1: BUSINESS MODEL

① Business ?:-

→ Starting your own business is one of the most rewarding and challenging things you can do. Sometimes it's fun other times it is economically draining.

→ Pros :-

→ You have Control over your own Destiny
- You have ultimate control over success or failure.
- Work harder, keep pushing and figure it out, you have potential to have incredible success and feel on top of the work
- There is nobody stopping you except yourself.

→ You feel the bliss of someone using your pocket
- Cool feeling when someone uses or pay for your product

→ You Create your own wealth

→ You gets to choose who sits at the table

→ Success feels really good

Cons :-

→ You'll work harder
- You work far more than 9-5 job.
- there is no constant feeling of guilt when you are not working.

→ You don't have anyone to guide you
- You have a boss that is ultimately responsible for your performance and output.

→ You may not get paid for a while :-

→ failure feels unbelievably bad

② QOQ vs YOY [Profit = revenue - expenditure]

CASESTUDY :-

- Mr Donald completed his masters in blockchain and digital Transformation. He wished to start his own consulting in the same field. Recently, he read in the newspaper that, for the success of business, he need a business plan. As he has no knowledge of this management aspect, he has approached you. Kindly guide him about importance of business plan.

- Helps in earning long term profits.
- Makes it easier to set goals, versions and missions.
- To understand the target audience, needs and wants etc.
- To sell business plan as a document to outsiders and attracts investors.
- It helps in creating a model which helps ~~the creating a mo~~ ~~in~~ the business grow.
- It also helps in decision making for the benefit of the firm.
- Helps plan the steps to run business without overlap
- Backup plans → Plan B
- It helps maintain the generation of money (revenue generation)
- How business will grow and sustain.
- It helps to understand competitors, market & research.
- Understand customer, customer satisfaction
- Legal Compliance, ROCs.
- ~~Log~~ Long term & short term growth.
- Diversely the business.

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Oscarwalder's Business Model Canvas :-

Definition :- The model is in the form of a visual chart with various elements that describes value proposition, its infrastructure, markets & finances of the organization.

Objective :- Assists firms to align their activities through the illustration of potential trades off

Value Proposition :-

Definition :- Creates bundle of products and services that create value for a specific Customer Segment.

- Value Proposition is the reason why customer turns to your company over another.
- It solves your customer's problem or satisfies your customer needs
- Your Value Proposition is a bundle of benefits that your company offers customers.

② Infrastructure :-

Definition :- Organisation Infrastructure comprises of three key elements :-

- The key activities that generate the value proposition
- The key resources it used to create value for its customers
- Its alliance or key partners networks and the things that motivates them to be part of the business model.

③ Cost Structure :-

Definition :- The cost structure section outlines all the monetary cost the business incurs while operating under the model

Types :-

① Cost driven :- focuses on minimizing costs wherever possible.
- Aims at creating and maintaining the leanest possible Cost Structure, using low price Value ~~Cost Structure~~ Propositions, Maximum automation & extensive outsourcing

Cost driven Business models → Southwest, easyjet, Ryanair typify

② Value-Driven :- Some companies are less concerned with the cost implications, and focuses on value creation.
- Premium Value Propositions & High degree of personalized service

Value driven Model - Luxury hotels, with lavish facilities & executive service.

Attributes -

- Economies of Scale - Cost advantages that a business enjoys as its output expands
  - Larger companies, benefit from lower bulk purchases rate.

- Economies of Scope - Cost advantages that a business enjoys due to larger scope of operation
  - Larger enterprise, eg - Same marketing activities or distributed channels may support multiple products.

- ~~Economi~~ Fixed Cost - Cost that remain the same despite the volume of goods or services produced.
  - Eg:- include salaries, rents & physical manufacturing facilities

- Variable Cost - Costs that are very proportionally with the volume of goods & services produced.
  - Some businesses such as music festivals, are categorized by a high proportion of variable costs.

④ Customer Segments :-

Definition :- Different groups of people or organisation your enterprise aims to reach and serve
- This include users who might not generate revenues, but which are necessary for the business model to work.
- Customer comprise the heart of your business model.

[class] → - Check who are your targeted customers
- Divide them into age groups [0-15, 16-30, 31-45...]
- Eg:- Amazon has customer segments
  - Firstcry - Limited customer segments [Age grp - 0-5]
  - Audi - High Profit Margin
    - Segment is quite less

[Startup note] - If you start a new business, you must have varieties in your product.

(5) Revenue Streams :-

Definition :- Revenue Streams represent the ways your company generates cash from each Customer Segment

Types of Revenue Streams :- [Not taught]

(1) Asset Sale :- Revenue Streams derives from selling ownership rights to a physical product.
- Eg - Amazon.com sells books, music, consumer electronics, and more online.
- Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.

(2) Usage fee :- Revenue Stream is generated by the use of a particular service.
- The more a services is used, the more the customer pays.

Eg
- A telecom operator may charge customers for the number of minutes spent on the phone.
- A hotel charges customers for the number of nights rooms are used
- A packet delivery charges customers for the delivery of a parcel from one location to another

[Class] ~~Definition~~

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(6) Key Partnership :-

Definition :- The key partnership Building block describes the network of suppliers and partners that make the business model work.

[Notebook] - Good Partnership
- Partnership
- Good relationship with Employees
- Investors
-

(7) Key Activities :-

Definition :- The key activities Building Block describes the most important things a company must do to make its business model work.
- Companies are required to create and offer a Value Proposition, reach ~~to~~ markets, maintain Customer Relationships and earn Revenues

Eg
- Microsoft - Key Activities include software development
- Dell - Key Activities include supply chain management.
- Consultancy McKinsey,- includes problem solving

Types -
① Production :- Activities related to designing, manufacturing, and delivering a product in substantial quantities

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③ Problem Solving – Coming up with new solutions to individual customer problems.
- The operations of consultancies, hospitals, & other services

[Notebook Definition] — Concentrate on product and its designing
- Quality Assurance Department
→ Checks Quality
→ 6 Sigma Training Professionals

⑧ Key Resources :- Key Resources describes the most important assets required to make your business model work.

- Your resources allows you to create & offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.

- Different Key Resources are needed depending on the type of business model.

Types of Key Resources :-

① Physical - Includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, points of sales system, system and distribution networks.
- Retailers like Wal-Mart and Amazon.com rely heavily on physical resources.

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(2) Intellectual Property - Intellectual Property resources such as brands, proprietary knowledge, patents, and copyrights, ~~partnerships~~ partnerships, and customer databases are increasingly important components of a strong business model.

Notebook :- Tangable & Intangable

Assets you see | Assets you won't see

- AJP - Artificial Judicial Person

Company is artificial

- Companies are listed under this ACT
- They are controlled by this Act
- INFOSYS, WIPRO,

Some Acts Mentioned :-

SEBI - Security & Exchange Board of India
FEMA - Foreign Exchange Management Act
FATKA FORM - Declaration under FATKA form

-

(3) Human :- Every Enterprise requires human resources, but people are particularly prominent in certain business model.

- Human resources are crucial in knowledg- intensive and creative industries.

[Eg] - Relies heavily on Human resources, its business model is predicted on an army of experienced scientists & a large & skilled sales force.

(8) Financial :- Some business models call for financial resources and/or financial guarantee, such as cash, lines of credit, or a stock option pool for hiring key employees.

(9) Customer Relationships :- Your Customers Relations describe the types of relationships your company establishes with specific Customer Segments.

- The type of Customer Relationships you put in place deeply influence the overall customer experience.

Types :-

(1) Transactional :- This means there is no real relationship between the company and the customer.
- The company interacts with the customer on a transactional basis.
- Eg:- ~~kiosk~~ kiosk at an airport, for example, usually doesn't really establish a relationship with its customers.

(2) Long Term :- This means a long term & maybe even deep relationship is established between the company & the customer.

(3) Personal Assistance :- This relationship is based on human interaction. The customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete.
Eg - call centers, e-mail,

(4) Self -Services - A company maintains no direct relationship with customers. It provides all the necessary means for customers to help themselves.

Channels :-

Definition - Your channels discribe how your company communicates with and reaches your Customer Segments to deliver your Value Proposition.

- Includes several functions -
  - Raising awareness among customers about company's products
  - Helping customers evaluate a company's Value Proposition
  - Allowing customers to purchase specific products & services
  - Delivering a Value Proposition to customers
  - Providing post - purchase customer support.

Types :-

(1) Owned Direct - Owned channels can be an in-house sales force or a Websites, or retail stores owned or operated by the organization.

- It have higher margins, but can be costly to put in place and to operate.

(2) Partner Indirect - Partner channels are indirect & span a whole range of options, such as ~~a~~ wholesale distribution, retail, or partner - owned Web sites.

- Partner channels leads to lower margins, but they allow an organization to expand its reach and benefit from partner strengths.

CASESTUDY 2 :-

- Mr Harris is a Business man, in sugarcane industry. He has faced losses over last 6 years, now he has approach you as an expert to develop business model under Alex Business Model Canvas, where the main focus is on value proposition, Infrastructure and Cost Structure. Provide him key points on these aspects along with Examples.

