Maersk is using the method of qualitative analysis.

When we selected the risk measurement for the purpose of the topic, we chose VaR (Value at Risk).

Value at risk is a quantitative tool to measure the market risk and it is mostly used in banks and for financial risk management of non-financial institutions. The thesis also includes a descriptive and critical analysis of VaR (Value at Risk).

Danske Bank. We got information of currency exchange and interest risks involving derivatives of Maersk under market risk. For banks, we analyzed credit risk of Danish banks under historical simulation of VaR and derivatives being used by Danske Bank. For some desired information which we could not get access to due to being confidential, we have supported our theoretical analysis and methodology with instances and examples of these corporation's practices of VaR with the help of available public information.

Risk is an inevitable part of any business or economy. Whenever a business makes any decision or entrepreneurial action, there is a risk involved (Hampton 2011). Globalization has amplified the importance of financial risk management in businesses. It applies to all forms of businesses: large, medium, and small enterprises. Some individuals share the idea that, due to the size of the small and medium enterprises, they may not be facing the financial risks as the large firms.

CHAPTER 3: LITRATURE REVIEW

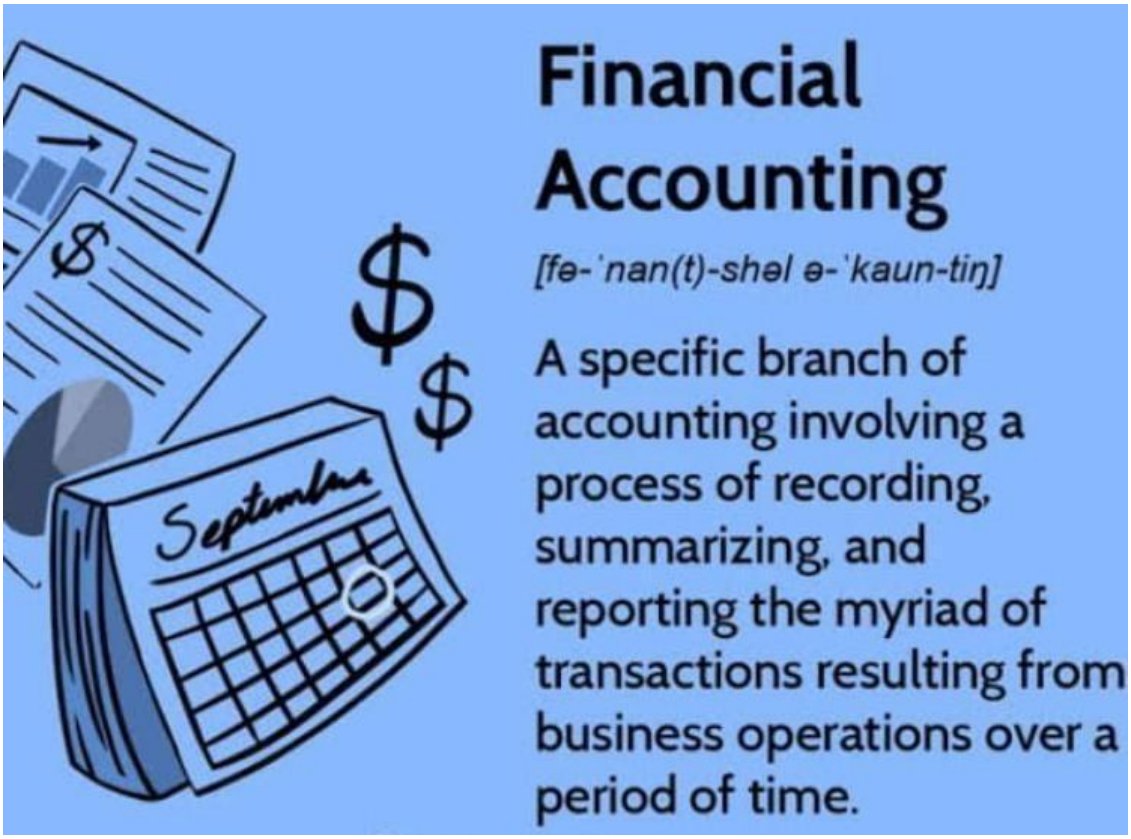
SDIMT Management Review, Vol.-I, No. I, January 2013, pp. 7-15. Financial Risk Management in India-Evidence from Literature Review Prof. B.S. Bodla University School of Management, Kurukshetra University Kurukshetra-136119, Haryana, India E-mail:bsgju@yahoo.co.in Reeta Research Scholar, University School Of Management, Kurukshetra University Kurukshetra- 136119, Haryana, India E-mail: reeta.clonia@gmail.com A bout the Authors Dr. B.S. Bodla is presently working as professor at university school of management, Kurukshetra University Kurukshetra-136119, Haryana. He has 24 years teaching experience. His subjects of interest include Investment Management, Corporate Financial Management, Insurance and Quantitative Techniques. Besides publishing more than 80 research papers in national/International journals and magazines, Dr. Bodla has completed four sponsored research projects. Moreover, he has authored four books-

1. Performance of Mutual funds in India, 2. Insurance: Fundamentals, Environment and Documentation, 3. Risk and Rewards of Equity Investment- A study of Select Asian Stock Markets, and 4. Insurance Management. Reeta is presently persuing Ph.D. in the university school of management, Kurukshetra University Kurukshetra (Haryana) under the supervision of Dr. B.S. Bodla. She has 2 years teaching experience to MBA classes. She has qualified UGC-JRF and her topic of Ph.D. is "A study of Financial Risk Management Strategies Used in the

selected Corporate Sector Units in India". Her area of academic Interest is Financial Derivatives, Forex Management. Abstract Firms doing business either at international level or domestic level are facing financial risk which includes interest rate risk, exchange rate risk, market risk etc. in exercising their daily activities. The financial derivative contracts such as forwards, swaps and options, provide managers with a whole series of instruments to manage these risks.

However, the question how companies are managing and measuring financial risk is still remaining partially answered as it has invited a lot of debate. This paper reviews and summarizes the various researches which have been conducted on the subject of financial risk management in different parts of the world so as to know the risk management practices in vogue and to identify further scope of research. The review indicates that most of the previous studies concentrated on management of the financial risk but not on the measurement of these risks.

Hence, there is a scope to study the measurement and management of financial risk (which includes both exchange rate risk as well as interest rate risk) Keywords- Financial Risk, Exchange Rate Risk, Interest Rate Risk, Financial.



Derivative 1. Introduction In the light of globalization and internationalization of world markets, financial risk has become one of the most difficult and persistent problems with which financial executives must cope. Fluctuations in exchange rates and interest rates have become a major source of uncertainty for national and multinational firms. The economic climate and markets can be affected very quickly by changes in exchange rates, interest rates, and commodity prices. As a result, it is important to ensure financial risks are identified and managed appropriately. Preparation is a key component of risk management. Financial risk is normally any risk associated with any form of financing. It is one type of risk in which one may have the chance to lose the capital or entire money. It refers to the risk of bankruptcy arising from the possibility of a firm not being to repay its debts on time. Higher the debt-equity ratio of a firm, higher the financial risk faced by a firm. Financial risk arises through countless transactions of a financial nature, including sales and purchases, investments and loans, and various other business activities. It can

arise as a result of legal transactions, new projects, mergers and acquisitions, debt financing, the energy component of costs, or through the activities of management, stakeholders, competitors, foreign governments, or weather. When financial prices change dramatically, it can increase costs, reduce revenues, or otherwise adversely impact the profitability of an organization.

Financial fluctuations may make it more difficult to plan and budget, price goods and services, and allocate capital. There are three main sources of financial risk:

1. Financial risks arise from an organization's exposure to changes in market prices, such as interest

rates, exchange rates, and commodity prices

2. Financial risks arise from the actions of, and transactions with, other organizations such as vendors, customers, and counterparties in derivatives transactions

3. Financial risks result from internal actions or failures of the organization, particularly people, processes, and systems. Financial risk management is a process to deal with the uncertainties resulting from financial markets. It involves assessing the financial risks facing an organization and developing management strategies consistent with internal priorities and policies. Addressing financial risks proactively may provide an organization with acompetitive advantage. It also ensures that management, operational staff, stakeholders, and the board of directors are in agreement on key issues of risk. Organizations manage financial risk using a variety of strategies and products. Strategies for risk management often involve derivatives. Derivatives are traded widely among financial institutions and on organized exchanges. The value of derivatives contracts, such as futures, forwards, options, and swaps, is derived from the price of the underlying asset. Derivatives trade on interest rates, exchange rates, commodities, equity and fixed income securities, credit, and even weather.

2. Objectives of the Study and Sources of Literature The present paper aims at the following objectives

To understand the concept of financial risk management;

To review the literature available on the subject of financial risk management in order to judge the hedging strategies used in the corporate sector; and to find out the areas of future research in the field of financial risk management. The studies reviewed in this paper are the most quoted research papers published in the reputed journals such as the Journal of Financial and Quantitative Analysis, Journal of International Money and Finance, journal of Financial Economics etc. Some of them are collected from various websites such as www.ssrn.com,

www.newyorkfed.org/research/derivatives in India etc. The studies published between1997 and 2011 are considered here in.

3. Review of Previous Studies All firms dealing in multiple currencies face a risk of unanticipated gains/losses due to sudden changes in exchange rates. Because of this a lot of researches had been conducted on financial risk management. The literature on financial risk has grown rapidly more specifically after the financial crises in 1990s. These crises have made it clear that exchange rates may have significant real economy effects. There are a large number of theories of why companies manage risk, including foreign exchange risk and interest rate risk. Coping with risk has become an important managerial function, especially after the increased volatility in the foreign exchange market in recent years. Different financial analysts and experts have their different opinions regarding financial risk management. On the basis of those studies and research articles, various strategies have been suggested with the help of which multinational companies can manage their financial risk. Comptroller's Handbook (1997) defined derivative as an instrument that primarily derive its value from the performance of underlying interest or foreign exchange rates, equity, commodity prices. In this article, financial risk has been divided into 9 categories and various measurement and management techniques have been discussed to eliminate the effect of all these types of risks. Value-at-risk (VAR) is one of the most common methods used by dealer banks to measure aggregate price risk.

