TOPIC

DISCOUNTING METHODS ⇒

* Actual Value of outflow → PVOF

① Net Present Value = "PVIF − PVOF" ⇒ Best Method for Capital Investment

eg:- Project A ⇒ outflow = 10,00,000,

Y	CFAT	PVAF@10%	PVIF
1-5Y	3,00,000 ×	3.79 =	11,37,000

NPV = PVIF − PVOF
= 11,37,000 − 10,00,000
NPV ⇒ + 1,37,000

Select if only 1 Project is Available

Discounting Rate (Interest Rate) (Expected Rate) ⇒ 10%

1/1+r ⇒ 1/1·10 ⇐ 1/1+0.10

Project B
outflow = 10,00,000
Mutually exclusive

Y	CFAT	PVF	PV
= 1	5L ×	0.909	4,54,500
= 2	4L ×	0.826	3,30,400
= 3	3L ×	0.751	2,25,300
= 4	2L ×	0.683	1,36,600
= 5	1L ×	0.621	62,100
		PVIF ⇒	12,09,000

NPV_B = 12,09,000 − (10,00,000)
NPV +2,09,000

Select Project B
NPV_A < NPV_B

Short cut:

⇒ Same Cash flow :- 1/1·10 = m+ (1Y) = m+ (2Y) = m+ (3Y) = m+ (4Y) = m+ (5Y) MRC 3·79

⇒ When diff. Cash flow :- 5L/1·10 = m+ | 4L = 2 times m+ | 3L = 3 times m+ | 2L = 4 time m+ | 1L = 5 times m+

12,09,000 ⇐ MRC

TOPIC

② Profitability Index Method ⇒ "Ranking Method" ⇒

By using P.I we can Select multiple Project's

⇓

Best Method for multiple Project Selection

↳ $\frac{PVIF}{PVOF} \geq 1 \Rightarrow$ Select

eg:-1 Project A

⇒ PVIF = 11,37,000

⇒ PVOF = 10,00,000

P.Index = $\frac{11,37,000}{10,00,000}$ = 1.14 times

if Single Project ⇒ Select

Project B

⇒ PVIF = 12,09,000

⇒ PVOF = 10,00,000

P.Index = $\frac{12,09,000}{10,00,000}$ = 1.21 times

Rank ⇒ I = B, II = A ⇐ $P_{I_B} > P_{I_A}$

eg:-

Projects →	A	B	C	D	E	F
P.Index	1.2	0.9	1.9	1.7	1.4	1.1
Rank ⇒	IV	Reject ⇓ P.I<1	I	II	III	V

CDEAF

TOPIC

Golden Rule: D.R ↓ ↑ PV ↑ ↓

(3) Internal Rate of Return IRR ⇒ Decision making ⇒ IRR > Ko ⇒ Select

IRR ⇓ Disc. Rate

eg:- 15·1· > 12·1· = Select
12·1· < 15·1· = Reject

→ Rate at which NPV = 0
→ Rate at which PVIF = PVOF
→ Rate at which PVIF − PVOF = 0
→ Rate at which P.Index = 1 = PVIF / PVOF

Compute IRR through Trial & Error
use formula of Interpolation

$$LR + \frac{PV_{LR} - \text{outflow}}{PV_{LR} - PV_{HR}} \times (HR - LR)$$

eg:- Project A ⇒ outflow = 10,00,000
Inflow 1-5y = 3,00,000

10·1· ⇒	3,00,000 × 3·79 =	11,37,000
12·1· ⇒	3,00,000 × 3·60 =	10,80,000
14·1·LR ⇒	3,00,000 × 3·43 =	10,29,000
16·1·HR ⇒	3,00,000 × 8·27 =	9,81,000

Given that:

PVAF	Value
10·1·	3·79
12·1·	3·60
14·1·	3·43
16·1·	3·27

* Cost of capital = 12·1· (Imp.)

$$\Rightarrow 14 + \frac{10,29,000 - 10,00,000}{10,29,000 - 9,81,000}(16-14) = \underset{IRR}{15·21\%} > 12·1· \Rightarrow \text{Select}$$

Project B ⇒ IRR 14·1·
↳ 14·1· > 12·1·
↳ Select

In case of mutually exclusive choose Project A

$IRR_A > IRR_B$
15·21·1· > 14·1·

TOPIC

Term loan

⇒ Fixed Period Repay
⇒ Long term loan

Asset creation

Fixed Capital loan

Long Period

Conservative Approach

Day to day Exp. (Routine Exp)

Working Capital loan

Short time Period

Aggressive Approach

LR ——— HR
14-1. ——— 16-1.