- Since business man is in losses, reaching at break point is important. It is the point of no profit, no loss, looking at Canvas model made by Alex Osterwalder business model, he has to provide something extra than competitors, to this point ~~three~~ there are various streams:-

1. Supply Sugarcane produce to sugarcane factories maybe at lower price or in Bulk.
2. If the 1st option is not comfortable, he may have types with sugarcane juices supplies or even this can be his allied business.
3. To be apart from competitors, he may look for organic farming as organic sugar, organic jaggary has more price and demand.
4. Another option is Ethanol production from sugarcane waste.

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CASE STUDY 3 :-

- Mr A started a business of developing laptops as per customers needs to be successful in business, he wish to rely on building blocks of business model Canvas, where he wished to focus on key partnerships and key activities. Kindly guide him.

- Having good relationships
  - → Good workforce
  - → Good quality checks
  - → Workers with better skill sets.
- Market Research
- Partnership with ~~good~~ Big companies for products - (Hardware Manufacturers)
  - → AMD, NVIDIA, Intel
  - → Good Shipping
  - → ~~Safe~~ Customer Satisfaction with receiving products
  - → Feedbacks
- Acquiring - Local Suppliers
  - Customer can get their own customized PC according to students requirement
- Can get components as nearby in order to reduce transportation charges.
- Key Activities :- Gamers' PC :- Good Processor, Hardware, Graphics Card, RAM
  - RAM : 8GB ; VRAM - 4GB

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CASESTUDY 4 :-

Mr A already started a business a month back, business provides readymade software to companies to record financial data. Thereby, they get easy access and readymade format of balancesheet which they have to submit to income tax department & (ROC) - Registrar of Companies). They have approached you to take key management point especially focus on key resources, ie. Physical, Intellectual Property, Human Finance, provide them your views.

=> Physical Resources :- Keeping Employees numbers as per demand
- Providing them salary as per industry standard.
- In future, depending upon growth of company, employees should be given ~~better~~ bonus shares & better working Environment.
- Premises should be owned on rent, depends upon profit margin, If owned premises, machinery then ~~sup~~ subject to depreciation.

=> Intellectual Property :- He may register his company with trademark wear by competitors won't be able to take disadvantage.
- Copyright regards to his softwares over the long duration, he may go for valuation related to goodwill which will increase his business value.
- Regards to financial, as it is a new company as per demand.
- He may opt for bank overdraft or loans in longterm
- He may think about going in public (SEBI Guidelines) regards to number of years of profit & networth. If

not possible / feasible due to profit margin, may opt for issue of bonds / debentures for import / Export, he has to follow FEMA Guidelines.

★ ACTS :-

1. Industrial Dispute Act 1947 :-
- Was made to investigate and settlement of industrial disputes.
- Established on ~~1947~~ 1st April 1947.
- Purpose - Establish to create a balance between labour & industry
- Objective - Secure ~~industry~~ industrial peace & harmony
- Sections - VII chapters & 40 sections
- Objective - It is an Act to make provision for the investigation & settlement of industrial disputes & for certain other purposes.

2. Workers Compensation Act, 1923
- An act to provide for the payment by certain classes of employees to their workmen of compensation for injury by accident.
-

3. Minimum Wage Act - 1948
- Generally specifies minimum wage rates on a per day basis.

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2. Formalities for setting up a business enterprise

* Legal Structure to ~~to~~ sign a contract
  - above 18
  - ID Proof : ID / Pancard / Aadhar Card
  - Objective of your business should be legal
  - Mentally stable
  - No Bankrupt / Not Insolvant
  - Legal Compliance
    - → Clauses
      - → Name Clause
      - → Objective Clause
      - → Capital Clause – Thought process on loan
      - → Liability Clause – Limited Liability Partnership (LLP)
      - → Register Clause – objective
        - Agenda
        - Minutes of the meeting
        - Register everything in register

  [Can we change RO from one office to another? – Yes]
  - For general documentation / Agreement
    - → Barter System is not allowed
    - → Digital Signature is allowed

* Insurance holds the key :-
  - Fire Insurance
  - Third Party Insurance
  - Personal Accident Insurance
  - Ships Insurance

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CASESTUDY 5:-

Tushar limited is a one director company, that have established their business 1 month back with approved name, capital, liability and Register office. Now they wish to enter into the contract with various types of clients. What are the legal conditions Tushar limited has to ~~ch~~ check before entering into the contract.

⇒ Tushar limited has to check following points on priority basis:-

① Legality of client - The counter party should not be declared as per law of nation

② The government between 2 parties should be for legal goods and services - Any contract which creat production or supply of Illegal goods is not allowed.

③ The parties entering the contract should be age of majority and should be mentally stable.

④ It has to be ensured that either party is not declared as enemy country related organization

⑤ Agreement or contract should mention mode of payment, type of execution of goods or services.

⑥ Any type of insurance & other liabilities clauses incase of damage and legalities of goods.

* Product Liability :-

- This is a type of insurance which distributes manufacturers, retailers, wholesalers take against third party injury

- In this case as per the amount of product, insurance can be taken even we can take add on cover + even applicable in case of import / export.

- The insurance taken can be one accident limit also known as AOA and any one year limit.

- Even this insurance covers all kind of damages to the third party which includes death, permanent damage of body part, or even minor injuries

- The new India ~~assurana~~ assurance HDFC, ERGO, Bajaj alliance + united India insurances are ~~to~~ the company who provide this product liability insurance.

- 7 horses and Elephants — Painting which provides scalability of company.

- Goodwill - Extra money / profit making money.

Chapter 7 :-

Sources of Capital :-

★ Blue Chip Company :-

• Over subscribe vs undersubscribe

★ Boot strapping :- It is the process of using only existing resources,
- It describes a situation in which an entrepreneur starts a company with a little capital, relying on money other than outside investment.

★ Balance Sheet :-

Capital	10	Machinery	10
Loan	1	Premises	1
Overdraft	2	Vehicles	2
Short Term liability	3	Furniture	1
		Cash & Bank	1
		Short term Assets	1
Total	16		16

★ Government Grants :-
- Different types of assistants is given by government for deployment of business activities accross India.
- These kind of financial assistant especially given for small businesses development known as business grants.

① PMMY - Pradhan Mantri Mudra Yojana
- When funds are given upto 10 Lakh upto very small business at very low rate of interest especially to startups and small businesses.
- These loans are available with commercial banks, small finance banks RBB's (Regional Rural Bank) & even NBFC (Non Banking Financial Coorporation)
- Loan Sanctions - under this scheme worth 63,444 Crore for year 2021-22 where a very few new businesses loan is given up to 50,000/- then for grown up business upto 5,00,000/-, for settled business upto 10,00,000/-

* CASESTUDY 6:-

- Anish started a small business in the field of robotics & innovation. He has limited funds available worth 10,00,000. He wish to understand from you external capital sources available like angel funding, funds through commercial banks & various government grants. Kindly guide him

- Angel funding - money gathered at the start of a business by angel investers - (they invest their own money into business)
  - Angel investors usually provide financial backing for small startups, may be one time investment to get the company off the ground is usually the primary source of funding for many startups.

- Anish can't get a loan from commercial banks as the minimum requirement is 3 years.

- Technology Incubation & Development of ~~Entre~~ Entrepreneurs (TIDE) 2.0. Introduced by the Ministry of Electronics & Information Technology, Govt of India, this scheme provides ~~startups~~ startups with the financial support of upto INR 40 lakhs. Startups can get funds under three categories: upto Rs 4 Lakh for ideation stage startups, Rs 7 lakhs for proof of concept stage startups, and Rs 40 lakh for go-to-market stage startups. The eligibility criteria for startups applying under the TIDE scheme is as follows:-

1. Startups under all three categories must be technology based
2. All startups must have solutions with a societal impact
3. Only startups that have been previously funded under TIDE can apply for the 40 lakh investment support category.

Sat 10 dec

* CASESTUDY 7:-

Mr Jay has already formed one director company with objective of providing consultancy in the field of Blockchain and Fintech. He has already registered in company specified object of company mentioned capital towards his organization he has registered office in the city of Pune. Kindly guide him as an expert:- What are the legal aspects of contract and related things:-

He has to take care of while entering into the business with other parties.

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=) while entering into the contract, he has to make sure that the party with whom he's entering into the contract must have following aspects :-

1. Attended / completed age of majority
2. Not disqualified by law of nation to enter into the contract
3. Not declared as insolvant
4. Should not be off unsound mind
5. The object of Contract must be law full
6. Contract must have consideration in money's worth & should not be batter exchange.
7. If it is international contract fema guidelines are to be complied with. FEMA - Foreign Exchange Management Act)

* Some topics as Revision :-
- Business ~~&~~ Plan
- ~~Commercial~~ External Commercial Borrowing (ECB)
- GDR — Global Depository Receipt; ADR — American Depository Receipt; IDR — Indian Depository Receipt
- GII; DII — Domestic Institutional Investors
- TDS - Tax deducted as Source.
- Recurring deposits → fix clposits
- Mutual funds.
→ FD in bank of 1 lakh & 7% investment in bank, after 7 years ~~b~~ we can take 1 lakh loan from bank ; known as loan against FD.
→ As a business, we can take these kinds of loans.