VAR is an estimate of the potential loss within a specified confidence interval in a portfolio's value over a defined holding period. In trading portfolios that are marked-to-market daily, VAR is usually translated into a potential reduction in the bank's future earnings. VAR is most valuable as a high-level management information tool because it reduces a bank's multiple price risks to a single number or to a small number of key statistics. Shehzad L. Mian, (1997) provides empirical evidence on the determinants of corporate hedging decisions. He examines the evidence in light of currently mandated financial reporting requirements and, in particular, the constraints placed on anticipatory hedging. Corporations are exposed to uncertainties regarding a variety of prices. Hedging refers to activities undertaken by the firm in order to mitigate the impact of these uncertainties on the value of the firm. Data on hedging are obtained directly from disclosures made by 3,022 firms in their annual reports for 1992. As a result, this study does not suffer from the non-response bias typical of survey samples and yields results that are more readily generalizable to a broader set of firms. This study provides evidence on the models of the hedging decisions.

The paper also examines whether the evidence is sensitive to classification of all derivative users as hedgers. The study indicates that out of 3,022 sample firms, 543 firms disclose that they hedge their exposures or disclose information related to their hedging activities. An additional 228 firms disclose their use of derivatives but do not disclose that they engage in hedging activities. The conclusions concerning the determinants of hedging are robust with respect to treatment of the 228 derivative users as hedgers or speculators. Ghose.T.P. (1998) conducted a study on VAR (Value at Risk). There are two steps in measuring market risk; the first step is computation of the Daily Earning at Risk; the second step is the computation of the VAR. He stated that price sensitivity could be measured by modified duration (MD) or by cash flow approach. He reviewed the various types of risks in relation to the different institutions. He opined that 'Managing risk' has different meanings for banks, financial institutions, and

non-banking financial companies and manufacturing companies. In the case of manufacturing companies, the risk is traditionally classified as business risk and financial risk. Banks, financial institutions and non-banking financial companies are prone to various types of risks important of which are interest rate risk, market risk, foreign exchange risk, liquidity risk, country and sovereign risk and insolvency risk. Susheela Subramanya (1998) commented on the risk management processes of banks. She revealed that banks need to do proper risk identification, classify risks and develop the necessary technical and managerial expertise to assume risks. Embracing scientific risk management practices will not only improve the profits and credit management processes of banks, but will also enable them to nurture and develop mutually beneficial relationships with customers. She concluded that the better the risk information and control system the more risk a bank can assume prudently and profitably. Terry.J.Watsham (1998) discusses the nature of the risks associated with derivative instruments, how to measure those risks and how to manage them. He stated that risk is the quantified uncertainty regarding the undesirable change in the value of a financial commitment. He opined that an organisation using derivatives would be exposed to risks from a number of sources, which are identified as market risk, credit or default risk, operational risk and legal risk. He revealed that there is 'systemic risk' that the default by one market participant will precipitate a failure among many participants because of the inter-relationship between the participants. George Allayannis (1998) examines whether firms use foreign currency derivatives for hedging or for speculative purposes. To identify a firm's hedging or speculative behavior in the data, the researcher has examined the effect of foreign currency

derivative use on its exchange-rate risk (exposure) and the determinants of the amount of derivative use. Using the sample of all S&P 500 non-financial firms for 1993, the researcher found that a firm's exchange-rate exposure is positively related to its ratio of foreign sales to total sales, and negatively related to its ratio of foreign currency derivatives to total assets. These associations are significant at the 1% level and robus to alternative time periods, exchange-rate indices, and estimation techniques. The evidences given by the researcher strongly supports the hypothesis that firms use foreign currency derivatives, not to speculate in the foreign exchange markets, but as protection against exchange-rate movements. The study found a strong negative association between foreign currency derivative use and firm exchange-rate exposure, suggesting that firms use derivatives as a hedge rather than to speculate in the foreign exchange markets. Gregory W. Brown (2000) investigates the foreign exchange risk management program of HDG Inc. (pseudonym), an industry leading manufacturer of durable equipment with sales in more than 50 countries.

The analysis relies primarily on a three-month field study in the treasury of HDG.

The central problem of accounting research is that there is no known theory to use as a reference for creating hypotheses or models to be empirically researched. The absence of theory can be seen in education, practice, and the research literature itself. Practitioners, for example, because of their training and lack of experience with and interest in research tend not to look to research findings to meet their professional needs. Accounting researchers, on the other hand, have created what appears to be a highly advanced research context which, in effect, is an environment dominated by sophisticated methodology, rather than theory. The research basically emulates the hard sciences, which makes its pursuit academically acceptable, but it lacks substance. This explains the failure of accounting research to improve accounting practice... As previously highlighted, accounting schools carry some of the highest student to staff ratios in comparison to other disciplines with high teaching commitments, often at the expense of time allocated to research.

An implication of this lack of engagement with the profession is the failure to consider practitioner needs, impacting on curriculum design and the failure to conduct research that is useful to practitioners (Inanga & Schneider, 2005). ...

... it is too quantitative and based on economics, positivism and managerialism (Modell, 2014); it uses large datasets with an emphasis on generalisability (Merchant, 2012) that is not useful to

practitioners who deal with specific situations at certain points in time and that are never average although such averageness may be of use to policy makers (Singleton-Green, 2010); it ignores the skills of practitioners and their qualitative contexts; it requires academic boundaries that concentrate on single theories and narrow perspectives that are unrelated to the reality of practitioners (Merchant, 2012;Pearce & Huang, 2012); and it uses jargon that is incomprehensible, pretentious and elitist (Inanga & Schneider, 2005). ...

... Evidence-based practice in the workplace requires research to be made more accessible, understandable and relevant for practitioners who need to be more involved in contributing and co-producing research ideas (Burke & Rau, 2010). However, this communication gap may be symptomatic of the lack of communication by practitioners as evidenced by the gap between the preparers of financial statements and their users (Inanga & Schneider, 2005).

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research method is the cornerstone of every research because it serves as a strategy toguide the research from the start to the end (Abowitz and Toole, 2009;Creswell and Creswell,ECAM 2017). The research method adopted for this study is systematic review of previous studies on financial risk management of PPP projects. According to Tsai and Wen (2005) and Xiong et al.(2019), a systematic review is a method of retrieving and selecting relevant previous studies with a thorough analysis to aid a current study. The detailed stages of this method is shown in Figure 1.2.1 Retrieving, selecting and accepting relevant papers2.1.1 Stage 1: Retrieving papers. We searched for and retrieved studies on financial risk management on PPP projects using Scopus search engine at this stage. Scopus was utilized because it is commonly employed to search,

retrieve and select relevant papers for literature review in the PPP researches (Cui et al., 2018;Tang et al., 2010).

In addition, Scopus contains numerous archives of studies on built environment, construction, finance, economics, risk management, among others, which could be tapped from to support a study (Meho and Rogers, 2008). Scopus is also considered as a trusted search engine that makes literature review easier because it categorizes subjects and items for simple search, download and selection of research papers (Osei-Kyei and Chan, 2015; Tober, 2011; Zhang et al., 2016). Figure Research method map Review of financial risk management ofPPPs 2017). The research method adopted for this study is systematic review of previous studies on financial risk management of PPP projects. According to Tsai and Wen (2005) and Xiong et al. (2019), a systematic review is a method of retrieving and selecting relevant previous studies with a thorough analysis to aid a current study. The detailed stages of this method is shown in Figure 1.2.1 Retrieving, selecting and accepting relevant papers2.1.1 Stage 1: Retrieving papers. We searched for and retrieved studies on financial risk management on PPP projects using Scopus search engine at this stage. Scopus was utilised because it is commonly employed to search, retrieve and select relevant papers for literature review in the PPP researches (Cui et al., 2018;Tang et al., 2010). In addition, Scopus contains numerous archives of studies on built environment, construction, finance, economics, risk management, among others, which could be tapped from to support a study (Meho and Rogers, 2008). Scopus is also considered as a trusted search engine that makes literature review easier because it categorizes subjects and items for simple search, download and selection of research papers (Osei-Kyei and Chan, 2015;Tober, 2011;Zhang et al., 2016).Figure 1.Research method mapReview of financial risk management ofPPPsMoreover, the wide coverage and article search precision of Scopus makes it a better choice compared to other search engines like Web of Science, PubMed and Google Scholar (Mehoand Rogers, 2008;Tober, 2011).The Scopus search began with the insertion of keywords: financial risks, financing risks,financial risk management, risks and financing, financial loss and financial cost, and public-private partnership projects,

PPP, public private partnerships, Private Finance Initiative, PFI, BOT and Build Operate Transfer into the Document Search covering allAAK (Article title, Abstracts and Keywords). The initial unfiltered outcome of the searchwas 142 papers as at December 2019. After this, the search results were filtered to cover year,1995 to 2019 (both years inclusive). The period 1995 to 2019 was chosen for this study because the search engine, Scopus inevitably shown papers on this topic

from this year,1995. This means research studies on this topic were largely available within this period (1995–2019). The document type (Article), source type (Journals) and language (English)followed as search restrictions. The full search codes used to limit the search results are(TITLE-ABS-KEY ("financial risks "OR "financing risks"OR "financial risk management" OR "financial loss" OR "financial costs" OR "risks and financing") AND TITLE-ABS- KEY("Public-private partnership projects" OR "PPP"OR "Public Private Partnerships" OR "BOT" OR "Build Operate Transfer" OR "Private finance Initiative")) ANDPUBYEAR > 1995 AND (LIMIT-TO (DOCTYPE, "ar")) AND (LIMIT-TO (LANGUAGE, "English")). The outcome of the limited search was 76 papers which were retrieved or downloaded, automatically eliminating 66 papers.2.1.2.

