FINANCE

① Long-term finance functions and short-term finance functions (or) decisions?

Ans:- Long-term finance focuses on financial planning for periods longer than 5 years involving strategic projects short-term finance deals with managing funds for periods up to one year, emphasizing operational cash flow LTF comes from sources like equity, bonds, LT-loans. STF comes sources from trade credit, ST Bank loans, etc.,

② Name 4 finance fncns. (or) decisions. Briefly explain.

Ans:- Investment decisions:- Also known as capital budgeting this involves deciding whether where to allocate resources for long-term investments. The projects will generate highest return over time.

Financial Decisions:- These decisions focus on determining the best source of funds to finance the company's operations and growth. companies must decide the right mix of equity and debt to optimize their capital structure and minimize the cost of capital.

Divident Decisions:- This involves deciding how much of the company's profits should be distributed to share-holders as dividents and hamuch should be retained for future investments.

Liquidity mgmt:- The company has enough cashflow to meet ST-obligations. It involves managing current assets and liabilities to maintain and avoid cash shortages.

Teacher's Signature:

(3) What is the nature of Investment decisions?
Ans: It refers to characteristics and purpose within fin. mgmt. These decisions are essential for determining how a company allocates its resources to assests to achieve LT growth & profitability.
→ Long-term focus, Risk and uncertainity, impact on future growth..

(4) Nature of financing decisions?
Ans: It involves how a company raises the funds it needs to support its operations, investments, growth. These decisions shape the company's capital structure and have LT- implications

(17) (a) The profit maximization is not an operationally feasible criterian → yes it is true. Profit maximization has several limitations that make it an inappropiate goal for a company including ST focus, ignores risk.

(18) what is time preference (or) TVM. Reasons for TVM?
Ans: the value of money recieved today is different from the value of money recieved after some time in the future. An (X) financial principle is that the value of money is time dependent.
Reasons: Inflation, Risk, Personal consumption preference, Investment opportunities.

Page No.:
Expt. No.:
Date:

(19) If u deposited 55650 in a bank, which was paying 15 per cent rate of interest on a 10-year time deposit, how much would the deposit grow at the end of 10 years. CVF of 1 as 4.046.

Ans: principal = 55650

CVF = 4.046

FV = principal * CVF
PV

= 225159.9

$CVF = (1+r)^n$

$F_{10} = 55650 \times 1.1510 = 55650 \times 4.046$

$\Rightarrow 225159.90$.

(20) Net present value?

(17) Yes, it is true because profit maximization can be a short-term objective for any organization and can't be its sole objective.

(7) Discuss the approaches of fin. mgmt?

Ans:- 3 approaches to achieve the needs of company.

-> Action control, personal control, Result control.

(8) Who is a fin-manager?

Ans:

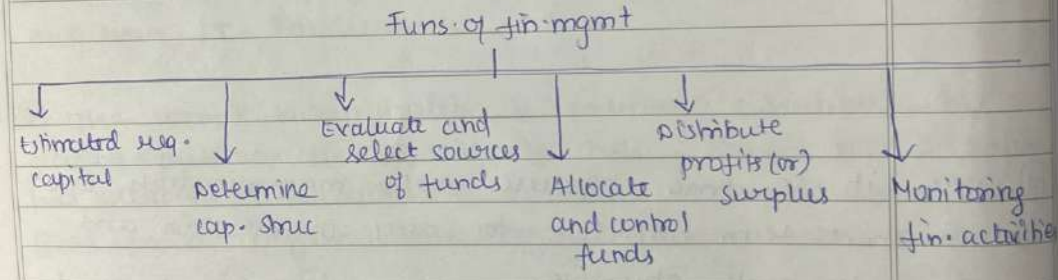
Teacher's Signature:

(14) What role does a fin. manager play?

Ans: He performs data analysis and advise senior manager on profit maximizing ideas. Fin. managers are responsible for fin. health of an org. They create fin. reports, direct investment activities and develop plans for long-term fin. goals of their org.

(15) Define fin. mgmt? Explain the funcns of fin. mgmt

Ans: Fin. mgmt is essential for properly and efficiently managing fin. resources. It ensures that the appropiate amount of funds is available when needed for a business.