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NUMERICAL 1 -

ABC limited has provided you following data on the basis of the provide your analysis - wheather they should go for loan option

Equity Share Capital - 10 Lakh
Bank loan Taken - 7 Lakh
Rate of interest on bank loan - 9%.
Sales - 12 Lakh
Variable Cost - 10% - $\frac{10 \times 12,00,000}{100} = 1,20,000$
Fixed Cost - 6 Lakh
Income Tax Rate - 30%.

=) Income - Expenditure = Profit
Sales = = 12 Lakh — (A)
Less : Variable Cost = 1,20,000 — (1)
Less : Fixed Cost = 6,00,000 — (2)
Interest on Bank loan = $\boxed{63,000}$ ← came from — (3)

- 9% of 7,00,000
= $\frac{9 \times 7,00,000}{100}$ = 63,000

Here, (3) is Less : Interest on Bank loans.
∴ Less : Interest on Bank loans = 63,000 — (3)
(This means Earning Before Tax)

EBT = [A - 1 - 2 - 3] — (subtracting)
= ~~4,13~~ 4,17,000
= - 1,25,100 ← Income tax 30% of 4,17,000
2,91,900

→ 2,91,900 — He can take loan

NUMERICAL 2:-

- A company has scales of 20 lakhs with its variable cost - 12%.
fix cost = 10,00,000
- Company has taken Bank loan of 6,00,000/- at 9% and Income tax Rate is 25%. How much profit they will learn after payment of tax and if they want to keep half of the profit, as a reverse, How much profit is available for repayment of loan? If they take another loan at 9% ie. explain how much funds they can take via loan?

Scales = - 20,00,000
Variable Cost - 12%
Fixed Cost - 10,00,000
Bank loan at (9%) - 6,00,000
Income Tax Rate - 25%.
Another loan at (9%) - 9%.

=) Sales - 20,00,000 —(A)
Less: Variable Cost - 2,40,000 = $\frac{12 \times 2000,000}{100}$ = 2,40,000 —(1)
Fixed Cost - 10,00,000 —(2)
Interest on Bank loan (9%) = 6,00,000 = 54,000 —(3)

EBT = A - 1 - 2 - 3
= 20,00000 - 2,40,000 - 10,00,000 - 54,000
= 7,06,000
= - 1,76,500 ← Income tax of 25% of 7,06,000
5,29,500

- Since the ~~amoun~~ 50% amount is reserved, then

5,29,500 → 50% → 2,64,750

- Taking another loan at 9% → This is just 9% of loan

=) 2,64,750 @ 9%

$\therefore \frac{2,64,750 \times 100}{9\%}$

$\boxed{= Rs\ 29,41,666.67}$

Numerical 3 :-

Company has sales of 24,00,000 which will increase 10% every year as per estimation, where your Variable Cost is 15% each year. Fix cost 5,00,000/- per year. Company has taken bank loan worth 12,00,000 at 7%, Income tax rate is 25%. If company can keep the profits as reserved for ~~1st 3~~ first three years & wish to take machinary worth Rs 10,00,000/- at the end of year 3, How much borrowed capital they would required.

Sales = 20,00,000

Variable Cost = 3,00,000 = $\frac{20,00,000 \times 15}{100}$ = 3,00,000

Fixed Cost = 5,00,000/- per year

Bank loan at (7%) = 12,00,000

Income tax rate 25%

Interest on Bank loan (7%) = 12,00,000

= $\frac{7 \times 12,00,000}{100}$ = 84,000

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Particulars	Year 1	Year 2	Year 3
Sales	24,00,000	26,40,000	29,04,000
Variable Cost	3,60,000	3,96,000	4,35,600
Fixed Cost	5,00,000	5,00,000	5,00,000
Interest on Bank loan	84,000	84,000	84,000
EBT [A-1-2-3]	14,56,000	16,60,000	18,84,400
Income tax ~~Rate~~ 25%	3,64,000	4,15,000	4,71,100
Net Profit [EBT - Income tax]	10,92,000	12,45,000	14,13,300

∴ Machinary cost is 10,00,000

∴ 10,92,000 + 12,45,000 + 14,13,300
=) 37,50,300

As machinary cost is worth 10,00,000, we have enough money to buy machine, so no need of taking loan.

Nomerical 4 :-

XYZ limited has sales 10,00,000 per year increase of 12% each year compared to last year, Its variable cost is 25%. Its fixed Cost is 3,00,000. Company has taken loan of 20,00,000 at 7% with Income Tax Rate of 20%. They are planning to purchase ~~machin~~ machinary worth 60,00,000 at end of year 3. Providing all profit will be kept as reserved for purchasing this machinary

=)

	Particulars	Year 1	Year 2	Year 3
(A)	Sales	10,00,000	11,20,000	12,54,400
(1)	Variable Cost	2,50,000	2,80,000	3,13,600
(2)	Fixed cost	3,00,000	3,00,000	3,00,000
(3)	Interest on Bank Loans (7%)	1,40,000	1,40,000	1,40,000
	EBT [A-1-2-3]	3,10,000	4,00,000	5,00,800
	Income Tax Rate 20%	62,000	80,000	1,00160
	Net Profit	2,48,000	3,20,000	4,00,640

∴ Total Amount :- 248,000 + 3,20,000 + 4,00,640
=) 9,68,640

∴ Machinary is worth 60,00,000. the company still has to take loan from bank of $\boxed{50,31,360}$

60,00,000 - 9,68,640

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★ Chapter 6 :- The Financial Plan

- CapEx & OpEx :-

★ Ratio Analysis
- To interpret viability of the company.

★ Capital Budgetting
- Capital Budgetting is a process of evaluating investments and huge expenses ~~to~~ in order to obtain the best returns on investments.
- The process of decisions to invest a sum of money when the expected results will flow after the lapse of a period of more than one year is called Capital Budgetting.
- It also includes the process of decision regarding disinvestment i.e., a decision to sell off an undertaking or a part of it.

- Objective of Capital Budgetting -
1) Selecting profitable projects
2) Capital expenditure control
3) Finding the right sources for funds.

- Capital Budgetting Process –

① Project identification and generation :-

- To generate proposal for investments.
- There could be various reasons for taking up investments in a busi

② Project Screening and Evaluation :-

- This step mainly involves in selecting all ~~o~~ correct criteria's to judge the ~~des~~ desirability of a proposal.
- This has to match the objective to the firm to maximize its market value.
- The tool of time value of money comes handy in this step.

③ Project Selection :-

- There is no such defined method for the selection of a proposal for investments as different businesses have different requirements.

④ Implementation :-

- Money is spent and thus proposal is implemented.
- Different Responsibilities – implementing proposals,
  - Completion of project within due date/time period
  - Reduction of cost

⑤ Performance Review :-

- Involves comparision of actual results with the standard ones.
- Unfavourable results are identified & removing the ~~ro~~ difficulties of project helps future selection & Execution of the proposals.

- Methods of Capital Budgetting :-
  ① Traditional method
    - Payback Period
    - Accounting rate of return method

  ② Discounted cash flow methods
    - Net present value method
    - Profitability index method
    - Internal rate of return.

★ Payback Period Method :-
- Refers to period in which the proposal will generate cash to recover the initial investment made.
- Investment made in project, with no consideration to time value of money.
- Method based on thumb rule
- $\boxed{\text{Payback Period} = \text{Cash outlay (investment)} / \text{Annual cash inflow}}$

★ Accounting rate of return method (ARR) :-
- Helps to overcome the disadvantages of the payback period method
- It is average net income an asset is expected to generate divided by its average capital cost.

- Used to make capital budgetting decisions.

$\boxed{\text{ARR} = \text{Average Income} / \text{Average Investments}}$

★ Discounted Cash Flow Method :-

- Calculates the cash inflow and outflow through the life of an asset
- These are then discounted through a discounting factor.
- This techniques takes into account the interest factor & return after the payback period.

★ Net Present Value (NPV) Method :-

- Used in evaluating capital investments proposal.
- ~~cash~~ Cash flow is expected at different periods of time is discounted at a particular rate.
- The present values of the cash ~~flow~~ inflow are compared to original investment.
- Difference between them is (+) it is accepted or otherwise rejected.

NPV = PVB − PVC

PVB = Present value of Benefits

PVC = Present value of Costs

★ Internal Rate of Return (IRR) :-

- The rate at which the net present value of the investment is zero.
- Discounted cash inflow is equal to the discounted cash outflow.
- considers time value of money.

* Bank fix Deposit.
  - Income goes above Rs 10,000 - 15,000 then bank cuts TDS
  - Recurring Account (As investment)

* Mutual funds
  - Investments in terms of unit
  - Subjected to market risks
  - Viable
  - Equity Mutual funds is always good

* Debt Market
* fix Deposit (Bank)
  - Get a loan
  - Known as Loan Against FD (fix deposit)
    - As startups of businessman you should go for this.

