→ Cost is exclusive of the profit.
↳ is the price incurred to the commodity

→ Price is inclusive of the profit

25/11/23

* Opportunity cost is the cost of 2nd best alternative foregone.

* If there is an increase in the output then there is an increase in the manufacturing cost.

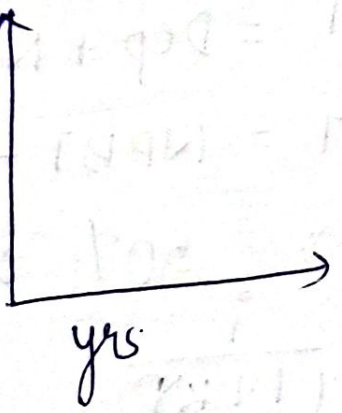
25/11/2023 UNIT-V : Capital Budgeting

→ Reduction in the value of an asset due to wear and tear is called depreciation.

* Net Profit + Depreciation = Cash

* Depreciation Cost = $\frac{\text{Cost of the asset} - \text{Salvage Value}}{\text{Estimated life of the asset}}$

(Straight line method of depreciation)



Fake PBP = $\frac{\text{Initial investment}}{\text{Average cash flows after tax}}$

* ~~ARR~~

* For even cash flows:

ΣPVCI: CFAT x AF (last year)

+ S.V x PVF

+ AWC x PVF.

ΣPVCO: Investment + AWC.

AWC → Average Working capital.

PVF: Present value factor.

CFAT → Cash flow after tax.

NPV: Net profit value = ΣPVCI − ΣPVCO.

>0 → Accept

<0 → Reject

PVCI → Present value cash in flow

PVCO → Present value cash outflow

* For uneven cash flows:

cumulative cash flow After Tax is (CCFAT) mandatory.

PBP → Pay Back Period.

Estimated PBP > Calculated PBP → Accept

else → Reject

* ARR: = $\frac{\text{Average Annual Net Profit}}{\text{Avg Investment}}$.

Avg investment: $\frac{1}{2}$ (Initial investment − salvage)

+ salvage value + AWC

Avg annual net profit: $\frac{\Sigma \text{NPAT}}{\text{No. of years}}$

13/12/2023

Even Cash flows (same flows)

Uneven Cash flows (diff. flows)

PBP — Initial Investment / Estimated Annual CFAT — CCFAT

ARR — Avg ANPAT / Avg Invest × 100 — Same

NPV — ΣPVCI: CFAT × AF + SV × PVF + AWC × PF — Calculate ΣCFAT_i × PVF_i

ΣPVCO: Investment + AWC

NPV: ΣPVCI − ΣPVCO

PI — ΣPVCI / ΣPVCO — Same

IRR:

13/12/2023

UNIT–III

FINANCIAL STATEMENT: (Theory)

Journal
Ledger
Trial Balance

→ Types of Accounts:

1) Real Account (Assets)
   - ↳ Debit: What comes in & Credit: what goes out.

2) Personal Account
   - ↳ Natural (or) Artificial persons.
     - ↓ Organisations & Institutions
   - ↳ Debit: the receiver
   - ↳ Credit: the giver

3) Nominal Accounts: (Expenses; Loses & Income Gains)
   - ↳ Debit all expenses & loses
   - ↳ Credit all Incomes & Gains

16/12/2023

→ Trading & profit and loss account (for the year ending)
   - ↳ to record all the credits & debits

Dr (Debit) | Cr (Credit)

Particulars	Amount (in Rs)	Particulars	Amount (in Rs)
To Revenue direct expenses		By: Sales	
		By: Closing stock	
Gross profit- c/d to profit & loss		By: Gross loss	
Revenue Indirect expenses		By: Gross profit	
		By: Profit/loss	

Both the values must be same.

Net profit/loss is carried to capital gain.

* Balance Sheet: → Money or income Status of the company as on (some date).

Balance Sheet of company as on date

Liabilities	Amount (in Rs)	Assets	Amount (in Rs)

→ Debentures Debt
→ Preference Shares
→ Equity shares
→ Retained earnings ⟹ to pay the dividend. (company retains certain amount of profit)

* Share: Part of the capital.
  - → Preference
  - → Equity

  ** Amount is given only when there are profits.

* For equity share holders: if the profits are more; preference shareholders get the invested money but equity shareholders get the remaining amount in the profits

And complete amount of preference shareholders is returned to them in priority and balance is given to the equity share holders.