Stage 2: Selection and acceptance of relevant papers. All the 76 papers downloaded from stage 1 were subjected to in-depth reading and analysis from abstracts, keywords, introduction, literature review, conceptual and theoretical framework, research methodology, data presentation and analysis, discussion to conclusion, implications for ongoing PPP projects and recommendations for future research. This led to the selection and acceptance of49 papers for this study. The selection of the 49 papers were solely dependent on studies which provide relevant information (data) to address the research objectives of this study. Studies such as Le et al. (2019) and Xiong et al. (2019) support this choice. Also, 49 papers is considered sufficient for this systematic review because similar review papers on PPPprojects such as Adabre and Chan (2019) used 34 papers and Osei-Kyei and Chan (2015) used27 papers respectively. Relevant information retrieved from the content analysis of the 49 papers were classified into background analysis of the papers, financial risk management of

PPP projects, and research gaps and future directions.2.2 Assessing the contributors to researches on this topic in order to assess the contributions of countries of origin and institutions the active authors are affiliated to on financial risk management of PPP projects, the present study adopted a contribution-ranking technique proposed by Howard et al. (1987). Essentially, this technique has been used in similar studies like Darko and Chan (2016) and Yi and Chan (2014) to assign scores to authors and their affiliated countries and institutions. The formula behind this technique is given as: Score ¼1:5n−iPni¼11:5i−1(1)Eqn 1: Formula for score matrix where represents the authors, and iis how the

authors appeared on the research paper (first author, second author, ...etc.). Table 1 presents the scores of the formulated matrix which implies that the same score cannot be assigned

to all the authors who write a research paper. Depending on the order of the contributions of authors to a research paper, they are assigned a score. Thus, the first author receives a high score than the second author, the second author receives a higher score than the third author, and so on and so forth. These scores are translated (or follows the same order) as the authors' institutional affiliation and countries where the studies were conducted.3. Results and discussions The results together with discussions of this study are organised into three sections: background analysis of relevant papers, key elements of financial risk management of PPPprojects and research gaps with future directions.3.1 Background analysis of relevant papers 3.1.1 Publication trends of relevant papers. In Figure 2, the annual publications from 1995 to2019 have been presented to showcase the number of relevant studies conducted within this timespan. No published studies were found and selected before 1995. However, two relevant papers were published papers from 1995 to 1999 and they were found to be relevant to this study. It increased by five from 1999 to 2005 but varied afterwards. Succeeding years from 2005 saw publications on financial risk management of PPP projects gaining much momentum. This is supported by the trend line which slopes positively upwards where articles were published each year from 2005 to 2019 (see Figure 2). Among other factors, this trend could be attributed to financial challenges such as 2007–2008 global financial crisis which had a negative impact on PPP projects. And the awakening of project managers to poor financial risk management practices to combat such financial crises, and their adverse effects on financial performance of PPP projects (Han et al., 2017; Sun et al., 2019; Xenidis and Angelides, 2005). Increased interests of researchers to help find solutions to these financial challenges is also a factor leading to the increment in publications on this topic.3.1.2 Country of origin and affiliated institutions of authors. Table 2 showcases the relative frequency at which countries contributed to the studies of financial risk management of PPPprojects. That is, the table summarizes countries where the financial risk management of PPPprojects were investigated. United States (US) leads the countries in terms of frequency of score of 8.01, the number of institutions (12), authors (17) and papers (10). Next is UnitedKingdom which has a relatively high score (5.52), number of institutions (10), authors

(16), and papers (7). Hong Kong, China, South Korea, Canada, Portugal, Spain, Australia, India and Austria for respectively, forming the top 11 countries that contributes immensely to studies on financial risk management of PPP projects. A further observation from the distribution inTable 2 is that almost all the studies were undertaken in developed economies whiles few studies came

from developing countries like India. The study further grouped the studies by institutional affiliation of contributing authors. As shown in Table 3, the top three institutions are University of Texas (US), Hong Kong Polytechnic University (Hong Kong) and University of Toronto (Canada) with scores of 3.00,2.07 and 2.00 respectively. The three studies from University of Texas gave a score 1.00 to each of the three authors. In the same country but different institutions, Jung et al. (2012) authored an article from South Korea but the authors who contributed to this paper came from different institutions. Thus, scores of the institutions were different: Yonsei University (0.6) and Seoul National University of Science (0.4). Ullah et al. (2018) published a study on concession period of PPPs with a system dynamic and much emphasis was placed on critical success factors to assist in mitigating financial risks. Out of the four researchers who wrote this article, two came from Australia (first and third authors), one from Pakistan (second author) and another from Spain (fourth author). Thus, the score for each of the institutions of the authors: University of New South Wales (0.60), National University of Science and Technology (0.28), and Universitat Politecnica de Catalunya (0.12). Once again, as reported in Table 2, more than 90% of the top institutions researching this topic are situated in developed economies, showing the paucity and low involvement of institutions in developing economies.3.1.3 Categorization of PPP projects affected by financial risks. PPP projects which have been affected and mostly reported in published articles relating to financial risks are shown in Rank Country Institutions Authors Papers Score1 US 12 17 10 8.012 UK 10 16 7 5.523 Hong Kong 6 13 5 4.174 China 6
8 4 3.325 South Korea 5 10 3 3.006 Canada 3 4 3 3.007 Portugal 6 6 2 2.008 Spain 2 4 3 1.729 Australia 2 6 2 1.7010 India 2 5 2 1.6911 Austria 3 3 2 1.40Table 2. Country of origin CAM
Table 4. These projects include general projects (38.78%), roads (28.57%), buildings (12.24%), airports (6.12%), railways (4.08%), urban redevelopments (4.08%), water (4.08%) and disaster safety net (2.04%). The majority of the studies conducted were therefore generic in nature. The PPP projects studied by McQuaid and Scherrer (2010), and Hood et al. (2007) were generic because no specific scope was assigned to them. A generic study on PPP projects combines numerous PPP projects in the same article. Specific projects affected by financial risks included roads (highways or freeways) projects which constantly face financial constraints (Vasudevan et al., 2018). Buildings (including health facilities, recreational centres and housing), airports, railway, urban development, water and disaster safety net projects come after the roads.3.1.4

What is Risk Management?

- Risk is an uncertain event that may have a positive or negative impact on the project.
- Risk Management is the process of identifying and migrating risk.

Distribution of research methodologies of the studies on financial risks of PPP projects. Based on the number of research approaches used and the type of research approaches, different research methodologies were used. Four different research methodologies were used by the relevant papers. They include case study with statistical (and/or mathematical) models, literature review with expert opinions and interviews, survey(questionnaires) and mixed (hybrid) method. According to Figure 3, case study with Rank

Institutions Country Authors Papers Score1 University of Texas USA 8 3 3.002 Hong Kong Polytechnic University Hong Kong 5 3 2.073 University of Toronto Canada 3 2 2.004

Universidad Politecnica de Madrid Spain 3 2 1.605 Indian Institute of Technology India 5 2 1.606 University of Lisbon Portugal 5 2 1.607 Deakin University Australia 4 1 1.008 International Institute for Applied Systems Analysis Austria 2 1 1.009 Texas A&M University USA 3 1 1.0010 University of Dundee UK 3 1 1.0011 Yildiz Technical University Turkey 2 1

1.0012 National Taiwan University Taiwan 2 1 1.0013 Seoul National University of Technology South Korea 2 1 1.0014 Yonsei University South Korea 5 1 1.0015 Zhejiang University of Finance & Economics China 3 1 1.0016 Technische Universitas Berlin Germany 2 1 1.0017 University of Thessaloniki Greece 2 1 1.0018 The Chinese University of

Hong Kong Hong Kong 6 1 1.0019 Columbia University USA 3 1 0.6020 Glasgow Caledonian University UK 3 1 0.60Project-type Research papers percentage General (Generic)

19 38.78Road/Highway/Freeway 14 28.57Buildings (including housing and health facilities) 6 12.24Airport 3 6.12Railway 2 4.08Urban Redevelopment 2 4.08Water (including sewage treatment) 2 4.08Disaster Safety Net 1 2.04Total 49 100Table 3.Contributing authors' affiliated institutions Table 4.Profile of PPP projects related to financial risks Review of financial risk- management ofPPPs statistical/mathematical models was the most preferred research methodology with 20research papers representing 40.82% of the relevant research papers. PPP projects are mostly executed on project-by-project basis, thus, it is understandable that most of the studies adopted this methodology. Literature review with expert opinions and interviews ranked second of the research methodologies. Fourteen papers utilised this methodology constituting 28.57% of the selected papers. These papers showed a review of previous studies together with expert opinions and data obtained through interviews. Next is the survey (questionnaires) employed by ten relevant papers (representing 20.41%). Survey isa common research methodology on PPP studies (Chou and Pramudawardhani, 2015).Lastly, mixed (hybrid) method was utilised by five studies covering 10.20% of the relevant papers.3.2 Key elements of financial risk management of PPP projects 3.2.1 Identification and classification of financial risks. Fifty- four financial risks were identified from the relevant papers and they are shown in Table 5. The financial risks presented in Table 5 showcase the order of appearance (frequently reported) and significance (impact and relevance) of each of 54 financial risks on PPP projects. In order to explain the financial risks presented in Table 5, we classified them according to the lifecycle stages of the PPP projects in Table 6. The contents of Table 6 are discussed below the table. PPP projects have diverse lifecycle characteristics (Zou et al., 2008).

Different scholars and geographical context (nation) categorize these lifecycle stages of the PPP projects based on the geographical context (country) in which the project is being executed (Akhmetshina and Mustafin, 2015). In this section, the specific financial risks of PPP projects are aligned to four lifecycle stages, namely: pre-construction, construction, operate and maintain, and disposa land decommission (see Table 6).3.2.1.1 Specific financial risks.i. Pre-construction stage. This stage of the PPP project has subdivisions such as project identification and inception, feasibility studies, tendering, competitive negotiations and award of contracts to construct the project (Kumar et al., 2018). Due to their significance to the direction and completion of the PPP projects, the financial risks commonly identified in this stage center around the high costs of

tendering, competitive negotiations and feasibility studies with the engagement of professionals and consultants to assess the suitability, value for money (VFM), as well as the rate of return.

Precise examination of factors affecting why and how the firm manages its foreign exchange exposure are explored through the use of internal firm documents, discussions with managers, and data on 3110 foreign-exchange derivative transactions over a three-and-a-half-year period. Results indicate that several commonly cited reasons for corporate hedging are probably not the primary motivation for why HDG undertakes a risk management program. Using a field study and proprietary data, this paper conducted a detailed investigation of a firm's hedging operations and of its motivation for engaging in financial risk management. He finds that HDG has a strong preference for hedging with put options primarily because of more favorable accounting treatment and competitive pricing concerns. The article investigates the stock market approach as a potential remedy for identifying and quantifying exchange rate exposures, and finds that more than half of the companies in this study have significant regression coefficients when regressing stock returns on exchange rate returns. Graciela Mo guillansky (2003) studies the currency risk management of multinational companies with investments in Latin American countries. The analysis is centred on episodes of currency or financial shocks, searching into the behaviour of the financial management of a firm expecting a significant devaluation. This article deals with the latter type of analysis, that is, the financial management of multinational companies with investments in Latin America. The study makes a distinction between the degree of reversibility of the physical investment originated in foreign direct investment and the flow of funds linked to it. The analysis done in this paper was carried out by interviewing financial managers of multinational companies from different sectors, with investments in Latin America and headquarters in the United Kingdom and Spain and by analysing some surveys on financial risk management in developed countries. Sixteen financial managers were interviewed from twelve multinational companies. These included the mining, oil & gas industries, the energy and telecommunications sectors; the food industry, and financial corporations. Multinational companies having business in many countries and regions informed that they always hedge against transaction exposure but they very seldom hedge balance sheet account or translation exposure, that is the impact of currency volatility in the value of assets and liabilities. Petia Topalova (2004) uses firm-level data to examine the performance of India's non- financial corporate sector since 1989 and evaluate its financial vulnerabilities.