Functions of fin. mgmt:

a) Determine the capital requirements:

↳ The 1st funcn. of a fin. manager is to estimate the total capital required by the business to fulfill its mission and objectives.

↳ The amount of capital required is determined by several factors including size of business, expected profits, company programmes and policies

Page No.:
Expt. No.:
Date:

b) Establish the capital structure:-
↳ After estimating the required capital, the structure must be determined.
↳ ST and LT equity is used in the structure
c) Determine the funding sources:
↳ Next fin. mgmt fncn. is to determine when the capital will come from.
↳ The company may decide to take out bank loans, approach investors for capital in exchange for equity.
d) Fund investment:
↳ Another fncn. of fin. mgmt is deciding how to allocate funds to profitable ventures.
↳ The fin. manager must calculate the risk expected return for each investment.
e) Implement fin. controls:-
↳ controls can take the form of fin. forecasting, cost analysis, ratio analysis, methods --,
↳ This info. can assist the fin. manager in making future fin. decisions for the company.
f) Mergers & Acquisitions:-
↳ They both are not a method of business growth.
↳ Buying new (or) existing businesses that align with the buyer company's mission and goals is referred to an acquisition.
↳ A merger occurs when two current companies combine to form a new company.
↳ Main responsibility.

Teacher's Signature:

9) Work on capital budgeting:

↳ capital budgeting refers to decisions made regarding the purchase of assets, the construction of new facilities and the investment in stocks (or) bonds.

(9) Role and responsibilities of fin. managers.

Ans:
- → Forecasting and planning
- → Raising of funds
- → Allocation of funds
- → Planning for the profit
- → Understanding the cap. markets
- → Risk mgmt.

(23) Give the meaning for doubling period.

Ans: Sometimes investors and fin. decision makers are interested in knowing the time required for doubling their investment amounts.

(24) Rule of 69 and 72?

Ans: Rule of 72;

$$DP = \frac{72}{ROI}$$

$$ROI = \frac{72}{DP}$$

Rule of 69;

$$DP = 0.35 + \frac{69}{ROI}$$

↓ More accurate result

Time it takes for a population to double in the size / value

Page No.:
Expt No.:
Date:

(8) Who is a fin. manager? → plan for long-term fin. goals of an org.

Ans: Responcible for the fin. health of an org.

(25) Meaning of annuity and annuity due.

Ans. Annuity → A series of payment made at end of each period, such as month (or) quarter. Eg. Stock dividents and bond dividends. ↳annualy.

(or)

A series of equal payments made at regular intervals over a specified period.

Types: Or Annuity due → A series of payment made at the beggining of each period. Eg: monthly rent payments.

(or)

where the payments are made at the start of each period rather than at the end.

(10) What is fin. manager's role in raising funds and allocating funds?

Ans: Raising funds → Deciding how and when to raise funds and ratio of debt to equity.

(or)

The org. acquires the neccessary capital from the most suitable ~~to~~ sources.

↳ Assesing fin. needs
↳ Determining sources of fin
↳ Evaluating costs & Risks
↳ Negotiating and managing terms.

Teacher's Signature:

Allocating funds → Using funds to meet costs, grow the buiness, and fund new products / services., when allocating funds the fin. manager conciders the size of the firm, growth capacity...

(or)

The funds raised are used effectively to achieve org. objective.

- ↳ Strategic investment decisions
- ↳ operating budget mgmt.
- ↳ performance monitoring.

(20) NPV → It is a financial metric that compares the PV of cash inflows to the PV of cash outflows over a period of time.

$$NPV = \sum_{t=1}^{n} \frac{CF_t}{(1+r)^t} - C_0$$

- n → total no.
- CF_t → inflow
- C_0 → outflow
- t ↓ time period
- r ↓ Discount rate

(26) x ltd. offers 12 % interest on fixed deposits. what is ERI if compounding is done

a) half yearly

$$EIR = \left(1 + \frac{r}{n}\right)^n - 1$$

r → nominal interest rate

n → No. of comp. periods per year

Page No.:

Expt. No.:

Date:

Half-yearly ($n=2$);