* Types of Ratio :-

① Liquidity Ratio :-

- Liquidity Ratio are integral part of business, they provide idea above free funds available for the business where they can be ~~usefull~~ usefull for day to day expenses & even can be useful in case of emergency.

There are 2 ratios under liquidity ratio :-

① Current Ratio

② Quick Ratio (Acid Test Ratio)

Date:
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ⓐ Current Ratio -

The standard ratio of current ratio is 2:1 meaning at the end of given duration company should have ~~too~~ twice ~~as~~ of assets compared to current liabilities. If not company may unable to pay day to day expenditures which will decrease goodwill of the company

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets include the following things

Cash, Bank Balance, Receivable, Debetors, Closing stock, Prepared Expenses and any kind of investment upto 1 year

Current Liabilities includes :-

Short term loan taken upto 12 months, Bank Overdraft, Bill Payable, Creditors.

Nomerical 5 :-

- A limited has given you following extract of their financial data, On the basis of that comment on liquidity of company.

(fix rate) Machinary - 8,00,000/-	Opening Stock - 1,00,000
(fix rate) Furniture - 5,00,000/-	Closing Stock - 1,000
Capital - 4,00,000/-	Bank - 4,000 [Bank Balance]
Debtors - 1,00,000	Long term Loan - 20,00,000
Bills Receivable - 2,00,000	Short Term Loan - 1,00,000
	Bank Over draft - 6,000

Calculate Current Ratio.

=) $\text{Current Ratio} = \dfrac{\text{Current Assets}}{\text{Current Liability}} = 2:1$

Current Assets - Debtors + Bills Receivable + Closing Stock + Bank

Current Liabilities - Short Term Loan + Bank Over draft

$$= \frac{1,00000 + 2,00,000 + 1,000 + 4,000}{1,00,000 + 6,000}$$

$$= \frac{3,05,000}{1,06,000} = 2.87$$

Conclusion: The current ratio is 2.87 which is nearby standard ratio. It means company has liquidity to pay off its short term liability. But the ratio is more than 2:1, It means company has exess funds than required which they can invest in other options.

Numerical 6 :-

Z limited has provided you the following data, calculate current ratio & comment on financial Ratio.

Cash	1,00,000	Loan	8,00,000 - for 360 days
Bank	2,00,000	Capital	10,00,000
Debtors	3,00,000	Bank Overdraft	11,00,000
Bills Receivable	5,00,000	Shorterm Loan	12,00,000
Closing Stock	6,00,000	Prepaid Expenses	12,00,000
Opening Stock	7,00,000	Premises	20,00,000

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\text{Cash + Bank + Debtors + Bills Receivable + Closing Stock + Prepaid Expenses}}{\text{Loan + Bank Overdraft + Short Term Loan}}$$

$$= \frac{1,00,000 + 2,00,000 + 3,00,000 + 5,00,000 + 6,00,000 + 12,00,000}{8,00,000 + 11,00,000 + 12,00,000}$$

$$= \frac{29,00,000}{31,00,000}$$

$$= 0.93 : 1$$

Conclusion :-

- The current ratio is 0.93:1 which is less than the standard ratio ie 2:1 which mean Z limited does not have enough liquidity to pay off the short term liability.

12/12/22 Case study 8 :-

Shankar Sharma - Backed Drone Startup's IPO opening on Dec13

Price Band - Rs 52-54
SME - Small and Medium Size Enterprise
IPO - Initial Public Offering
ESCROW Account - A third party account where funds are kept before they are transferred to the ultimate party
- It provides security against scams & frauds especially with high assets value & dispute prone sectors like real Estate.

Third Party Name in India :- Merchant Bankers
Who's money is transferred - A temporary account
Buyers / ~~to~~ prospective Investors.

QIB - Qualified Institutional Buyers.
Q1FY 23 - Quater year 1, financial year 2023
Q1 - Jan 1 - Mar 31 Q3 - July 1 - Sept 30.
Q2 April 1 - June 3 Q4 - Oct 1 - Dec 31

Quick Ratio / Acid Test Ratio :- ~~A~~ compared to current ratio, quick ratio provides better idea about liquidity of company. This ratio is known as acid test ratio.
- The standard ratio - 1:1 which means, if you have to pay ~~₹~~ 1/- immediately, you should have 1/- rupee available,

FORMULA - $\frac{\text{Current Asset - Closing Stock - Prepaid Expenses}}{\text{Current liabilities - Bank Overdraft}}$

Date :
Page :

Numerical 7 :-

- Bonds limited provided you following data, on the basis of that calculate Current Ratio & Asset Test Ratio.

Premises	1,00,000	A Closing Stock	1,00,000
Machinery	2,00,000	L Bills Payable	40,000
A Cash	1,000	L Creditors	60,000
A Bank	1,00,000	Bank Overdraft	50,000
A ~~Bonus~~ Prepaid Expenses	1,000	L Capital -	1,00,000

$\Rightarrow$ Current Assets - $\frac{2,02,000}{2,00,000}$ = 1.01
Current Liability -

★ Net Profit Ratio :-

- As name suggest, Net Profit ratio is profit after tax which is used to keep as reserved or added in capital or to be distributed ~~or~~ as divident to the shareholders. This profit can be 20% - 30% in some industries or it may differ industry to industry.

FORMULAE - $\frac{\text{Net Profit}}{\text{Sales}} \times 100$

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Numerical 8:-

Q

Sales of Company	2,00,000	Advertisement	4,000
Closing Stock	1,00,000	Other Income	5,000
Opening Stock	50,000	Machinery	1,00,000
Purchase	10,000	Capital	20,00,000
Direct Expenses	12,000		
Rent Paid	6,000		
Depreciation	10,000		

Find Net Profit Ratio

$\Rightarrow$ $$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$ [Net Sales = 2,00,000]

$$= \frac{[\text{Sales} + \text{Closing Stock} + \text{Other Income}] - [\text{All Expenses}]}{2,00,000}$$

[All Expenses Include :- Opening stock, Purchase, Direct Expenses, Rent Paid, Depreciation, Advertisement]

$$= \frac{[2,00,000 + 1,00,000 + 5,000] - [92,000]}{2,00,000} \times 100$$

$$\Rightarrow \frac{[3,05,000] - [92,000]}{2,00,000} \times 100$$

$$\Rightarrow \frac{2,13,000}{2,00,000} \times 100$$

$$\Rightarrow \boxed{106.5\%}$$

Numerical 9 :-

PQR limited has provided you financial extract on basis of that, calculate net profit & provide your opinion.

Sales 22,22,000

Closing Stock 11,11,000

Opening Stock 6,66,000

Purchases 1,11,000

Direct Expenses 99,999

Depreciation 66,666

Advertisement 2,222

Other Indirect Expenditure 2,22,999

Other Income 999

Capital 99,99,000

Premises 33,33,000

Cash 12,200

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Net Profit = [Sales + closing stock + Other Income]

(−)

[Opening + Purchase + Direct Expenses + Depreciation + Advertisement + Other ~~Income~~ Indirect Expenditure]

22,22,000 + 11,11,000 + 999 −

=) [6,66,000 ~~22,22,000~~ + 1,11,000 + 99,999 + 66,666 + 2,222 + 2,22,999]

=) 33,33,999 (−) 11,68,886

=) 33,33,999 − 11,68,886

=) 21,65,113

∴ Net Profit Ratio =) $\frac{21,65,113}{22,22,000} \times 100$

$\boxed{\text{=) } 97.44\% \text{ (approx)}}$

- Numerical 10 :-

Calculate Acid test Ratio & Net Profit Ratio from the given data.

Cash	- 222	Depreciation	2890
Bank	- 2999	Prepaid Expenses	282
Sales	- 22,22,000	Bank Overdraft	1,00,000
Purchase	- 10,00,000	Creditors	2,82,000
Closing Stock	- 12,00,000	Debtors	1000
Rent Paid	9,222	Other Income	289

Acid Test Ratio/Quick Ratio = $\frac{\text{Quick Assets}}{\text{Quick Liability}}$

[we ignore closing stock & prepaid expenses]

$= \frac{\text{Cash, Bank, Debtors}}{\text{Creditors}}$

$\Rightarrow \frac{222 + 2999 + 1000}{2,82,000} \Rightarrow \frac{4221}{2,82,000} \Rightarrow$

$\Rightarrow 0.015 : 1$

Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

all Expenses

$\Rightarrow \frac{[\text{Sales} + \text{closing stock} + \text{other Income}] - [\text{Rent} \cancel{\text{opening}} + \text{Purchase} + \cancel{\text{Direct Expenses}} + \text{Depreciation} + \cancel{\text{Advertisement}} \cancel{+ \text{Other indirect}}]}{\text{Net sales}} \times 100$

$\Rightarrow \frac{[22,22,000 + 12,00,000 + 289] - [9222 + 10,00,000 + 2890]}{22,22,000} \times 100$

$\frac{[34,22,289 - 1009,222 + 2890]}{2222000} \times 100$

$$\Rightarrow \frac{[34,22,289 - 10,12,112]}{22,22,000} \times 100$$

$$\Rightarrow \frac{24,10,177}{22,22,000} \times 100$$

$\boxed{\Rightarrow 108.46\%}$

$\Rightarrow \boxed{108.46\%}$

Conclusion / Observation :- The quick ratio has to be 1:1, ratio is very low which is 0.015 it means company is unable to pay its immediate expenditure or liability.