It gives an overview of India's corporate sector through 2002, including its size and composition, regulatory framework, and recent reforms. The data used in this analysis are from a firm-level database on India's corporate sector, compiled by the Centre for Monitoring the Indian Economy, a private company in India. This study conclude that despite the weakening of the corporate sector in recent years, most indicators are still at comfortable levels and there were signs of improvement in almost all indicators in 2002, the last year in our sample, and in 2003, with the soft interest rate regime and ongoing economic recovery. Stress tests suggest that the financial health of the corporate sector would be moderately affected by adverse interest rate shocks. Seema Menon (2005) discussed the use of foreign exchange derivatives (FXD) and its benefits to U.S. multinational corporations (MNCs). She examined 20 U.S. MNCs' foreign currency risk management practices from 1995 through 2000. The companies selected were chosen from the Forbes Global 2000 list. Firm-specific data used in the analysis, such as total assets, notional amounts of FXDs and foreign sales, was obtained from company annual reports. The notional amounts of FXDs are intended to measure the company's extent of involvement in transactions that have off-balance-sheet risk. The study is descriptive. Linear regression model has been applied to do hypothesis testing. Hypotheses were developed and tested to explain the differences in the notional amounts of FXD used in comparison to the changes in foreign currency exposure. The study confirmed that the use of FXD among U.S. MNCs is positively correlated with their level of foreign currency exposure. Aline Muller (2005) determines what effects this derivatives usage has on the foreign exchange risk exposure of

471 European non-financial firms. This study analyses as of year-end 2003 the determinants of corporate foreign currency derivative (FCD) usage and its role in reducing foreign exchange risk exposure for European non-financial firms established in 4 distinctive sample countries: the U.K, Germany, the Netherlands and Belgium. Information on notional as well as fair values of currency hedging positions is sourced from "The notes to the annual reports". In a first stage, this article is concerned with the motives that lead firms to use currency derivatives as well as the factors that affect.

The database obtained is composed of 33 articles. Table 1 shows the balanced spread of articles across academic journals, conference proceedings and other sources, such as reports, while Figure 2 illustrates each author's country of origin and the article's year of publication.

First, it can be observed that the topic of risk management for SMEs is of interest in various fields of study, from purely business management to new applications of statistical and mathematical models, and computer software design. The Production Planning & Control journal had published more (four articles), while the rest of the journals devoted only one article on this topic during the 1999-2009 period.

From 1999 to 2005, very few papers were published per year, while a growing trend can be noticed from 2006 (four publications) till 2009 (seven publications); as for the country of the first author cited per article, most of the papers came from China and the United Kingdom (Fig. 2).

Table 2 lists the classification of papers by main characteristics: research type, sector, risks type, RM stream and process.

The majority of papers are not focused on a specific sector, but the sector most analyzed by the literature is manufacturing, while a minority of papers evaluate enterprises that were operated by project (construction, aeronautical and automotive).

Considering the research type (Fig. 3), the majority of studies are empirical (64%), presenting a model or a method application or a theoretical framework tested with empirical case studies, followed by conceptual modelling (30%) and literature review (6%). As for "risk type" (Fig. 3), it shows that the articles mainly deal with operational risks (54%); in particular, the most considered concern information technology management, followed by production planning and process management. This is followed by articles about financial risks (29%) that mainly involve credit problems, both from the viewpoint of the lenders (banks or credit institutions) and of the SMEs, assuring the credit institutions of their stability and solvency. Strategic risks are considered by 14% of the total papers, where particular attention is paid to innovation aspects, and only one paper discusses hazard risks, specifically personal injuries.

CHAPTER 4: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

Gender

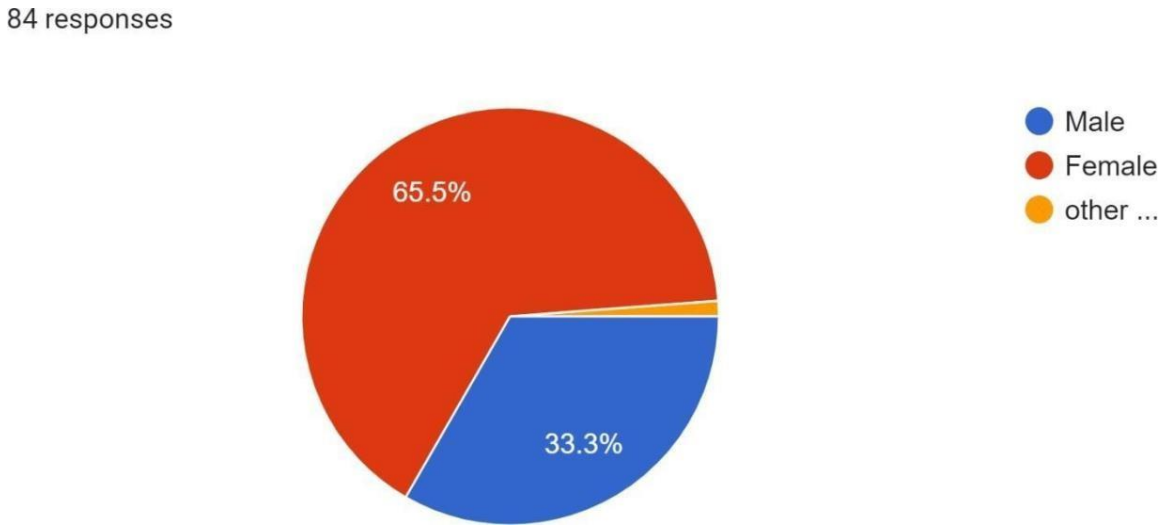

Table 4.1: Gender	
Gender	Respondents
Female	74
Male	40
Grand Total	110

Table 1

Interpretation

From the above table it is observed that out of 114 respondents, 74 respondents that is 65.5% respondents are females and 40 respondents that is 33.3% respondents are males.

Qualification

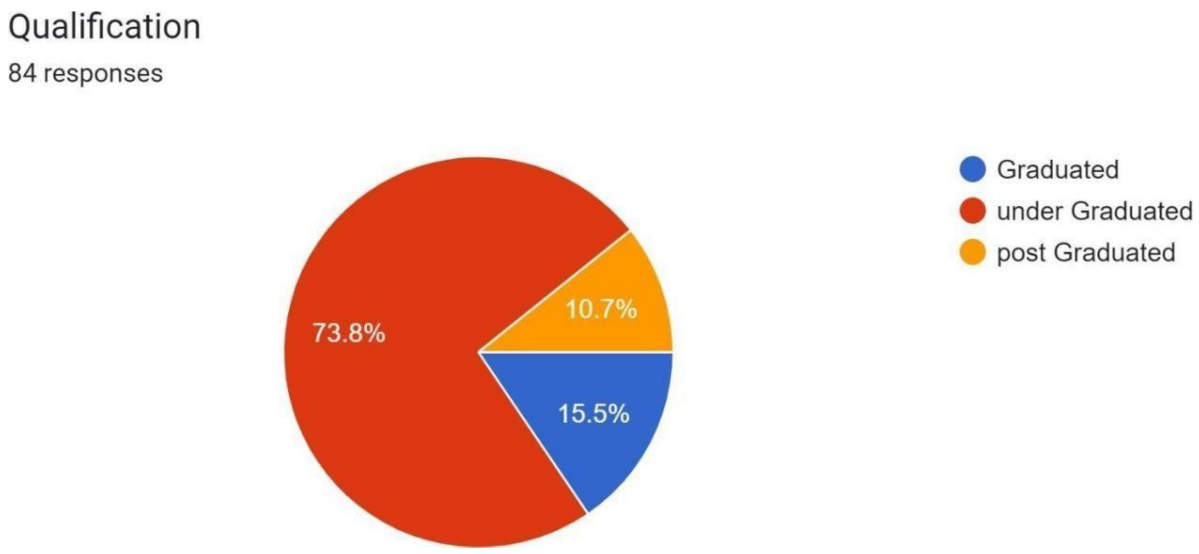

Table 4.2: Qualification	
Qualification	Respondents
Graduate	15.5%
Post Graduate	10.7%
Under Graduate	73.8%
Grand Total	84%

Interpretation

From the above table it is analyzed that out of 84% respondents, 15.5% respondents have completed their graduation. 10.7% respondents have completed their post-graduation.73.8% respondents are still under graduates.

Do you married?

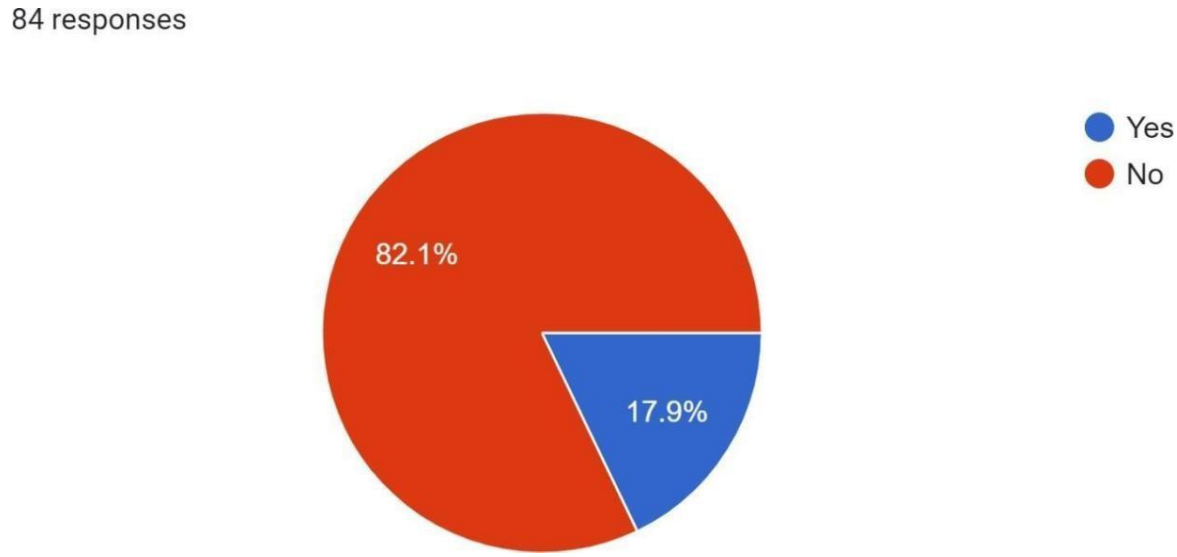

Table 4.3: Do you married	
Yes	82.1%
No	17.9%
Total	85% responses

From the above table out of 85 responses 82.1% investors are married. Then 17.9% investors are Not married.