$\because 12\% = \frac{12}{100} = 0.12$

$$EIR = \left(1 + \frac{0.12}{2}\right)^2 - 1$$

$$EIR = (1 + 0.06)^2 - 1$$

$$EIR = (1.06)^2 - 1$$

$$EIR = 1.1236 - 1$$

$$EIR = 0.1236$$

$$\boxed{EIR = 12.36\%}$$

b) Quarterly compounding; ($n=4$)

$$EIR = \left(1 + \frac{0.12}{4}\right)^4 - 1$$

$$EIR = (1 + 0.03)^4 - 1$$

$$EIR = (1.03)^4 - 1$$

$$EIR = 0.1255$$

$$\boxed{EIR = 12.55\%}$$

c) Monthly compounding ($n=12$)

$$EIR = \left(1 + \frac{0.12}{12}\right)^{12} - 1$$

$$EIR = (1.01)^{12} - 1$$

$$EIR = 1.1268 - 1$$

$$EIR = 0.1268$$

$$\boxed{EIR = 12.68\%}$$

Teacher's Signature:

(22) What is perpetuity? What is its present value?

Ans:- perpetuity in finance is an investment asset that pays a never-ending cash stream. The present value of a perpetuity is determined by dividing the amount of the regular cash flows by the discount rate.

$$PV = \frac{C}{r}$$

Divident / Discount rate

(28) Y Ltd. issued 20,000 12-1. Debentures of ₹. 100 each at par the tax rate is 40-1. calculate the cost of debt before and after tax.

Ans: To calculate cost of debt B4 and after tax

No. of debentures issued = 20,000

Interest rate = 12-1.

Face value of each debenture = ₹. 100

Tax rate = 40-1.

Annual Interest = No. of deb × face value × Interest rate

= 20,000 × 100 × 0.12

= 240,000

Cost of debt B4 tax = 12-1.

Cost of after tax = cost of debt B4 tax × (1 − Tax Rate)

= 12-1. × (1 − 0.40) = 12-1. × 0.6

= ₹. 2-1.

Cost of Debt After Tax = ₹. 2-1.

∴ Cost of Debt B4 Tax = 12-1.

" " " After Tax = ₹. 2-1.

Date :

Page No. :

Expt. No. :

(29) Book value :-

* Acting concepts
* Assets are recorded as historical cost
* They are depreciated over years.
* Include intangible assets at acquisition cost minus value.
* BV of debt is stated at outstanding amount.
* The difference between the book values of assets liabilities = shareholders, funder (or) net worth.
* BV per share => Networth / No. of shares outstanding.
* It reflects historical cost rather than value.

What an asset is worth today in terms of its potential benefits is called as value.

Replacement value:

* Amount that a company would be required to spend if it were replace its existing assets in the current condition.
* Difficult to find the cost of assets that are currently being used by the company.
* Ignores the benefits of intangibles and utility of existing assets.

(30) Going concern value:

* The amt. that a company could realize if it sold its business as an operating buiness.
* Higher than the liquidation value.
* ∴ reflects the FV of assets and value of intangibles.

Teacher's Signature:

Liquidation value:

* Amt. that a company could realize if it sold its assets, after having terminated its business.
* It wont include intangibles.
* ∵ operations of the company are ~~assumed~~ end to close.
* Generally, a minimum value, which might accept if it sold its business.

(31) Market value :-

Ans. * MV of an asset is the current price at which the asset is being sold (or) bought in the market
* MV per share is expected to be higher than the book value per share for ~~profitable~~ growing firms.

Is MV and PV are same?
Ans: No, they are not same. MV is actual price at which something can be traded in the market today. PV is calculated value that reflects what a future cash flow is worth today's terms.

(or)

PV used to calculate the current value of future cash flows considering the TVM.

Page No. :
Expt. No. :
Date :

(33) Define bond and explain its features:

Ans:- * Bonds are negotiatable instrument

* It is a debt instrument

* Financial instruments that offer fixed income to investors.

* The issuer can be municipal corporation (or) govt (or) company.

BONDS
↙ ↘
Govt. bonds | corporate bonds.