Numerical 11 :-

Q Vedant limited has given following data :- Calculate current ratio, quick ratio & profit ratio for year 2021 & 2022.

Particulars	2021	2022
Other current Liabilities	49,000	49,000
Advertisement Expenses	1000	2,000
Depreciation	10,00,000	1,000
Sales	29,00,000	49,00,000
Machinary	4,00,000	14,00,000
Closing Stock	95,000	5,000
Purchases	8,00,000	28,00,000
Cash & Bank	12,000	13,000
Prepaid Expenses	5,000	0
Bank Overdraft ~~Cash & Bank~~	0	95,000
~~Prepaid~~ Patent	1,00,000	95,000
Opening Stock	1,00,000	95,000
Carriage	4,000	6,000

for Year 2021 :-

(1) Current Assets ⇒ Closing Stock + Cash and Bank + Prepaid Expenses
⇒ 95,000 + 12,000 + 5,000
⇒ 1,12,000

Current Liabilities ⇒ Bank overdraft + other current liabilities
⇒ 49,000

$\therefore$ Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{1,12,000}{49,000} = \boxed{2.29}$

Quick Ratio $= \dfrac{(\text{Current assets} - \text{closing stock} - \text{Prepaid expenses})}{(\text{Current liabilities} - \text{Bank Overdraft})}$

$= \dfrac{(1,12,000 - 95,000 - 5,000)}{(49,000 - 0)} = \dfrac{12,000}{49,000}$

Quick Ratio $= \boxed{0.24}$

Net Profit ~~Ratio~~ = (Sales + closing stock) − (Adv exp + depreciation + opening stock + carriage + Purchases)

$= (29,00,000 + 95,000) - (1,000 + 1,00,000 + 1,00,000 + 4,000 + 8,00,000)$

$\boxed{= 19,90,000}$

$\therefore$ Net profit Ratio $= \dfrac{\text{Net profit}}{\text{Net Sales}} \times 100 = \dfrac{19,90,000}{29,00,000} \times 100 = 68.62\%$.

for Yr 2022

Current Ratio $= \dfrac{5,000 + 13,000 + 0}{95,000 + 49,000} = \dfrac{18,000}{1,44,000} = 0.125$

Quick Ratio :- $\dfrac{18,000 - 5,000 - 0}{1,44,000 - \cancel{49,000} - 95,000} = \dfrac{13,000}{\cancel{54,000}\ 95,000} = \dfrac{13,000}{49,000} =$

Net Profit Ratio $= (49,00,000 + 5,000) - (2,000 + 1,000 + 95,000 + 6,000 + 28,00,000) = 0.27$

$= 20,01,000$

Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Net Sales}} \times 100 = \dfrac{20,01,000}{49,00,000} = 40.84\%$.

Case study - 9

Q Z limited is planning to purchase various types of machinery from various options. They are confuse about which method they should select among 3-4 well known methods ie, ~~not~~ net present value, Internal rate of return method & payback method. Kindly guide them with your expert knowledge.

→ Capital Budgetting is a tool where we can get idea about which fix asset to be purchased from various options, there are different methods of capital budgetting which assist to take a decision, these methods are :-

① Net Present Value - Method takes under consideration, comparision of cash inflow & cash outflow, where future cash inflow are converted into present cash inflow using discounting factor or inflation rate. If inflows are more than outflows, they will accept the proposal & among all the proposals giving profit, then the proposal which highest profit is to be accepted.

② Pay Back Method - We ignore time value of money ie. discounting factor & concentrate on break even point where earlier the recovery of cash outflow will be the best option but this method is not preffered much as inflation rate or discounting factor is ignored.

③ Internal Rate of Return (IRR) :- We try to understand inflation rate upto each level, we can accept inflation, then they try to understand upto what level of inflation company can sustain ie, No loss for the given project.

* Case Study - 10

Q Zennet limited is a one directed company controlled by Mr Z. This company is the first year of establishment, and it is in the field of fintech. During first three quaters of his establishment, there sales are grown 2% every month. There is a good scope for their company to expand but the company lack funds. As an expert consultant, kindly guide them the various resources which they can generate for upcoming 3-4 years which will meet their requirements

-) Mr Zen can get funds from Angel Investors
→ Government schemes like PMMY (Pradhan Mantri Mudra Yojana) where he can get loan upto 10 lakhs.
→ MSME loan upto Rs 10 lakhs - Rs 1 Crore.
→ He can go for short term financing like Bank Overdraft which can be availed by a bank account holder with a bank.
→ He can raise funds through Crowd funding.
→ He can get Bank Loans easily from HDFC, ICICI, Bjaj finserv, Tata Capital, Kotak Mahindra, etc. ranging from 15% to 21%.
→ He may consider to convert this sole ~~property~~ propartnership into a partnership.

* Small Points :-
- Loan - Bank Loan
  - Bank Overdraft, ~~Govt~~
- Govt Schemes - PMMY
- One director company into partnership
- Allow more people in company
- Ventrue capital.

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★ Seed funding :-

→ Debt Equity Ratio –

- Debt Equity Ratio takes under consideration comparison of owned mon[ey] and borrowed money. Debt ~~money~~ means long term loan taken which is compared with owned money. Owned money includes equity shared capital preferential capital and all kind of reserves.
- Generally any financial organisation while sanctioning the loan do look into this ratio maximum loan can be sanctioned is twice of owned money. If already capital structure shows twice loan then loan may not be sanctioned.

Q Numerical 12 :- [Calculate Debt Equity Ratio]

Equity Share Capital	7,00,000	Bonds	2,00,000
Reference Share Capital	3,00,000	Bank Overdraft	2,50,000
Reserve	2,00,000	Machinery	2,00,000
Bank Loan	6,00,000	Cash & Bank	1,20,000

X { ~~Debt Equity Ratio~~ $\Rightarrow \cancel{\frac{\text{Debt}}{\text{Equity}}} = \cancel{\frac{[\text{Equity Share Capi} + \text{Reference SC} + \text{Reserve}]}{[\text{Bank loan} + \text{Bonds}]}}$

$$= \frac{[7,00,000 + 3,00,000 + 2,00,000]}{[6,00,000 + 2,00,000]} = \left[\frac{12,00,000}{8,00,000}\right]$$

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{[\text{Bank Loan} + \text{Bonds}]}{[\text{Equity Share Capi} + \text{RSC} + \text{Reserve}]}$$

$$= \frac{8,00,000}{12,00,000} = 0.6 : 1$$

Double of Equity

∴ Loan given is 8,00,000/- Max, they have to give 24,00,000 i.e, extra Rs 16,00,000 can be availed.

Numerical 13 - W limited has provided you financial Extract of last 3 years. On the basis of same, they wish to understand how much amount of loan they can raise, Kindly guide them

Particulars	2019	2020	2021
Machinery	4,00,000	5,00,000	6,00,000
Cash	1,000	2,000	9,000
Equity Share Capital	22,00,000	21,90,000	27,00,000
Reference S C	11,01,000	12,02,000	6,99,000
Reserve	40,000	60,000	3,00,000
Bank Loan	9,90,000	14,40,000	18,80,000
Bank Overdraft	1,00,000	1,00,000	1,00,000

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \left[\frac{\text{Bank Loan}}{\text{Equity Share Capital + Reference SC + Reserve}}\right]$$

$$2019 \Rightarrow \left[\frac{9,90,000}{22,00,000 + 11,01,000 + 40,000}\right] = \left[\frac{9,90,000}{33,41,000}\right] = \boxed{0.296:1}$$

$$2020 \Rightarrow \left[\frac{14,40,000}{21,90,000 + 12,02,000 + 60,000}\right] = \left[\frac{14,40,000}{34,52,000}\right] = \boxed{0.417:1}$$

$$2021 \Rightarrow \left[\frac{18,80,000}{27,00,000 + 6,99,000 + 3,00,000}\right] = \left[\frac{18,80,000}{36,99,000}\right] = \boxed{0.508:1}$$

2019 → Loan given is Rs 9,90,000; Max they can give is Rs 66,82,000 ie Extra Rs - 56,92,000

Conclusion :- Every year he has to take loan
- Looking at debt equity ratio of last 3 years, Company has not utilized maximum capacity of loan generation. As these ratios indicates amount of loan taken is lesser

than owned capital every year. So if a company wish to generate borrowed fundings then they can easily generate these funds using banking option of NBFC. It is to be noted that Debt Equity Ratio is one of the tool of Assesment and not the final option because if the Industry is not performing well or there is down trend in sales more than proportionality or such issues are there then financial institution may deny the same.