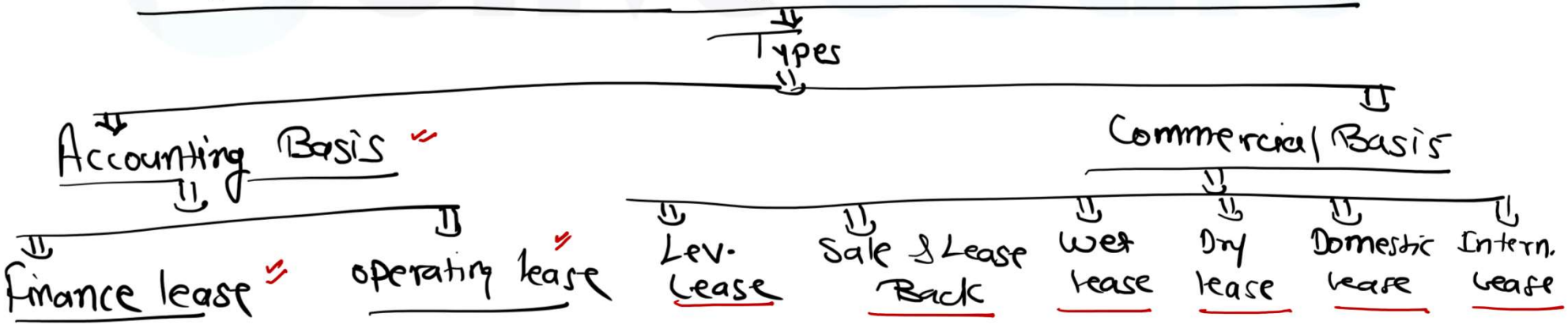
a) 11-1. ✗
b) 13-1. ✗
c) 15-1.
d) 17-1. ✗

TOPIC

"Asset taken on Rent for Commercial Purpose" ⇒ lease Agreement

Unit 8

Equipment Leasing/ Lease Financing



TOPIC

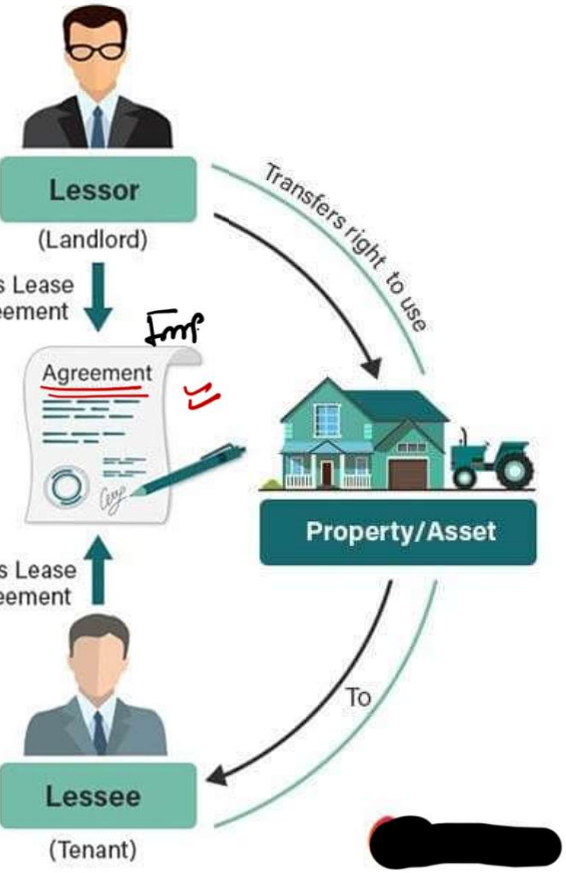
Lease ⇒ Accounting = ⇒ AS-19
⇒ IND-AS-116

Lessor → Right to use → Lessee

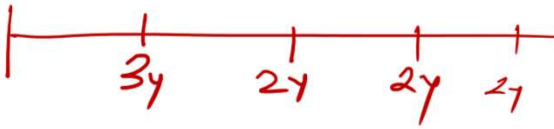
Owner ⇓
- PIL ⇓ Rent ⇓ Income ⇓ CR.
- BLS ⇓ Asset ⇓ Value