Age

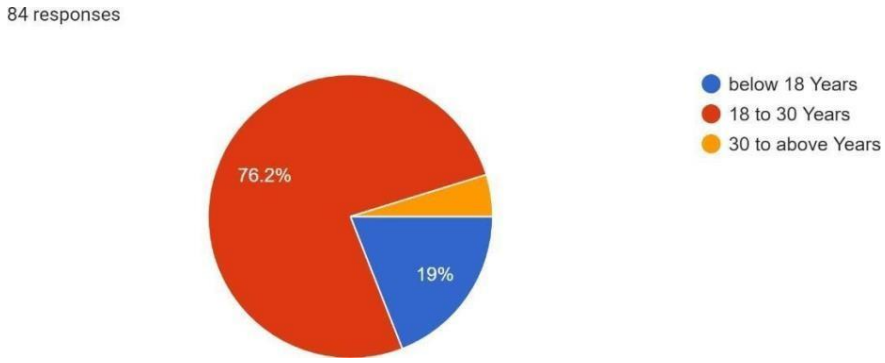

Table 4.4: Age	
Age Group	**Respondents**
Below 18 years	19%
18 to 30 years	76.2%
30 to above years	-
Grand Total	84% responses

Interpretation

From the above table out of 85 responses 19% investors are below 18 years of age group. Then 76.2% investors are from the age group of 18 to 30.

How many types of risk management…

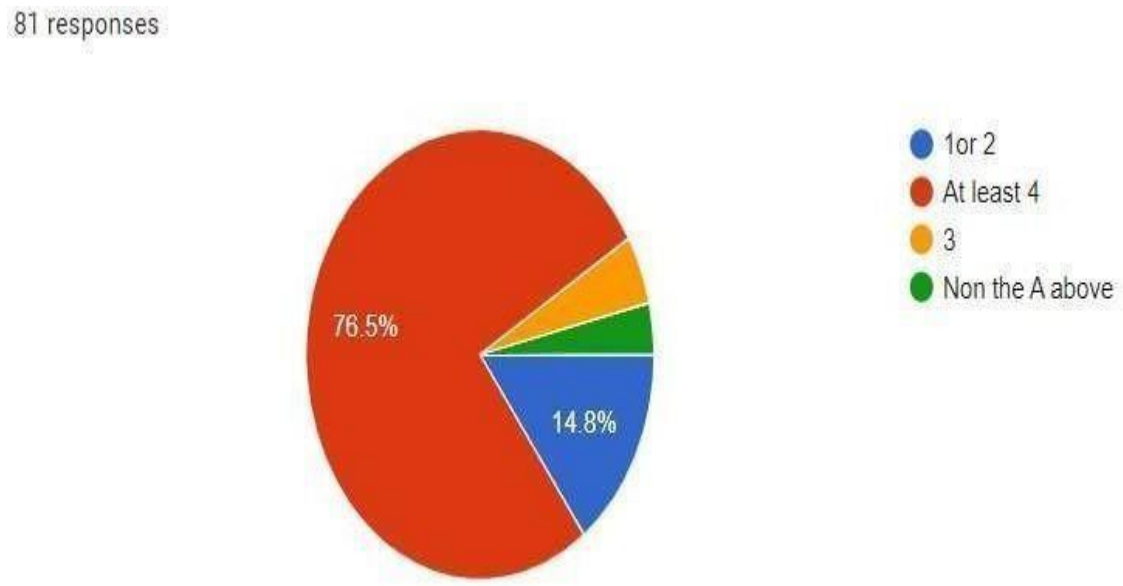

Table 4.5: Types of risk	
Types of risk	Respondents
1 or 2	14.8%
At least 4	76.5%
3	-
None of the above	-
Total	81% Responses

Interpretation

From the above table 81% respondent's Types of risk. 14.8% respondent's is 1 or 2. Then 76.5 % respondent's is At least 4.

What is Financial Risk?

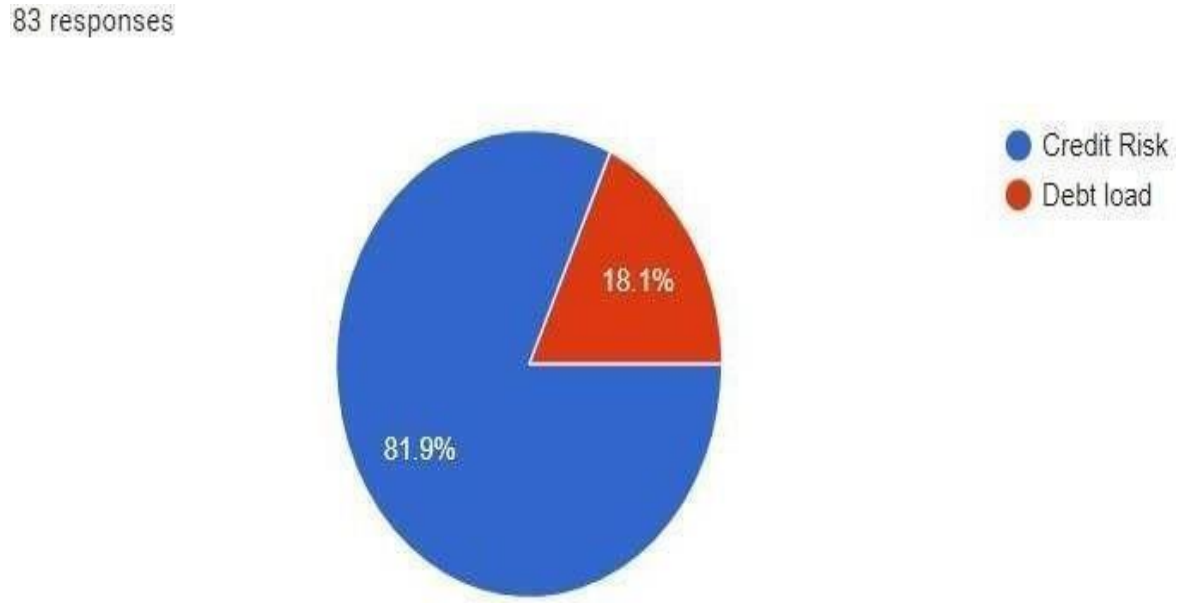

Table 4.6: Financial Risk	
Credit risk	81.9%
Debt load	18.1%
Total	84 % Responses

Interpretation

From the above table 84% respondent's financial risk. 81.9% respondent's is Credit risk.

Then 18.1% respondent's is debt load.

What is Financial Risk in Accounting?

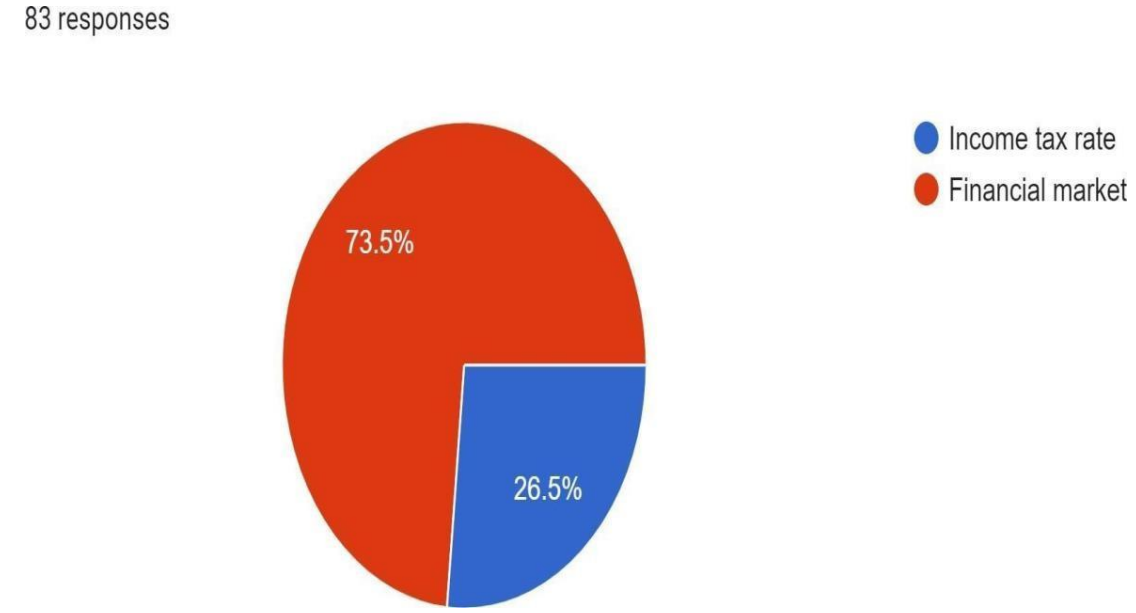

Table 4.7: Financial Risk in Accounting	
Income tax rate	26.5%
Financial marketing	73.5%
Total	83 % Responses

Interpretation

From the above table 83% respondent's financial risk in accounting. 26.5% respondent's Income tax rate. Then 73.5% respondent's is financial marketing.

How to contíol Financial Risk?