Features of bond:

* long-term debt instrument (or) security.
* Govt do not have any risk of default.
* Govt always honour obligations on its bond.
* Bonds of public sector companies in India are secured.
* Private companies bond kudupanga but they are called debentures in India.
* secured/unsecured debentures company issued.
* In case of debentures/bond, the ROI fixed and known to investors.

Main features:

* Face value → called par value
* Interest rate → Fixed and known to bondholders
  → Tax deductible
  → Also called coupon rate.
* Redemption value → value that a bondholder will get on maturity
* Maturity → issued for a specified period of time.
* MV → Bond may be traded in a stock exchange.

Teacher's Signature:

* The price at which it is currently sold / bought is called mv of bond.

(34) Redemable bond / callable bond:-

Ans: Redeemable bond (or) bond with a maturity is payable after a specified period called maturity period Bonds that are can be redeemed (or) paid off by the issuer prior to the bonds maturity date.

(35) How is a bond with maturity valued?

Ans:- the govt. and companies mostly issue bonds that specify the interest rate and the maturity period. The present value of the bond is discounted value of its cash flows ie; annual interest payments plus bond's terminal (or) maturity value.

(or)

A bond term to maturity is the period during which its owner will recieve interest payments on the investment when the bond reaches maturity, the owner is repaid its par (or) face value.

(36) Pure discount bonds / zero-coupon bonds?

Ans: Donn't carory an explicit rate of interest (ROI). They provide for the payment of a lump sum amount at a future date in exchange for the current price of the bonds.

It is valued by calculating the PV of the bond's face / par value.

Page No.:
Expt. No.:
Date:

→ Present value = D/r → discount rate.
↳ coupon amt of bond

(37) what is perceptual bonds?

Ans: Also called consols, have an indefinite life and ∴ have no maturity value.

(38) Define yeild-to-maturity, yield-to-call and current yield. How are they calculated?

Ans:

Teacher's Signature:

(39) systematic and unsystematic risk

Ans:

systematic	unsystematic.
* Uncontrollable by an org.	* Controllable by an org.
* Macro in nature	* Micro in nature.
* Influence of external factors on an org.	* Influence of internal factors on an org.
* It cannot be planned by an org.	* It can be planned, so that neccesary actions can be taken by the org. to mitigate risk
* It affects large number of organization ∴ Macro	* Affects only a particular org. ∴ Micro
* Types → Interest rate risk, → Market risk → purchasing power	* types → Buiness risk → Financial risk → operational risk

total risk = sys + uney risk

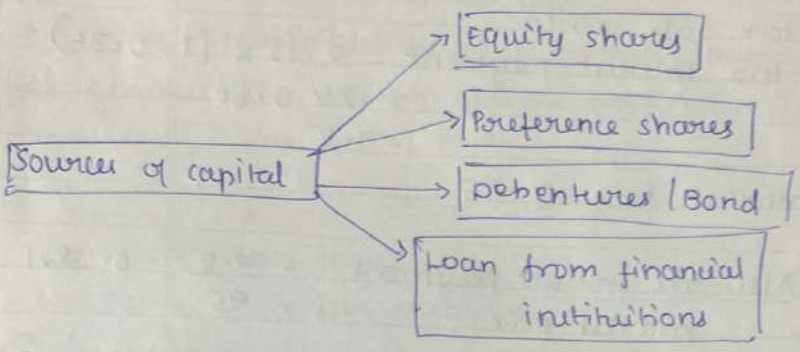
(40) what is diversification?

Ans:

EXPT. NO.:

(41) Explain the sources of cost of capital?

Ans:



(42) 5 years ago, A Ltd. issued 12-1. irredeemable debtures at ₹. 103, at ₹.3 premium to their par value of ₹. 100 the current market price of these debentures is ₹. 95. If the company pays corporate tax at a rate of 35-1. calculate its current cost of debenture capital? (kd = ?)

Ans:

$$Kd = \left(\frac{I(1-T)}{P}\right)$$

T → corporate tax
I → annual interest
P → current MP
kd → after tax cost of debe. capital

I = 12-1. × 100 = 12

I(1-T) = 12 × (1 - 0.35) = 7.8

premium 2.3 over par value of ₹. 100 ; so issue price ₹. 103

cost of debenture = Interest payment × (1 - Tax rate) / Market Price.