Tenant ⇓
- PIL ⇓ Rent ⇓ Exp ⇓ DR.
- BLS ⇓ Asset ⇓ Right to use

Lease Rent ⇐ Makes Lease Payment to

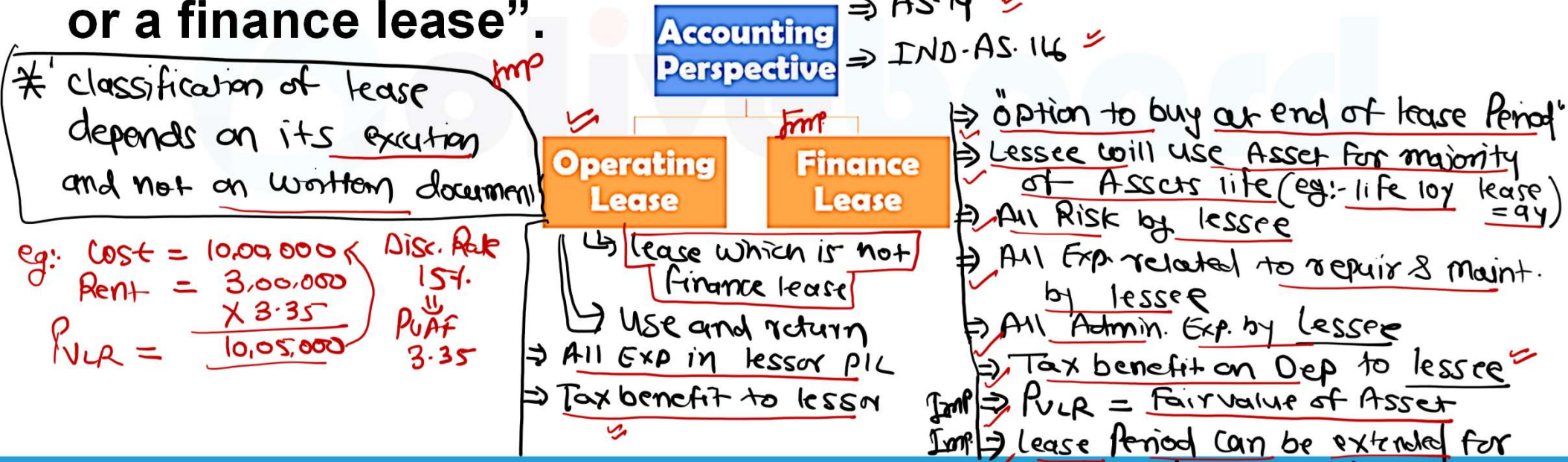


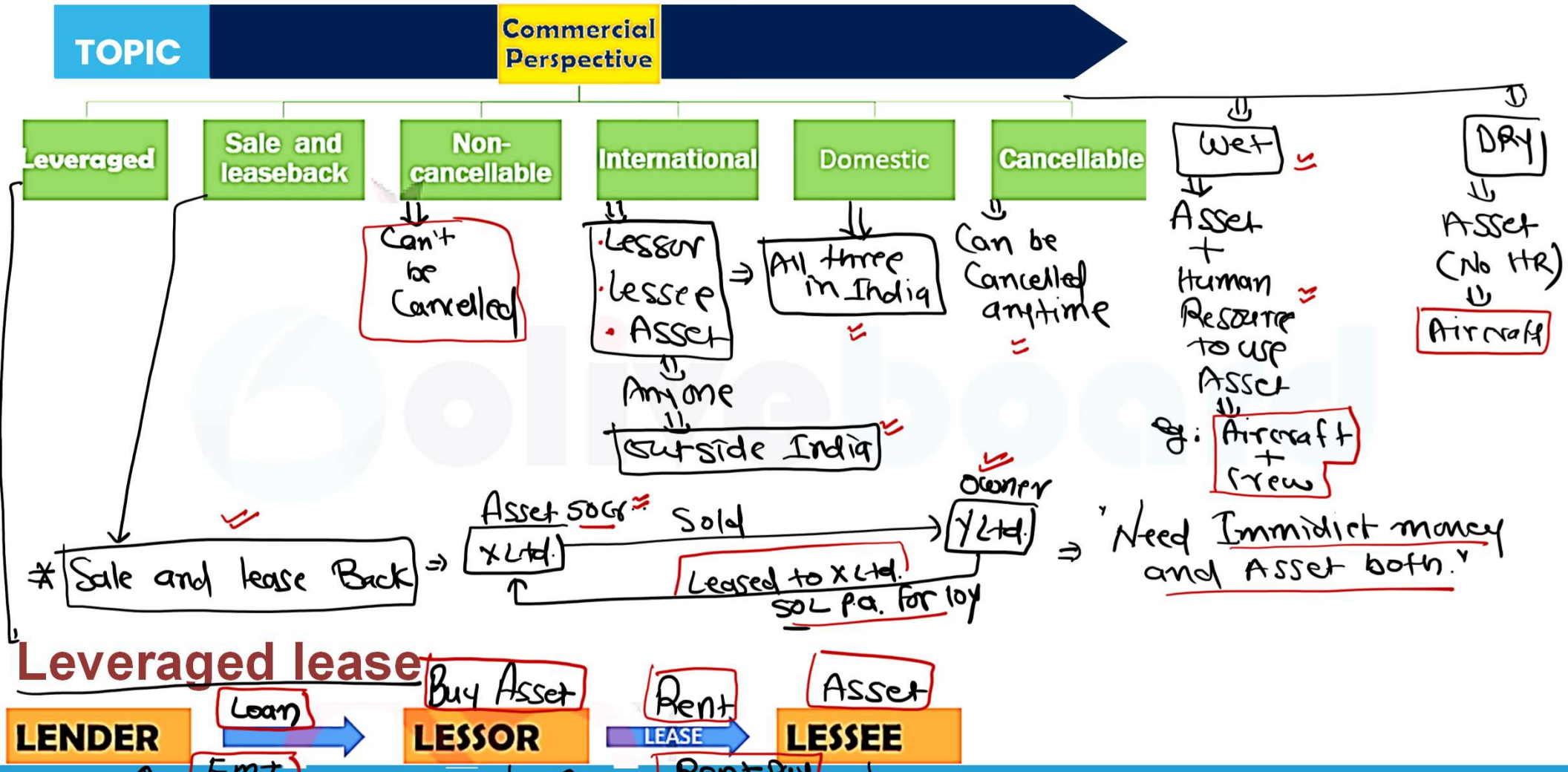
TOPIC



Types Of Leases

As pet Accounting Standard Ind AS 116, **"A lessor shall classify each of its leases as either an operating lease or a finance lease".**




TOPIC
Commercial Perspective
Leveraged
Sale and leaseback
Non-cancellable
International
Domestic
Cancellable
Wet
Dry
Can't be Cancelled
Lessor
Lessee
Asset
All three in India
Anyone
Outside India
Can be Cancelled anytime
Asset + Human Resource to use Asset
Eg: Aircraft + Crew
Asset (No HR)
Aircraft
* Sale and lease Back
Asset sold
X Ltd.
Y Ltd.
Owner
Leased to X Ltd. for 10y
Need Immidiet money and Asset both.
Leveraged lease
LENDER
Loan
EMI
LESSOR
Buy Asset
Rent
LEASE
LESSEE
Asset
Rent Pay

TOPIC

	Operating Lease	Financial Lease
Ownership	With the lessor	Transfer option at the end of the lease period is there with the lessee.
Risks and rewards related to asset	With the lessor	With the lessee
Purchase Option	Does not have any option	The lessee have a purchase option
Expenses Borne	By lessor	By lessee
Running Cost to lessee	No running or administration costs by lessor	Running cost and administration expenses are higher lessee
Tax Benefit to lessee	No depreciation can be claimed to Lessor	Interest and depreciation both claimed to lessee

TOPIC

GST On Lease Transactions

GST on all type of lease

As per **Sec 7 of the CGST Act, 2017,** → of Service

lease is covered within the meaning **& scope of "supply" and it is taxable.**

GST does not differentiate between a Finance lease and an Operating Lease.

* PVLR = Fair Value of Asset ⇒ eg:- Asset cost = 10,00,000, Rate of Int @15%
  Lease Rent = ₹3,00,000
  Tenure = 5Y