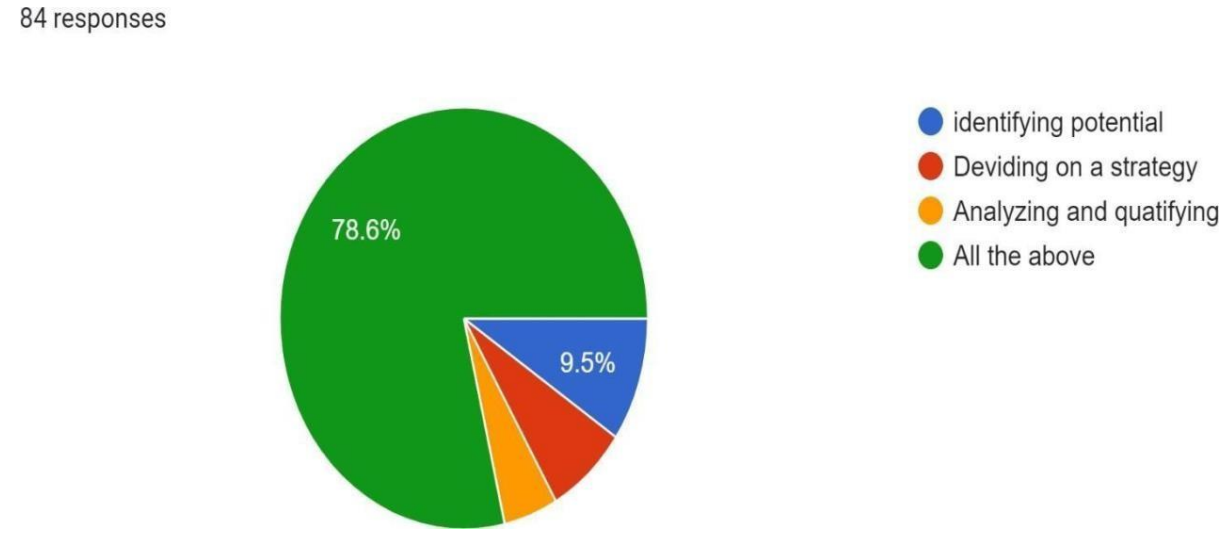

Table 4.8: Control financial risk	
identifying potential	9.5%
Deviding on a strategy	-
Analyzing and quatifying	-
All of the above	78.6%
Total	84% Responses

Interpretation

From the above table 84% respondent's financial risk in accounting. 9.5% respondent's identifying potential. Then 78.6% respondent's is All of the above.

__is the scope of financial accounting.

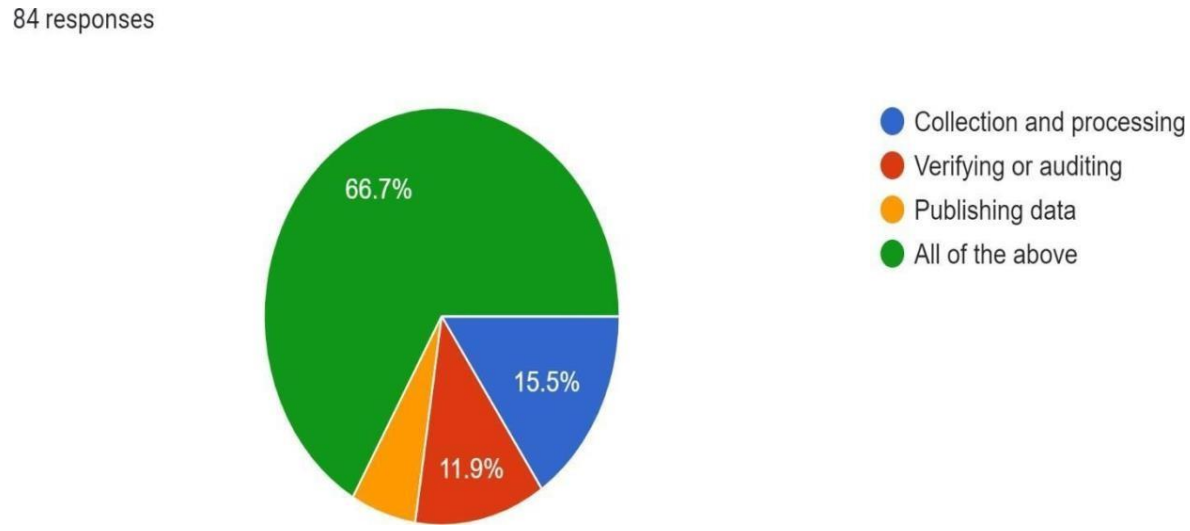

Table 4.9: scope of financial accounting	
Collection and processing	15.5%
Verifying or auditing	11.9%
Publishing data	-
All of the above	66.7%
Total	84% Responses

Interpretation

From the above table 84% respondent's scope of financial accounting 15.5% Collection and processing respondents. Then 11.9% respondent's is verifying or auditing. Then 66.7% respondent's is All of the above.

Which of the following is not an example of a diíect loss fíom puíe íisk?

83 responses

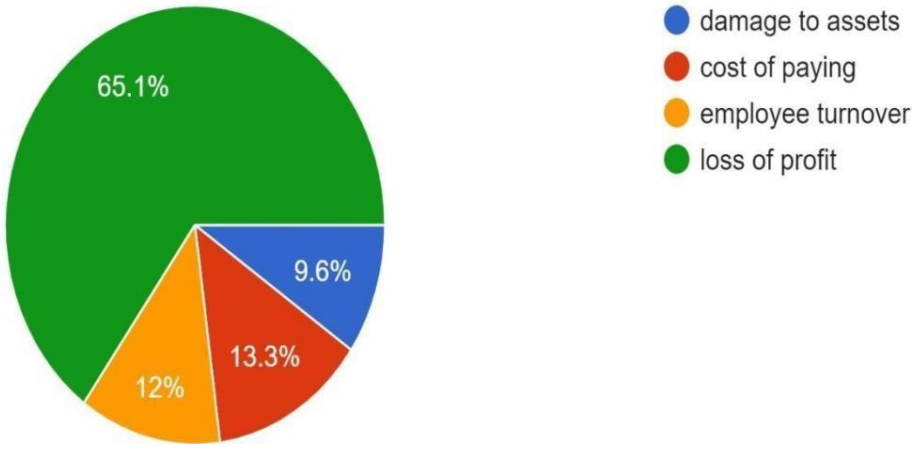

Table 4.10: diíect loss fíom puíe íisk	
Damage to assets	9.6%
Cost of paying	13.3%
Employee turnover	12%
Loss of profit	65.1%
Total	84% Responses

Interpretation

From the above table 84% respondent's scope of financial accounting 15.5% Collection and processing respondents. Then 11.9% respondent's is verifying or auditing. Then 66.7% respondent's is All of the above.

Which is not a benefit of financial accounting?

82 responses

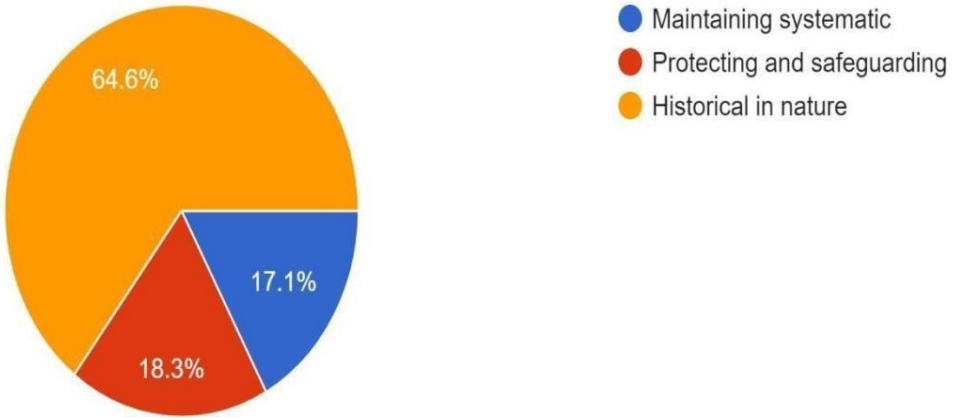

Table 4.11: financial accounting	
Maintaining systematic	17.1%
Protecting and safeguarding	18.3%
Historic in nature	64.6%
Total	82% Responses

Interpretation

From the above table 82% respondent's of financial accounting 17.1% Maintaining systematic respondents. Then 18.3% respondent's is Protecting and safeguarding. Then 64.6% respondent's is Historic in nature.

ľhe poítfolio theoíy aíticulates diveísification to íeduce which of the following íisks?

82 responses

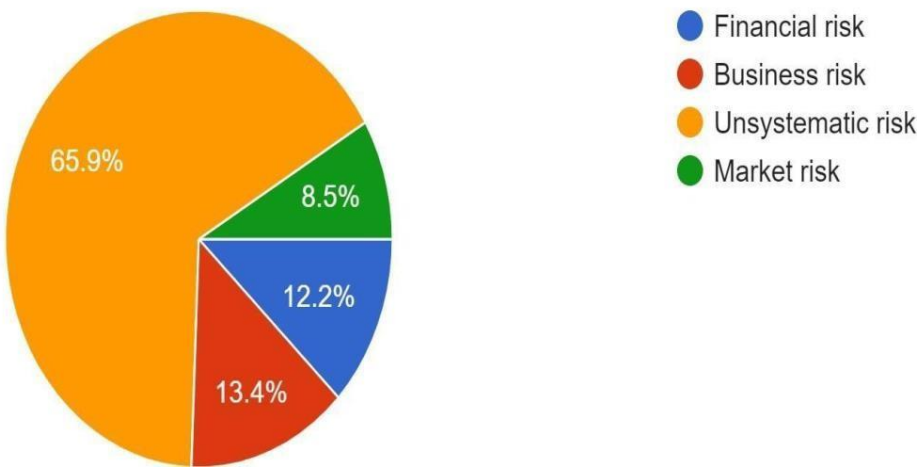

Table 4.12: poítfolio theoíy aíticulates diveísification to íeduce	
Financial risk	12.2%
Business risk	13.4%
Unsystematic risk	65.9%
Market risk	8.5%
Total	82% Responses

Interpretation

From the above table 82% respondents of portfolio theory articulates diversification to reduce. 12.2% Financial risk respondents. Then 13.4% respondent's is Business risk. Then 65.9% respondent's is Unsystematic risk. Then 8.5% respondents of Market risk.