15/12/22 Case study 11 :-

Mr Yash is the owner of one directed company where he invested 50 Lakhs as his own money and taken 50 Lakhs loan at 7% rate of interest. His company just completed 3 years and company is not eligible to offer Bonds, debentors IPO, FPO etc. If they want to expand their business activity, they require around 80 Lakh rupees of loan for the same they want your expert knowledge, also company is interested to understand on what amount they have to pay incometax as their sales are subject to fix cost & variable cost.

As his company completed 3 years only, comparing his network, the turnover of company may be below par for various options like IPO, bonds & Debentures which are easy ways of raising funds. As we can see his owned & borrowed capital is same, so he can still avail/get more loan as per debt equity ratio which is another 50,00,000 (owned capital 50,00,000; borrowed capital → 1,00,000) Any bank or NBFC can provide such loan and remaining 30,00,000. He can generate through short term security like Tregery Bill (T-Bills), Personal loans, Privat lenders & even loan against FD, if available.

Regards to payment of tax, tax is paid as follows,
Sales - variable cost - fix Cost = EBIT - Interest Paid = EBD/PBT
= ~~EBD/PBT~~

On which he will pay tax but if he has taken ~~away~~ any scheme benefit understartups, or MSME, he may get more funds under PMMY scheme or even other tax benefits Concession will be more if his business activity is under ACZ/FTZ/EOU

ACZ - Agro-Climatic Zone FTZ - Free Trade Zone
EOU - Export Oriented Undertaking

- Even he can generate funds through angel Investors & cloud fundings.

- Numerical 14 :- Company have given following financial structure on basis of same calculate current ratio & debt equity ratio and provide detail Analysis.

Particulars	2020	2021	2022
Equity Capital	47,00,000	Increased by 10%	Decreased by 2%
Reserve	5,00,000	Decreased by 1%	Increased by 10%
Bank Loan (9%) for 700days	8,00,000	7,00,000	9,00,000
Long term bonds	6,00,000	7,00,000	11,00,000
Prefferencial Capital	2,00,000	3,00,000	4,00,000
Cash & Bank	9,00,000	10,00,000	11,00,000
Closing Stock	1,00,000	2,00,000	3,00,000
Bank Overdraft	4,00,000	5,00,000	6,00,000
Creditors	7,00,000	8,00,000	9,00,000

For year 2020

- Current Ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

$= \frac{\text{Closing Stock + Cash \& Bank}}{\text{Bank Overdraft + Creditors}}$

$= \frac{9,00,000 + 1,00,000}{4,00,000 + 7,00,000}$

$= \frac{10,00,000}{11,00,000}$

$\boxed{\text{Current Ratio} = 0.90:1}$

Debt Equity Ratio = $\frac{\text{Debt}}{\text{Equity}} = \cancel{8,00,000 + 6,00,000}$

$= \frac{\text{Bank loan + Long term bonds}}{\text{Equity capital + Reserve + Prefferencial Capital}}$

$= \frac{8,00,000 + 6,00,000}{47,00,000 + 5,00,000 + 2,00,000}$

Debt Equity Ratio $= \frac{14,00,000}{54,00,000} = \boxed{0.259:1}$

For year 2021

- Current Ratio ⇒ $\frac{\text{Current Assets}}{\text{Current liabilities}} = \frac{2,00,000 + 10,00,000}{5,00,000 + 8,00,000}$

$= \frac{12,00,000}{13,00,000} = \boxed{0.923:1}$

- Debt Equity Ratio ⇒ $\frac{\text{Debt}}{\text{Equity}} = \frac{7,00,000 + 7,00,000}{51,70,000 + 4,95,000 + 3,00,000}$

$= \frac{14,00,000}{59,65,000} = \boxed{0.234:1}$

For Year 2022

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3,00,000 + 11,00,000}{6,00,000 + 9,00,000}$$

$$= \frac{14,00,000}{15,00,000} = \boxed{0.933 : 1}$$

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{9,00,000 + 11,00,000}{50,66,400 + 5,44,500 + 4,00,000}$$

$$= \frac{20,00,000}{\cancel{60,10,900}} = \frac{20,00,000}{60,11,100}$$

$$= \boxed{0.332 : 1}$$

16/12/22 **Break Even Analysis :-**

Any organisation with its startups or comes under MSME generally faces losses in first stage of their business. These generally face losses in first stage of their business. These losses can be extended upto 3 years. and after that, company atleast try to earn some profit or their target is achieving break even point. This break even point has to be checked after payment of tax. It is to be noted that in case of losses before tax, company won't be paying any kind of tax. For eg - Earning before tax => - 10,000/- then Income tax => 0

Numerical 15 :-

Following is the data of donald limited, calculate their profit after tax & provide your conclusion.

Particulars	2021	2022
Sales	8,00,000	12,00,000
Variable Cost	25%	27%
Fixed Cost	5,00,000	7,00,000
Bank Loan Taken (9%)	40,00,000	40,00,000
Incometax Rate (30%)	30%	30%

Conclusion - Company has loss in first 2 years, ie Rs 2,60,000 and 1,84,000

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Conclusion :- Company has loss in first 2yrs, ie Rs 2,60,000 & 1,84,000

Q Company has Sales - 2,50,000
Income tax rate - 30%.
Loan Taken - 9,00,000 (at 8%.)
Variable Cost 30,000 (calculated) (12%.) - of sales
Fixed Cost - 2,00,000

Weather company is achieving break even point ; if not how much sales they should make to have break even point.

loss of 52,000
Applying reverse mechanism :-

on board explaining reverse mechanism

Sales	2,50,000	309,090 0
Less variable cost	1,30,000	37,090
Contribution	2,20,000	2,72,000 (4)
Fixed cost	2,00,000	2,00,000 (3)
EBIT	20,000	72,000 (2)
Int Paid	72,000	72,000 (1)
PBT	52,000	0
Tax 25%	Not applicable.	

Q Company has following financial information for first two years of their business on the basis of that profits after tax and if there are losses in first two yrs, Calculate break even point for yr 3.

Particulars	yr 1	yr 2	loss in yr1 profit ~~loss~~ in yr 2
Sales [Units]	10,000	20,000	
Selling price per unit	20/-	25/-	
Variable cost	30%	30%	
Fixed Cost	3,00,000	3,00,000	
Bank Loan taken (9%)	4,00,000	4,00,000	
Income Tax	30%	30%	

	yr 1	yr 2
Sales	10,000 × 20	20,000 × 25
Sales	(2,00,000)	5,00,000
Variable Cost (of Sales)	(60,000)	(150,000)
(Sales - Variable cost) Contributions	1,40,000	3,50,000
Less: fixed Cost	(3,00,000)	(3,00,000)
EBIT	(1,60,000) ₹	50,000
Less: Interest Paid	(36,000)	(36,000)
PBT	(1,96,000)	14,000
Less: Income Tax	0	(4,200)
PAT		9,800

EBIT = Contri - fixed cost

PBT = EBIT - Less: Interest Paid

Interest Rat :- Bank loan taken (9%)

↳ minus with 4,00,000

Break even point :- for yr 3 :-

Particulars	Yr 3
Sales	4,80,000
Less : Variable Cost	(1,44,000)
Contribution	3,36,000
Less : fixed cost	(3,00,000)
EBIT	36,000
Less :- Interest Paid	(36,000)
PBT	0

PBT is always 0

Sales ⇒ 13,00,000 × $\frac{100}{88}$

- Company has sales of 96,000 units at Rs 12/- per unit
  variable cost - 12 %
  fixed cost - 9,00,000
  Loan Taken - 40,00,000 at (10%) (40 Lakhs)
  What will be the profit of company if
  Income tax rate - 40 % ; If there is any loss. How much units they should sell to achieve break even point; if selling price is constant ie Rs 12

Sales	11,52,000
Variable Cost	(1,38,240)
Contributions	10,13,760
Less : Fixed Cost	(9,00,000)
EBIT	1,13,760
Less : Interest Rate	(4,00,000)
PBT	(2,86,240)
~~Income Tax~~	~~(1,14,496)~~

loss

Particulars	
Sales	14,77,273
Less : Variable Cost	1,77,273
Contribution	13,00,000
Less : fixed Cost	9,00,000
EBIT	4,00,000
Less Interest Paid	(4,00,000)
PBT	0

units they should sell
→ $\frac{14,77,273}{12}$ ⇒ 1,23,106 units

Tesday - Assignment
2728 quiz

whatsapp grp.
↓

A Case study :- On a Re-look at Break Even Analysis

- Innovative Ventures Private Limited is a company comprises of cosmetics and toiletries.

- They have a simple and effective business model which is been followed over these past years; which contains

① Surveys to Identify the "gaps" that exists in the cosmetics & toiletries and solve the problem of customers that they face problems

②

- These marketing & operating strategies are very effective.
- Their last 2 product launches failed to fetch the desired result.
- Due to this experience - adverse impact on their bottomline
- No final outcome - No productivity of such investments.

- Mr Dasgupta (CEO) - another fresh product launch ~~at~~ at attractive glance.