Ans: coupon rate => 12-1. of par value ₹. 100

Interest payment = 12-1. × 100

= ₹ 12.

Teacher's Signature:

corporate tax rate 35%.

After tax Interest payment = ₹.12 x (1-0.35)
= 12 x 0.65
= 7.8

current market price ₹.95

K_d = After-tax Interest payment / market price = 7.8/95 = 0.0821

K_d ⇒ 8.21%.

(14) Meaning for risk adjuted discount rate?

Ans: The risk-adjuted discount rate is the rate obtained by combining an expected risk premium with the risk-free rate during the calculation of the PV of a risky investment.

(15) Measure FL, OL, CL.

Ans:

OL ⇒ BEP = Fc / contribution per unit (or) BEP = FC/Sales x 100

OL = Contribution / EBIT

MOS = Sales - BEP sales / ÷ Sales

PV ratio = Contri / Sales

CL = Cont / EBT

FL = EBIT / EBT

Degree OL = 1/MOS

BEP = FC/PV

Page No.:
Expt. No.:
Date:

(13) What is profit maximization? What are all the limitations as a financial goal.

Ans: Profit maximization is a business strategy that aims to generate the highest possible profit by Using revenue and Using costs.

Limitations of PM as a fin. goal;

-> short term focus, ignores risk and uncertainity, No focus on value creation.

(46) what is fixed working capital?

Ans:

(48) What is the concept of working capital?

Ans: The firm's holding of current / short-term assets such as cash, receivables, inventory and marketable securities.

(or)

The part of the firm's capital which is required for financing short-term (or) current assets such as market securities, debtors and inventories.

working capital is also known as revolving, circulating, short-term capital.

Teacher's Signature:

Concepts of working capital:-

(i) Net working capital
    ↳ current assets - current liabilities

(ii) Gross working capital
    ↳ The firm's investment in current assets.

(iii) working capital mgmt
    ↳ The administration of the firm's current assets and the financing needed to support current assests.

(49) what is meant by factoring?

Ans :- Type of finance in which a business would sell its accounts receivable (invoices) to a third party to meet its short-term liquidity needs.

(50) what is outsourcing?

Ans:- when a business hires external firms (or) professionals to handle financial tasks instead of doing them in-house. It includes → bookkeeping, payroll processing, Tax preparation, managing accounts payable and receivable etc-7

(46) what is fixed working capital?

Ans: Also known as permanent working capital is the minimum amt. of funds a business needs to have in cash (or) current assets to cover all current liabilities.

Page No. :
Expt. No. :
Date :

(43) Explain the components of capital budgeting analysis?

Ans:- project identification, cash flow estimation, capital budgeting methods, project selection, implementation, review and monitoring.

Some capital budgeting analysis methods include:-

->payback period, discounted payback period, MIRR.

(47) what is lockbox system?

Ans: A lockbox system is a service that allows businesses to receive payments from customers by redirecting them to a secure post office box instead of the business's office.

(5) Divident decision?

Ans: It is the process of determining how much of a company's earnings to distribute to shareholders as dividends, and how much to retain and reinvest.

(6) what is involved in the mgmt. of liquidity?

Ans. Managing a company's cash flow and liquid assets to meet short-term obligations and operational needs.

-> Monitoring cash flow, maintaining cash reserves.

(38) Define yield-to-maturity, yield-to-call and covered yield. How are they calculated?

Ans:- YTM -> total rate of return an investor can expect from a bond if they hold it until it matures.

YTC-> is the return an investor receives if they hold a callable bond until the call date, i; bf the bond matures

Teacher's Signature:

current yield → It is an investment's annual income ÷ by the current price of security.

(ii) $YTM = \frac{[0.05 + (FV - PV)/n]}{[(FV + PV)/2]}$

where → 0.05 → 5% of coupon price.

(iii) $YTC \rightarrow P. = \frac{(c/2) \times [1 - (1+YTC/2) - 2t]}{[(YTC/2)] + (CP/1 + YTC/2)2t}$

where → P → bond current MP

c → yearly coupon payment.

(iii) current yield → ÷ the annual coupon payment by the bond's current market price (MP).

11, 12, 14, 16, 21, 27, 32, 40 (OK answers)