→ Equity shareholders have the right to vote for the policies in a given company.

* → Share value changes according to the profits of the company.

16/12/2023

RATIOS:

→ Liquidity Ratio:

* Current Ratio
* Quick assets ratio
* Absolute liquid assets ratio.

Current asset
Current liabilities
Fixed assets.
Long term liabilities

→ current assets: converted to cash in one yr.
↳ directly done; no external efforts.

* Bank overdraft (taking more money from the bank other than balance) CL

* Good will CA
* Land & buildings FA
* Cash in hand CA
* Closing stock CA
* Sundry debtors CA
* Bills payable CL
* Sundry creditors CL
* Bills receivable CA
* Machinery FA
* Bank loan (Short term)
* Preference capital
* Equity Capital
* Debenture Capital
* Marketable securities

→ Gross profit ⟹ Trading Account.
→ Indirect expenses are seen in P&L Account.
→ Cost of goods sold = Sales - Gross Profit

(OR)

= opening stock + purchases + direct expenses - closing stock.

→ Operating Cost = Cost of goods sold + Administrative expenses + selling expenses.

→ Operating profit = Net profit + non-operating expenses - non operating incomes.

** Capital is paid ~~at~~ only when the company is closed.

→ Debtors turnover ratio:

$$\frac{\text{Net credit sales}}{\text{Average debtors}} = \text{debtors velocity}$$

Avg debtors: $\frac{\text{Opening debtors} + \text{closing debtors} + \text{bills receivable}}{2}$

→ Creditors turnover ratio:

$$\frac{\text{Net credit purchases}}{\text{Average creditors}}$$

opening or closing

Average creditors = Creditors + bills payable

→ Liquidity: Position to pay the short term obligations.

→ Solvency: Position to pay the long term obligations

* Debt to equity ratio:

$$\frac{\text{Long term debt}}{\text{Shareholders fund}}$$

* Interest Coverage ratio

$$= \frac{EBTI}{\text{Interest}}$$

EBIT = Net profit + Interest

* → Closing creditors = Sundry creditors

→ Operating Ratio:

$$\frac{\text{Cost of goods sold + Other operating expenses}}{\text{Net Sales}} \times 100$$

⇒ High operating ratio ⇒ unfavourable.

→ Operating profit ratio:

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

$$= 100 - \text{Operating Ratio}.$$

→ Gross Profit Margin

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

→ Net Profit Margin:

$$= \frac{\text{Net Profit after taxes}}{\text{Net Sales}} \times 100.$$

* Interest Coverage Ratio:

→ Interest Coverage Ratio = EBIT / Interest expense

EBIT → Earnings before interest & tax

→ Debt to Assets Ratio = Debt / Assets

→ Equity to Assets Ratio = $\frac{\text{Total shareholder equity}}{\text{Total assets}}$.

→ Debt-to-Equity ratio = $\frac{\text{Debt}}{\text{Outstanding Equity}}$

→ Financial Leverage Ratio = $\frac{\text{Total Assets}}{\text{Total equity}}$.

→ Current Ratio: Current Assets / Current liabilities

(2:1) → ideal

→ Quick Ratio / Acid Test Ratio:

(1:1) → ideal. = $\frac{\text{Quick Assets}}{\text{Current Liabilities (Quick)}}$.

Returns before depreciation and before tax = CFBT

Returns after depreciation and before tax = NPBT

Returns before depreciation and after tax = CFAT.

Returns after depreciation and after tax = NPAT.

Earnings before taxes = NPBT

Earnings after taxes = NPAT.

Earnings before depreciation & before tax = CFBT.

Earnings after depreciation & after tax = NPAT.

Earnings after depreciation & before tax = NPBT

Earnings before depreciation & after tax = CFAT.

→ Return on Investment

(1) Return on Assets = $\frac{\text{Net Profit after taxes}}{\text{Total assets}} \times 100$

(2) Return on capital employed

$= \frac{\text{Net Profit after taxes}}{\text{Capital Employed}} \times 100$

(3) Return on Shareholder's Equity

$= \frac{\text{Net profit after taxes}}{\text{Shareholder's Equity}} \times 100$