1/1.15	= m+	= m+	= m+	= m+	= m+	MRC 3.35

PVLR = 3,00,000 × 3.35 = 10,05,000

PVLR = Asset cost ⇒ 10,05,000 = 10,00,000

⇓ Finance lease

* lease can be extended for Secondary Period

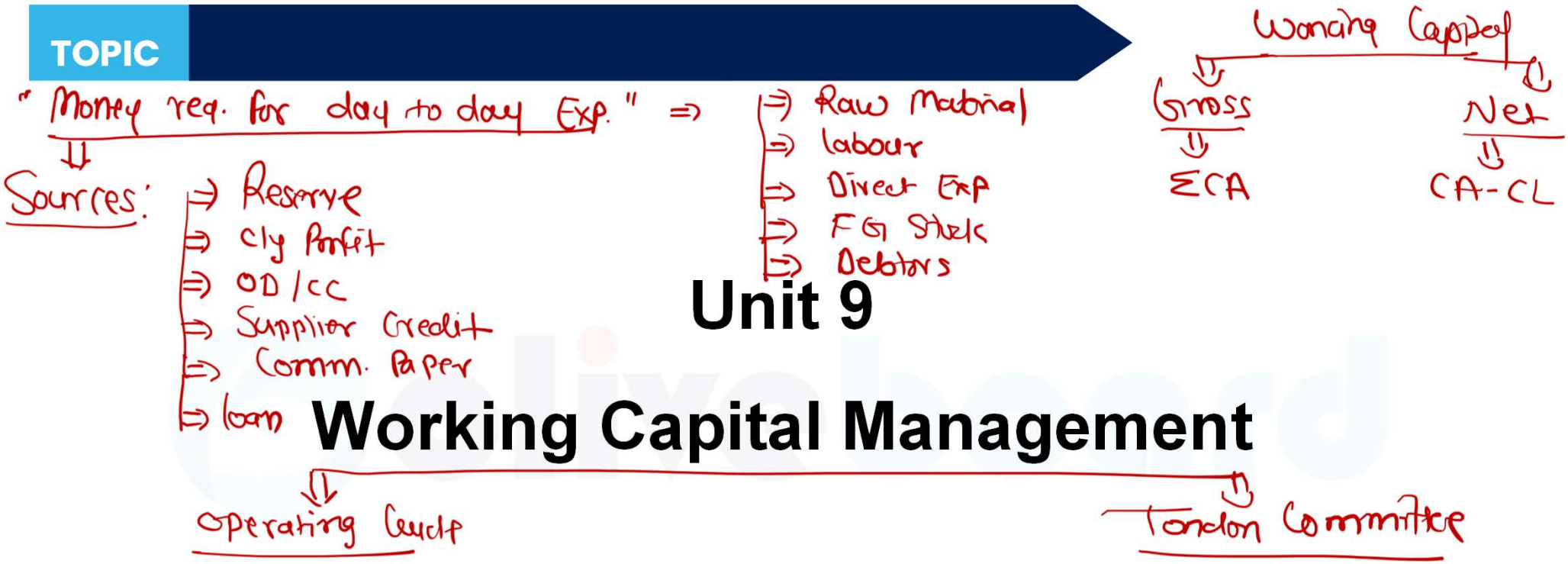
Primary Period 3y | Secondary Period 3y

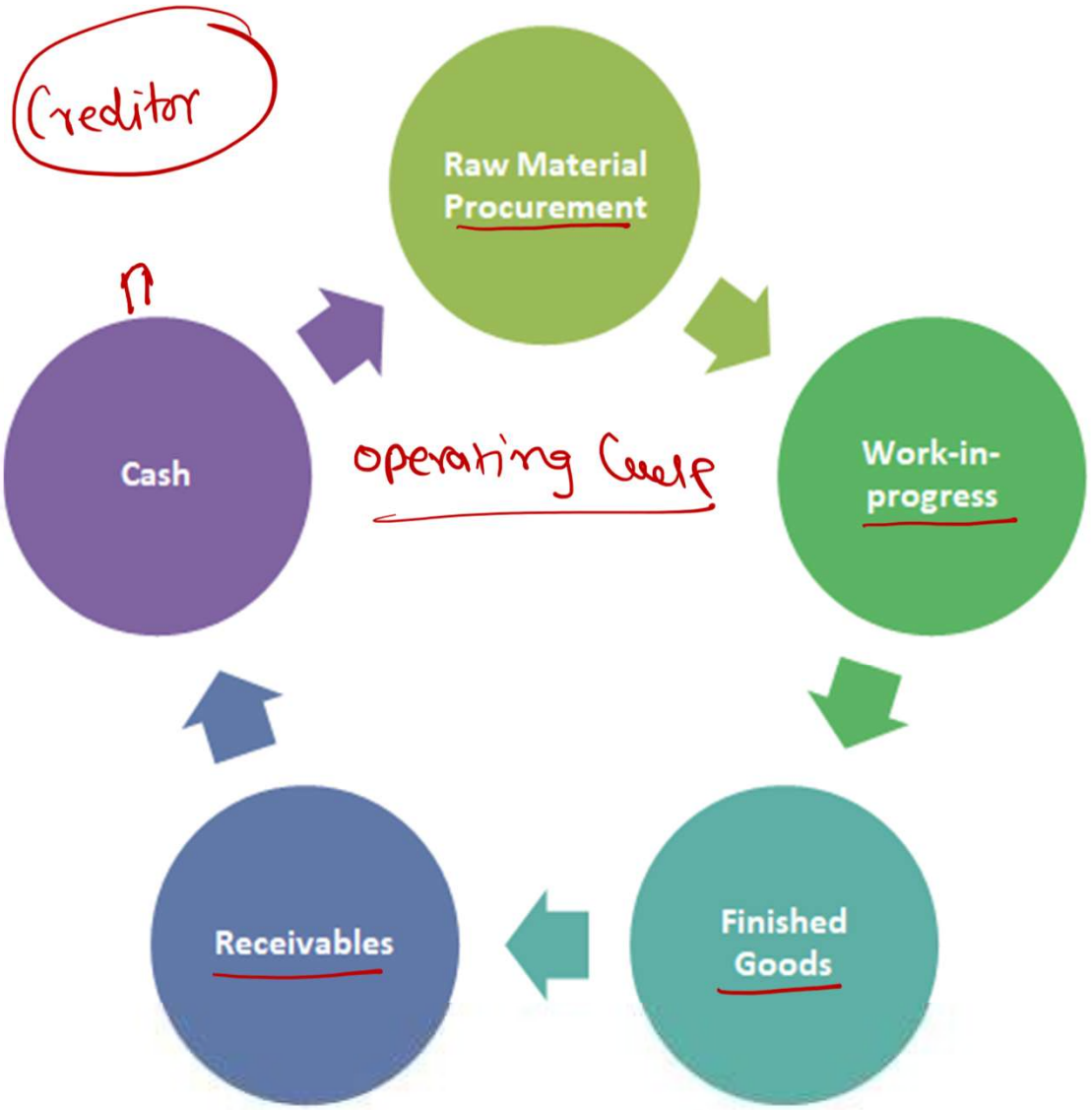
Lease agreement by Bank for office purpose ⇒ Operating lease

TOPIC

TOPIC

TOPIC


Working Capital
Gross
Net
ECA
CA-CL
"Money req. for day to day Exp." ⇒
Raw Material
labour
Direct Exp
FG Stock
Debtors
Sources:
Reserve
Cly Profit
OD/CC
Supplier Credit
Comm. Paper
loan
Unit 9
Working Capital Management
Operating Cycle
Tandon Committee



eg: Component | days
Raw Material | 20day
W.I.P. | 20day
FG | 30day
Debtors | 20day
Creditor | 30day

* No. of day in a operating Cycle (Gross) / (Net)
* No. of Cycle in Year (360days)
* if 1 Cycle require ₹ 80,000. Total working Capital Req.?

⇒ Gross O. Cycle ⇒ RM + WIP + FG + Debtors
⇒ 20 + 20 + 30 + 20 = 90 days

⇒ Net O. Cycle ⇒ Gross − Creditor
⇒ 90 − 30day = 60days

⇒ No. of Cycle ⇒ 360/60 = 6 Cycle

⇒ W. Capital = 6 Cycle × 80,000 = 4,80,000

TOPIC

TOPIC

SOURCES OF FINANCE FOR CURRENT ASSETS

- Firm's own working capital funds
- Accruals
- Trade Credit
- Working Capital Advance by Commercial Banks/ Financial Institutions
- Public Deposits
- Inter-Corporate Deposits
- Debentures for Working Capital

TOPIC

- Commercial Paper: - Commercial Paper (CP) is an unsecured money market instrument

➢ Eligibility for Issue of CP

- Companies, including NBFCs and AIFIs are permitted
- Any other body corporate with a minimum net worth of 100 crore or higher
- Any other entity specifically permitted by the Reserve Bank
- Co-operative societies/unions and limited liability partnerships with a minimum net worth of 100 crore or higher

➢ Other important points

- CP are issued in the form of a promissory note
- CP should be issued in denominations of 5 lakh and multiples thereof.
- CP are issued at a discount to face value as may be determined by the issuer.
- No issuer should have the issue of CP underwritten or co-accepted.
- CP should be issued for maturities between a minimum of 7 days and a maximum of up to one year