- Understood that from past experiences that an investment proposal looks very 'rosy'.
- Ex - understands & appreciates once a capital investment fails, to deliver the desired results.

- Ms Bose ~~was consu~~ has already consulted on worst case" scenario, Mr Dasgupta studied.
-

(HW)

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- Innovative Ventures Private Limited :- Cosmetics & Toiletries
(Manufacturing Company)

- Has a effective business mode which includes surveys with customers & innovate, Design, develop & launch the product

- These marketing strategies are effective
- Their last 2 products ~~failed~~ failed (launch) that impacted their bottom line & operating cash flow.

- Mr Dasgupta launched a new product which was very attractive at the first glance. (learnt from past experience)

- Ms. Bose (Finance Manager) developed a "worst case" scenario that actually required in order to counter the "over-estimation" Requested by DasGupta by recalling his failures.

- Ms Bose opinioned about "working capital investment" with some reasons :-
  - Company has to operate on "cash & carry" basis.
  - New product concerned, production should be scheduled only orders received from perspective customers.

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★ Topic:- Cash Budgetting

- As a part of other Budgetting techniques, cash budget is used to understand how much amount of cash available at the end of each month. This cash available will give us idea about chances of overd, Company has to take incase of there is cash deficits. For a business these future projections are quite vital. Generally, this cash budget is made for 3 months or 6 months for projection purpose. If there is extra cash available, then that can be invested in other options. The most important point of cash budgetting is Cash budget is develop on cash basis transaction. ~~Meaning~~ meaning :- if amount of 5 Lakh Sales is performed by company during the month, where 20% amount is received immediately & remaining after month, then, only 20% amount will be returned, ~~in the~~ Calculation of that month & ~~rest~~ remained amount will be returned in ~~so~~ next month

Cash Budget

For the month of Jan' March 2022

Particulars	January	February	March
Opening Balance			
1) Cash Sale			
2) Credit Sale			
3) Other Income			
Total (A)			
1) Credit Income			
2) Cash Income			
3) other budgetting			
Total (B)			
Net (A-B)			

~~Xyz~~ Limited has provided you following data as per projections. Cal Cash budget for them & advise whether they should apply for bank overdraft facility

Opening Cash Balance (Jan) — 1,000
Amount Received (Jan) for sales made in last yr 40,000
Company made sale of Rs 1,00,000 (in Jan)
2,00,000 (in Feb)
3,00,000 (in Mar) out of which each time they received 1 Lakh Rs in same month & remaining amount in next month as per predictions.
Other Income Predicted to be 2000/- per month.
Company has to pay 1,00,000 in Jan for purchases made in last yr. Company estimated 70,000 purchases out of which they will pay 10% in same month & remaining in next month.
Other Expenses predicted to be 12,000 which are paid in same month.

Particulars	January	February	March
Opening Balance	1000	24,000	44,000
1) Cash Sale	1,00,000	1,00,000	1,00,000
2) Credit Sale	40,000		1,00,000 (Feb)
3) Other Income	~~20,000~~ 2,000	2,000	2,000
Total A	1,43,000	1,26,000	2,46,000
1) Credit Income	1,00,000	63,000	63,000
2) Cash Income	7,000	7,000	7,000
3) Other budgetting	12,000	12,000	12,000
Total (B)	1,19,000	82,000	82,000
Net (A−B)	24,000	44,000	1,64,000

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Q Right Ans OCQ limited has no knowledge of finance, they have approach you for preparation of cash budget, kindly guide them

- January opening balance estimated to be 8,000/-
- Amount received in Jan for sales made in last yr 1,000/-
- Sales of January are 5 lakh, amount received 10% in same month & remaining in next month.
- Sales for feb 4,00,000. Amount received 20% in same month & remaining in next month.
- For march, there are 100% credit sales, Rs 6,00,000, amount received after a month.
- Purchases are 2,00,000 each month, where 20% amount amount paid in same month and remaining next month each time.
- Other expenses are 47,000 paid in same month

Particulars	January	February	March
Opening Balance	8,000	(28,000)	2,55,000
1) Cash Sale	50,000 ~~5,00,000~~	80,000	~~5,50,000~~
2) Credit Sales	1,000	4,50,000	3,20,000
3) Other Income	—	—	—
Total (A)	59,000	5,02,000	5,75000
4) Credit Income	~~2,00,000~~	1,60,000	1,60,000
2) Cash Income	40,000 ~~4,00,000~~	40,000 ~~4,00,000~~	40,000 ~~4,00,000~~
3) Other budgitting	47,000	47,000	47,000
Total (B)	87,000	2,47,000	2,47,000
Net (A-B)	(28,000)	2,55,000	3,28,000

36 + (265)   -36 - 265

Dinesh limited has provided you a data, prepare projected cash project :-

- opening balance of (Jan) estaimated to be (20,000)
- Sales for Jan - Feb - Mar - 99,000 - ~~[illegible]~~ 1,09,000 - 2,09,000
- Cash Sales - 30% each month
- Remaining amount received equal proportion in next 2 months.
- Other income is estimated to be 11,000 - 12,000 - 13,000 for 3 months
- Salary paid for each month to staff 49,000 - 59,000, 69000
- Purchases are ~~[illegible]~~ 67,000 - 1,67,000 - 2,00,000
- 90% amount paid in same month & reamaining after a month each time. Wheather company required bank overdraft

Particulars	Jan	Feb (48,600)	March
Opening Balance	20,000	~~[illegible]~~	(1,85,250)
1) Cash Sales	~~49,000~~ 29,700	32,700	62,700
2) Credit Sales		34650 (Jan)	34650 + 38150 (Jan)
3) Other Income	11,000	12,000	13,000
Total (A)	60,700	30,450	(36,750)
1) Credit Income		6,700	16,700
2) Cash Income	60 300	~~1,50,800~~	~~[illegible]~~ 1,80,000
3) Other budgetting	~~[illegible]~~ 49,000	~~[illegible]~~ 59,000	~~[illegible]~~ 69,000
Total (B)	1,09,300	2,16,000	2,65,700
Net (A-B)	~~1,09,300~~ (48,600)	(1,85,250)	(-) 302,450

Jan ⇒ Cash sales 99,000, we received 30%.
29,700 / same for each month

remaining amount → 69300

34650 34650

Feb
$\frac{76,300}{2}$
↓
38 150

Tuesday 20/2/2022

Yash ltd. started his business activity in the field of E-Commerce. After 2 years, his business achieved break-even point, but he wish ~~to~~ to understand the financial performance of the company based on ratio analysis as well as how he can take new machines using only specific tool. Advise him ~~as~~ in details.

→ Capital Budgetting
→ Discounted Cash flow method:-
↳ The discounted cash flow technique calculates the cash inflow and outflow through the life of an asset.

→ Net present value (NPV) Value:-
→ In this technique the cash inflow that is expected at different periods of time is discounted at a particular rate.
→ The present values of the cash inflow are compared to the original investment.

→ Since the company has achieved break even point, so the company has no profit, no loss, Company may go for Capital Budgetting method;

→ It is the process of evaluating investments and huge expenses in order to obtain the best returns on investments.
– Obj - Finding the right sources of funds
- Capital expenditure control.

- Current Ratio, ~~Cap~~ Quick Equity Ratio, Debt Ratio

Tools :-

- Capital Budgetting → Traditional methods
  - Payback period
  - Accounting rate of return method

  → Discounted cash flow methods
  - Net present value method
  - Profitability index method
  - External rate of return.

- Ratio Analysis :-
  - → Break Even point
  - → Internal Rate of return (IRR)
  - → Debt Equity Ratio
  - → Current Ratio :- Company should have twice the assets as compared to current liability, if not, then the company won't be able to pay day to day expenditure.

☆ Keypoints

Liquidity Ratio.

- Take care of LR - Current Ratio & Quick Ratio
- Not need to calculate debt equity ratio. has :- Break even point
- Capital Budgetting :
  - → definition
  - → NPV
  - → Which machine provides profit
  - → IRR - How much inflation company can digest
  - → Pay back - No profit No loss

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Mr A. started his business activity in field of manufacturing steel products on very small scale. Now his company is allowed to receive ~~funding~~ funding under micro finance & land on special economic zone, the estimated cash budgets shows negative balance for upcoming 3 months. He has approached you to understand benefits of above said criteria & compliances if any.

Scheme for micro finance :- PMMY

- **Pradhan Mantri Mudra Yojana :-**
  - 10,00,000 ~~for~~ loan for small businesses at ~~very less~~ low rate of return
  -

- SEZ (Special Economic Zone)
  - ~~Obj~~ He can use Special Economic Zone to generate additional economic Activity.
  - Used to promotion of exports of goods & services
  - Promotion of investments from domestic and foreign sources, creation of employment opportunities along with the development of infrastructure facilities.

- The scale of operation of the business are at microlevel & for microlevel, he can take microfinance under PMMY scheme, which will help him to generate quick funds & various facilities, as per the scheme of government, he is also getting a land on special economic zone, There are various benefits of having land in special Economic Zone; especially Tax holidays for specific years, Concessions in water - electricity bill & many such benefits which will indirectly help his business to save the cost & earn better profit margins

- Regards to estimated losses, he can approach bank authorities, whereby, he can get, bank overdraft facility. By taking under considerations, his workplace at ~~AEZ~~ SEZ & assistance under PMMY scheme, he can easily get bank overdraft facility. So actually these 3 factors will boost his business in the future.