Vaíiability in the íate of íetuín is known as……

83 responses

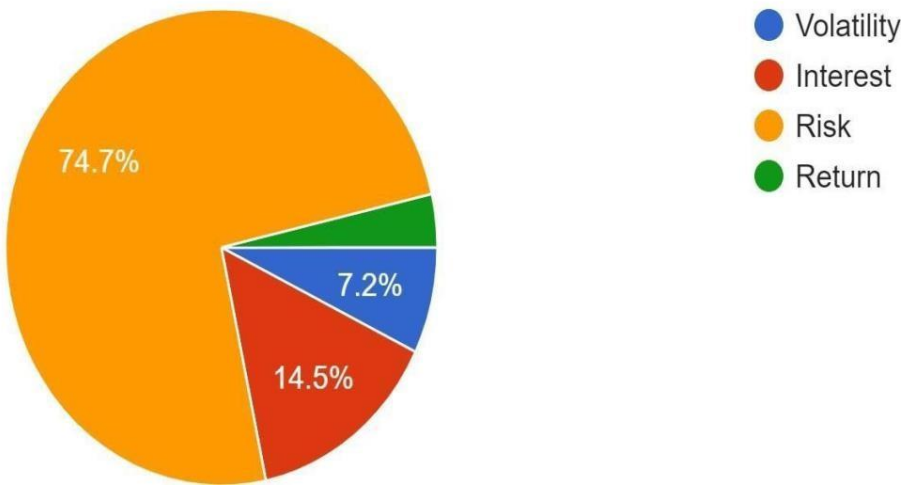

Table 4.13: Variability	
Volatility	7.2%
Interest	14.5%
Risk	74.7
Return	-
Total	83% Responses

Interpretation

From the above table 83% respondents Variablity.7.2% Volatility respondents. Then 14.5% respondent's is Interest risk. Then 74.7% respondent's is risk.

___íisk is defined as the íelative vaíiation of actual loss fíom expected loss.

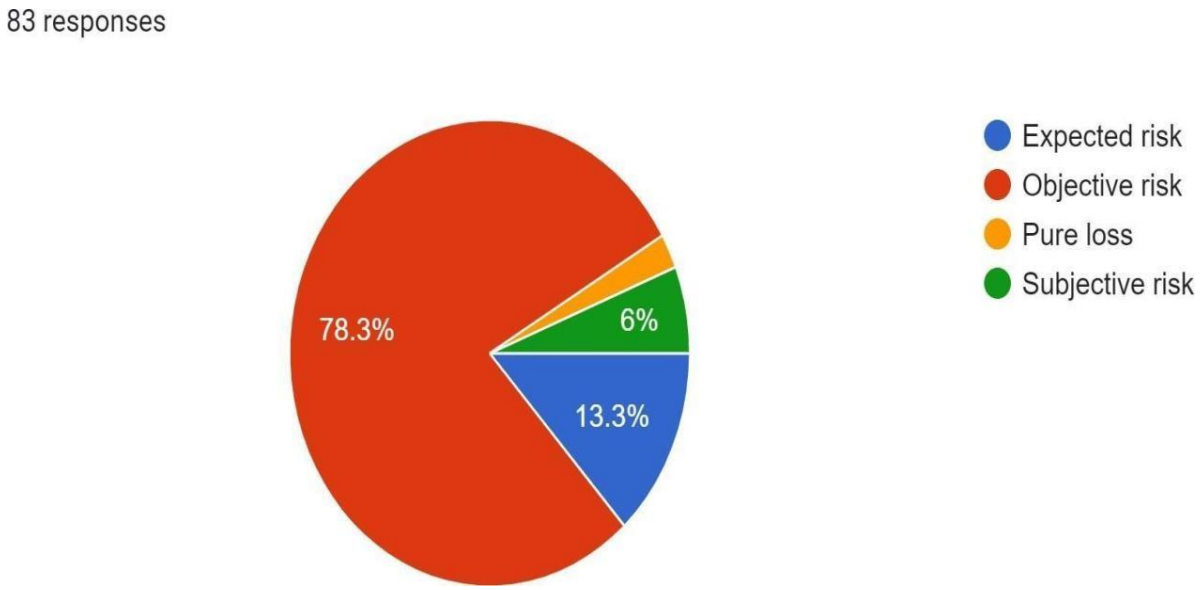

Table 4.14: the íelative vaíiation of actual loss fíom expected loss.	
Expected risk	7.2%
Objective risk	78.3%
Pure loss	-
Subjective risk	6%
Total	83% Responses

Interpretation

From the above table 83% respondents the relative variation of actual loss from expected loss. 7.2% respondents are Expected risk. Then 78.3% respondent's is Objective risk. Then 6% respondent's is Subjective risk.

PART 2: DATA INTERPRETATION OF SECONDARY DATA

The term risk analysis refers to the assessment process that identifies the potential for any adverse events that may negatively affect organizations and the environment. Risk analysis is commonly performed by corporations (banks, construction groups, health care, etc.), governments, and nonprofits. Conducting a risk analysis can help organizations determine whether they should undertake a project or approve a financial application, and what actions they may need to take to protect their interests. This type of analysis facilitates a balance between risks and risk reduction. Risk analysts often work in with forecasting professionals to minimize future negative unforeseen effects.Understanding Risk Analysis

Risk assessment enables corporations, governments, and investors to assess the probability that an adverse event might negatively impact a business, economy, project, or investment. Assessing risk is essential for determining how worthwhile a specific project or investment is and the best process(es) to mitigate those risks. Risk analysis provides different approaches that can be used to assess the risk and reward tradeoff of a potential investment opportunity.A risk analyst starts by identifying what could potentially go wrong. These negatives must be weighed against a probability metric that measures the likelihood of the event occurring.Finally, risk analysis attempts to estimate the extent of the impact that will be made if the event happens. Many risks that are identified, such as market risk, credit risk, currency risk, and so on, can be reduced through hedging or by purchasing insurance.Almost all sorts of large businesses require a minimum sort of risk analysis. For example, commercial banks need to properly hedge foreign exchange exposure of overseas loans, while large department stores must factor in the possibility of reduced revenues due to a global recession. It is important to know that risk analysis allows professionals to identify and mitigate risks, but not avoid them completely.

Types of Risk Analysis

Risk-Benefits

Many people are aware of a cost-benefit analysis. In this type of analysis, an analyst compares the benefits a company receives to the financial and non-financial expenses related to the benefits. The potential benefits may cause other, new types of potential expenses to occur. In a similar

manner, a risk-benefit analysis compares potential benefits with associated potential risks. Benefits may be ranked and evaluated based on their likelihood of success or the projected impact the benefits may have.

Needs Assessment

A needs risk analysis is an analysis of the current state of a company. Often, a company will undergo a needs assessment to better understand a need or gap that is already known. Alternatively, a needs assessment may be done if management is not aware of gaps or deficiencies. This analysis lets the company know where they need to spending more resources in.

Business Impact Analysis

In many cases, a business may see a potential risk looming and wants to know how the situation may impact the business. For example, consider the probability of a concrete worker strike to a real estate developer. The real estate developer may perform a business impact analysis to understand how each additional day of the delay may impact their operations.

Root Cause Analysis

Opposite of a needs analysis, a root cause analysis is performed because something is happening that shouldn't be. This type of risk analysis strives to identify and eliminate processes that cause issues. Whereas other types of risk analysis often forecast what needs to be done or what could be getting done, a root cause analysis aims to identify the impact of things that have already happened or continue to happen.

How to Perform a Risk Analysis

Though there are different types of risk analysis, many have overlapping steps and objectives. Each company may also choose to add or change the steps below, but these six steps outline the most common process of performing a risk analysis.

Step #1: Identify Risks

The first step in many types of risk analysis to is to make a list of potential risks you may encounter. These may be internal threats that arise from within a company, though most risks will be external

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Step #2: Identify Uncertainty

The primary concern of risk analysis is to identify troublesome areas for a company. Most often, the riskiest aspects may be the areas that are undefined. Therefore, a critical aspect of risk analysis is to understand how each potential risk has uncertainty and to quantify the range of risk that uncertainty may hold.

Consider the example of a product recall of defective products after they have been shipped. A company may not know how many units were defective, so it may project different scenarios where either a partial or full product recall is performed. The company may also run various scenarios on how to resolve the issue with customers (i.e. a low, medium, or high engagement solution.

Step #3: Estimate Impact

Most often, the goal of a risk analysis is to better understand how risk will financially impact a company. This is usually calculated as the risk value, which is the probability of an event happening multiplied by the cost of the eventFor example, in the example above, the company may assess that there is a 1% chance a product defection occurs. If the event were to occur, it would cost the company $100 million. In this example, the risk value of the defective product would be assigned $1 million.

The important piece to remember here is management's ability to prioritize avoiding potentially devastating results. For example, if the company above only yielded $40 million of sales each year, a single defect product that could ruin brand image and customer trust may put the company out of business. Even though this example led to a risk value of only $1 million, the company may choose to prioritize addressing this due to the higher stakes nature of the risk.TABLE OF CONTENTS

TRADING SKILLS RISK MANAGEMENT

Risk Analysis: Definition, Types, Limitations, and

Examples By ADAM HAYES Updated January 05,

2023 Reviewed by CHARLES

POTTERS What Is Risk

Analysis?

The term risk analysis refers to the assessment process that identifies the potential for any adverse events that may negatively affect organizations and the environment. Risk analysis is commonly performed by corporations (banks, construction groups, health care, etc.), governments, and nonprofits. Conducting a risk analysis can help organizations determine whether they should undertake a project or approve a financial application, and what actions they may need to take to protect their interests. This type of analysis facilitates a balance between risks and risk reduction.

Risk analysts often work in with forecasting professionals to minimize future negative unforeseen effects.

KEY TAKEAWAYS

Risk analysis seeks to identify, measure, and mitigate various risk exposures or hazards facing a business, investment, or project.

Quantitative risk analysis uses mathematical models and simulations to assign numerical values to risk.

Qualitative risk analysis relies on a person's subjective judgment to build a theoretical model of risk for a given scenario.

Risk analysis can include risk benefit, needs assessment, or root cause analysis.

Risk analysis entails identifying risk, defining uncertainty, completing analysis models, and implementing solutions.

Understanding Risk Analysis

Risk assessment enables corporations, governments, and investors to assess the probability that an adverse event might negatively impact a business, economy, project, or investment. Assessing risk is essential for determining how worthwhile a specific project or investment is and the best process(es) to mitigate those risks. Risk analysis provides different approaches that can be used to assess the risk and reward tradeoff of a potential investment opportunity.

A risk analyst starts by identifying what could potentially go wrong. These negatives must be weighed against a probability metric that measures the likelihood of the event occurring.

Finally, risk analysis attempts to estimate the extent of the impact that will be made if the event happens. Many risks that are identified, such as market risk, credit risk, currency risk, and so on, can be reduced through hedging or by purchasing insurance.

Almost all sorts of large businesses require a minimum sort of risk analysis. For example, commercial banks need to properly hedge foreign exchange exposure of overseas loans, while large department stores must factor in the possibility of reduced revenues due to a global recession. It is important to know that risk analysis allows professionals to identify and mitigate risks, but not avoid them completely.