(we can also write PMMY scheme)

21/12/22

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* Physical Resources
(1) Hiring employees from rural Area.
(2) Keeping employees numbers as per demand, Providing them salary as per industry standard.
(3) Since it is a growing company, & has a huge demand in rural Area he should register company with trademark so that the competitors won't be able to take advantage.
(4) Create a ~~copyright~~ patent
(5)

* Intellectual Property.

Point (3)

(2) To expand his business, he can take loans from commercial bank & NBFC,
(3) Can opt for bonds & debentures
(4) Can apply for PMMY & other government Grants.
(5) He may go for valuation related to goodwill which will increase business value.
(6) He can provide ESOS / ESOP & better working conditions for his employees.

ESOS – Employees stock option Schemes.
ESOP – Employees Stock ~~option~~ Ownership Plan

22/12/22

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★ Ratio Analysis :-

- Study or analysis of the line items present in the financial statements of the company
- It can be used to check various factors of a business such as profitability, liquidity, solvency & efficiency of the company or business
- Mainly performed by external analysts as financial statements as the primary source of information for external analysts.
- Types of Ratio Analysis :- Liquidity Ratio, Solvency, Activity, Profitability

★ ~~Ammortization :-~~

22/12/22

Q Ajay limited has provided you following data on the basis of same, calculate at what amount Balance sheet is tallied

Capital = 20,00,000
Loan = 20,00,000
Creditors = 20,00,000
Machinery = 10,00,000
Premises = 10,00,000
Furniture = 10,00,000
Vehicles = 10,00,000
Bills Receivable = 10,00,000
Cash & Bank = 10,00,000

Things that can be converted into cash

Ans →

Liabilities	Rs	Assets	Rs.
Capital	20,00,000	Machinery	10,00,000
Loan	20,00000	Premises	10,00,000
Creditors	20,00,000	Furniture	10,00,000
		Vehicles	10,00,000
		Bills receivable	10,00,000
		Cash & Bank	10,00,000
	60,00,000		60,00,000

Machinery = 10, 00, 000
Life Stock = 10,00,000 — buffalows etc
furniture = 10,00,000
Patent = 10,00,000
Goodwill = 10,00,000
Copyright = 5,00,000
Trademark = 5,00,000
Debetors = 5,00,000
Bills receivable = 5,00,000
cash = 5,00,000
Bank = 5,00,000
Investment = 5,00,000
Closing stock = 5,00,000 — gowdowns
Equity ~~stock~~ capital = ~~4,00,000~~ 40,00,000
Preference Capital = 10,00,000
Reserve = 20,00,000
Creditors = 10,00,000 — 10 L
Bills Payable = 10,00,000

$$\begin{array}{r} 14 \\ +40 \\ \hline 54 \end{array}$$

final ans 90 L.

Liability	Rs	Assets	Rs
Equity Capital	40,00,000	Machinery	10,00,000
Preference Capital	10,00,000	Lifestock	10,00,000
Reserve	20,00,000	furniture	10,00,000
Creditors	10,00,000	Patent	10,00,000
Bills Payable	10,00,000	Goodwill	10,00,000
		Copyright	5,00,000
		Trademark	5,00,000
		~~Bills~~ Debetors	5,00,000
		Bills Receivable	5,00,000

Creditors — we take money
Debentures - Shares like ; we take money

Cash	5,00,000
Bank	5,00,000
Investment	5,00,000
closing stock	5,00,000

L	Capital =	47,00,000
L	Bonds	3,00,000
L	Debentures	10,00,000
L	Creditors	10,00,000
L	Outstanding Expenses	10,00,000
L	Bill payable	2,00,000
A	Premises	2,00,000
A	Furniture & fixtures	10,00,000
A	Machinery	20,00,000
A	Cash & Bank Balance	3,00,000

— given certificate & taken today

A Investment = 40,00,000
A Debetors = 7,00,000

Ans 82 L

Ans

Liability	Rs	Assets	RS
Bonds	3,00,000	Pre	2,00,000
Capital	47,00,000	F & F	10,00,000
Debentures	10,00,000	Machinery	20,00,000
Creditors	10,00,000	C & B	3,00,000
Out. Ex.	10,00,000	Investors	40,00,000
Bills Payable	2,00,000	Debetors	7,00,000
	82 L		82 L

Q What is Business Strategy ?
- It is an organizational master plan.
- ~~This plan is what management of the com~~
- ~~Its a plan what company develops & implements to achieve their goals~~
- It is ~~outh~~ outline of the strategy & decision that company must take to reach its overall objectives
- This helps different departments within a business to work together, ensuring their decisions supports the overall direction of organization.

- ~~Different~~
- Eg :- A company have a vision to become the cheapest supplier of a product in market :-
  Here managers need to negotiate with suppliers, reducing purchase costs.

- This is a tactical move taken towards achieving the set strategy.

- Types :- ① Organizational strategies - include corporate strategy
  ② Corporate Strategy - long term goals & obj are defined & other strategies cascade underneath & within.
  ③ Business Unit strategy - formulated at level of a particular business unit,
  ④ Functional strategy - improves the implementation of business & corporate strategies
  ⑤ Program - Level Strategy - strategy is developed & executed
  ⑥ Cost focus - competing based on price to ~~targ~~ target a narrow market.

23/12/22

Z limited is in the business of manufacturing of IT products recently they have getting only break even point in their business. As an expert, what kind of policies /stratgies they should use in order to survive in the business.

Strategies are various activities which are to be take care of, in this case it is an IT company & they are just getting break even point. We have to use different strategies in order to be successful. ~~This~~ These policies can be increasing the various services which are available, comparing the product cost & try to minimize it or if there is tense ~~competition~~ competition then they can even go for joint ~~[illegible]~~ venture, partnership in order to intack their business. Sometimes they have to even think of mergers or acquisitions to be more successful. Mergers can be with same tag of company or with new tag of company generally company apply for same type of companies mergers whereby they can even control competitors. In all such cases, we have plan B which works if original operations are not at par. Plan B is totally an alternative plan. If original plan fails. For eg - for this IT company the original strategy can be ~~[illegible]~~ digital marketing, free services, after sell support, etc. But if that fails, then Plan B should be ready which can be joint ventures, more capital introduction; appointment of skilled staff or removal of inefficient staff.

~~Acquisition~~
Strategies & Acquisition & links from grp of [23|12|22]
also on 22/12/22
Strategic :-
- Used to survive & grow

Case study :- [based on strategy]
Ajay limited is in the business of steel manufacturing products. The company was running successfully for last 20 years, but now as per various estimates, the growth of company & overall industry estimated a negative growth at - 30%. The management of company has approached you to use any specific theories which are part of strategic development. As an expert kindly guide them.

① ~~Pastel Analysis~~ Pestle Analysis
② ~~Swot Analysis~~ SWOT Analysis.

As company is declining, which can be part of industrial lifecycle. A specific analysis is important for the company. There are basically two analysis ~~Pestle~~ which can be useful for the survival of the company. ① Swot Analysis i.e. Strength, weaknesses, opportunities & threats. As a steel company, the strength of company will be making a product with the use of steel as a raw material. Weakness will be no idea about other industry for survival & growth. Opportunity can be enter into any sunshine industry & make a ~~impact~~ impact. Threats can be entering into industry where already giant competitors ~~can~~ have established their business activity. These ~~are~~ are just basic features or points management has to take care, but in addition to this ~~pestel~~ pestle Analysis is very important where

MOU - ~~Number~~ of Understanding memorandom

P stands for Political factors where company can go with stratigic alliance with the countries where nation has declared or sign MOU with them, Other way round if particular

About MOU

[How MOU is ~~to~~ helps (have benefits) if company signs MOU with you]

- Better Trade
- Various schemes & discounts
- Less taxes
- More Joint ventures

[India has MOU with]

- Russia - ~~oil~~ for oil
- Japan - for Financing
- France - for Defence
- UK - for better student exchange

country is declared as enemy country then it may restrict import & export. ~~Under~~

- E stands for Economical.
- S ~~Social~~ stands for Social
- T stands for ~~Technotical~~ Technological
- L stands for Legal
- E stands for Environmental

write remaining ~~get~~ points from ~~pestleanalysis.com~~ google [Toppr]

Date :
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~~Economical~~ -

[case study continue - have sent files to deeksha]

We go for plan B :-
- will survive
- Should have backup plan
- Helps for business grow.

[write about SWOT Analysis

★ New topic — About Plan B
→ Links provided in the group.

★ Acquisition :- [About Merger & Acquisition]
- Grow
- Sustain
- Survive
- Diversify

} Why we use mergers & acquisition ?

→ When there is no competitor, we merge with other companies in order to grow.

→ Taste will ~~st~~ change but the ecompany will grow.