Types of Risk Analysis

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Step #4: Build Analysis Model(s)

The inputs from above are often fed into an analysis model. The analysis model will take all available pieces of data and information, and the model will attempt to yield different outcomes, probabilities, and financial projections of what may occur. In more advanced situations, scenario analysis or simulations can determine an average outcome value that can be used to quantify the average instance of an event occurring.

Step #5: Analyze Results

With the model run and the data available to be reviewed, it's time to analyze the results. Management often takes the information and determines the best course of action by comparing the likelihood of risk, projected financial impact, and model simulations. Management may also

request to see different scenarios run for different risks based on different variables or inputs.Step #6: Implement Solutions

After management has digested the information, it is time to put a plan in action. Sometimes, the plan is to do nothing; in risk acceptance strategies, a company has decided it will not change course as it makes most financial sense to simply live with the risk of something happening and dealing with it after it occurs. In other cases, management may want to reduce or eliminate the risk Qualitative vs. Quantitative Risk Analysis

Quantitative Risk Analysis

Under quantitative risk analysis, a risk model is built using simulation or deterministic statistics to assign numerical values to risk. Inputs that are mostly assumptions and random variables are fed into a risk model.

Accountants use data analytics to help businesses uncover valuable insights within their financials, identify process improvements that can increase efficiency, and better manage risk. “Accountants will be increasingly expected to add value to the business decision making within their organizations and for their clients,” comments Associate Professor Wendell Gilland, who teaches Data Analytics for Accountants at UNC Kenan-Flagler Business School. “A strong facility with data analytics gives them the toolset to help strengthen their partnership with business leaders.”

Here are a few examples:

Auditors, both those working internally and externally, can shift from a sample-based model to employ continuous monitoring where much larger data sets are analyzed and verified. The result: less margin of error resulting in more precise recommendations.

Tax accountants use data science to quickly analyze complex taxation questions related to investment scenarios. In turn, investment decisions can be expedited, which allows companies to respond faster to opportunities to beat their competition — and the market — to the punch.

Accountants who assist, or act as, investment advisors use big data to find behavioral patterns in consumers and the market. These patterns can help businesses build analytic models that, in turn, help them identify investment opportunities and generate higher profit margins.

Four types of data analytics

To get a better handle on big data, it’s important to understand four key types of data analytics.

1. Descriptive analytics = “What is happening?”

This is used most often and includes the categorization and classification of information. Accountants report on the flow of money through their organizations: revenue and expenses, inventory counts, sales tax collected. Accurate reporting is a hallmark of solid accounting practices. Compiling and verifying large amounts of data is important to this accurate reporting.

2. Diagnostic analytics = “Why did it happen?”

Diagnostics are used to monitor changes in data. Accountants regularly analyze variances and calculate historical performance. Because historical precedent is often an excellent indicator of future performance, these calculations are critical to build reasonable forecasts.

3. Predictive analytics = “What’s going to happen?”

Here, data is used to assess the likelihood of future outcomes. Accountants are instrumental in building forecasts and identifying patterns that shape those forecasts. When accountants act as trusted advisors and build forecasts, business leaders grow increasingly confident in following them.. Prescriptive analytics = “What should happen?”

Tangible actions — and critical business decisions — arise from prescriptive analytics. Accountants use the forecasts they create to make recommendations for future growth opportunities or, in some cases, raise an alert on poor choices. This insight is an example of the significant impact that accountants make in the business world.

Why accountants make excellent data scientists

Accountants have outstanding technical skills. Gilland notes, “Accountants are used to aggregating information to create a picture of an organization that summarizes the details contained in each transaction. Working with descriptive analytics, predictive analytics, and prescriptive analytics comes more easily to people who already possess excellent quantitative skills.”

Accountants are natural-born problem solvers. The jump from descriptive and diagnostic analytics to predictive and prescriptive analytics requires that one shift from an organizational mindset to an inquisitive mindset; a shift from stacking and sorting information to figuring out how to use that information to make key business decisions. Accountants are experts at making this jump.

Accountants see the larger context and business implications. The true value of data analysis comes not at the point when the data is compiled, but rather when decisions are made using insights derived from the data. To uncover these insights, a data scientist must first understand the business context. Not only do accountants understand this context, they live it

.

CHAPTER 5: CONCLUSION AND SUGGESTION

Conclusion

Risk management is an important process that managers should maintain in an organisation. It is inevitable to have risks and managers should have better strategies to deal with risks. The long- term survival of an organisation depends on the ability to manage risks. The intensifying competition in the global markets has forced managers to focus on maintaining a strong risks management program by establishing values.

Complying with the values and cultural aspects of an organisation is important in achieving the goals and objectives of an organisation. The culture of an organisation determines its success in the market environment. It is a reflection of the beliefs and attitudes that people have towards the organisational systems.

Culture is developed and shaped by the stakeholders of the organisation. Change management is very important to an organisation and managers should possess the required skills of carrying out this process. Therefore, financial risk is an integral part of Individual finances, business, and government. Such risk is not necessarily a negative sign but can be a sign of growth if utilised and managed correctly. In the case of business, financial leverage ratios like interest coverage ratios, debt-asset ratios, and debt-equity ratios are used to understand the company's level of debt in the market. Financial risk can be helpful if tackled with revenue growth and business expansion. Still, if not managed properly, it can cause bankruptcy of the company and loss for investors and lenders in the business.

In the case of Government, Financial Risk needs to be monitored continuously to avoid catastrophic effects on the country and economy in the future. Individual Financial risk can be lost in investment, or increasing financial debt can be a concern for their future. Such risk can be reduced and diverted with proper management techniques. All organizations face financial risks, and their ability to achieve their objectives (and in some cases even their survival) depends on how well they manage those risks. It is therefore critical to establish a framework that

(a) facilitates the identification and quantification of the main types of risk to which a firm is exposed, and (b) sets out the main tools and techniques that the firm will use to manage those exposures. The importance of financial risk management is reinforced by the very large losses reported by many institutions since August 2007, which highlight the fact that they still have a

long way to go before they can be said to be managing their financial risks adequately.

Financial risk management does not come cheap, but it is less expensive than the alternative.

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Financial accounting is an essential business process that allows professionals to understand their business' finances. It allows for transparency, data-driven decision making, and improved profitability.

It is obvious that the majority of the studies have discussed about the financial risk management strategies which are being used by the various financial experts . The financial experts stated that risk is the quantified uncertainty regarding the undesirable changes in the value of a financial commitment. They opined that the corporate sector units need to do proper risk identification, classify risks and develop the necessary technical and managerial expertise to manage financial risks. The review of literature has brought to light that the firms use derivatives as a hedge rather than to speculate in the foreign exchange market. The greatest preference is for forward contract and future contracts. Swaps and cross-currency options are moderately used. It also reveals that the forward currency hedging strategy yielded the highest mean cash flows and the highest mean percentage gain amongst the foreign exchange risk management strategies. Some of the studies are concerned whether the company's financial officers are aware regarding their transaction, translation and economic exposure or not. There is considerable evidence that the financial officers of the various companies are well aware regarding their transaction, translation and economic exposure. They are also well known with their risk management strategies. But some non-users of the derivatives cited confused perceptions of derivatives use and fear of high costs of derivatives

as reasons for not using derivatives. So some awareness program can be introduced for them so that such kind of persons can also get benefits of all derivative instruments. From the review of literature we come to know that there are very less number of studies which have been conducted in India hence more research work can be done on this topic in India.

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ANNEXURE

A Study of Risk management in Financial Accounting

1) Gender

- □ Male
- □ Female
- □ Others

2) Qualification

- □ Under Graduated
- □ Graduated
- □ Post Graduated

3) Do you married?

- □ Yes
- □ No

4) Age

- □ Below 18 years
- □ 18 to 30 years
- □ 30 to above years
- □ Other…

5) How many types of Risk Management.....

- □ 1or 2
- □ At least 4
- □ 3
- □ Non the A above

6) _ is the scope of financial accounting.

- □ Collection and processing
- □ Verifying or auditing
- □ Publishing data
- □ All of the above

7) How to control Financial Risk?

- □ identifying potential
- □ Deviding on a strategy
- □ Analyzing and quatifying
- □ All the above

8) What is Financial Risk in Accounting?

- □ Income tax rate
- □ Financial market

9) Which of the following is not an example of a direct loss from pure risk?

- □ damage to assets
- □ cost of paying
- □ employee turnover
- □ loss of profit

10) Which is not a benefit of financial accounting?

- □ Maintaining systematic
- □ Protecting and safeguarding
- □ Historical in nature

11) The portfolio theory articulates diversification to reduce which of the following risks?

- □ Financial risk
- □ Business risk
- □ Unsystematic risk
- □ Market risk

12) Variability in the rate of return is known as .....

- □ Volatility
- □ Interest
- □ Risk
- □ Return

13) _ risk is defined as the relative variation of actual

- □ loss from expected loss.
- □ Expected risk
- □ Objective risk
- □ Pure loss
- □ Subjective risk

14) The type of risk in which payments are interrupted by the intervention of foreign governments is considered as

- □ channel risk
- □ globalization risk
- □ state risk
- □ country risk

15) The risk faced by financial institutions in which advancement of technology does not produce savings in cost is classified as

- □ savings risk
- □ advance risk
- □ cost risk
- □ technology risk

16) When maturities of liabilities and assets are mismatched and risk incurred by financial intermediaries then this risk is classified as

- □ interest rate risk
- □ channel rate risk
- □ economic risk
- □ issuance risk

17) The risk arises from trading of assets because of change in asset prices and exchange rates is classified as

- □ asset risk
- □ trade risk
- □ market risk
- □ exchange risk

18) Risk Variability in the rate of return is known as

- □ Return
- □ Risk
- □ Interest
- □ Volatility

19) Credit risk is

a. the risk that a firm's borrowers will not make promised payments.

b. the risk that a firm will not be able to get credit from lenders.

c. the risk that a firm will not have sufficient funds to make payments to their creditors.

d. the risk due to changes in output and input prices

20) The risk which arises all the activities from contingent liabilities and assets is considered as

- □ off balance sheet risk
- □ income statement risk
- □ balance of trade risk
- □ balance of payment risk

21) Risk in capital budgeting implies that the decision maker knows _ of the cash flows.

A. Variability

B. Certainty

C. Probability

D. None of these