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Business Finance - 2

Assignment - 1

Q1.] d) IRR is the most reliable means of choosing between mutually ~~excls~~ exclusive projects.

Q2.] a) Market price of share / Earning per share.

Q3.] d) All of the above.

Q4.] a) 12,00,000

Q5.]

Q6.] Efficiency ratios include inventory turnover ratio, asset turnover ratio, and recievables turnover ratio. These ratios measure how efficiently a company uses its assets to generate revenues and its ability to manage those assets. This gives us an opportunity to compare the ratios with competitors in the same industry.

→ Inventory turnover ratio = $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$

→ Asset turnover ratio = $\frac{\text{Total revenue}}{\text{Total assets}}$

→ Receivables turnover ratio = $\frac{\text{Net credit sales}}{\text{Avg accounts receivable}}$

Q7.] Limitations of ratio analysis –

→ Historical information: Information is based on past data, hence it may not necessarily represent future performance.

→ Inflationary effects : If inflation occurs between different data release period, then analysis will also differ.

→ Operational Changes : A company may change its operational structure at any time. This change usually leads to significant change in ratios.

→ Seasonal Changes - The inability to adjust the ratio analysis to seasonality effects may lead to false interpretation of results.

→ Changes in accounting policies - If the company changes its accounting policies and procedures, changes ~~in~~ the ratio may occur significantly.

→ Manipulation of financial statements : If information provided by the company is manipulated, by its management to show greater ~~resh~~ results, there will be an error in the analysis.

Q8] Reasons why beta can be different -

→ Nature of business :
→ Financial leverage
→ Operating leverage.

Q9.] B) In general, the market value of investment trust is higher than th net present value.

Q10]

Q11]

(I) Beta is the measure of volatility of a stock in relation to the overall market.

Formula -

$$\beta = \frac{\text{Covariance}}{\text{Variance}} = \frac{\sigma_{cm}}{\sigma_m^2}$$

where σ_{cm} is covariance of company and market

and σ_m^2 is variance of market.

(II) Beta can be determined by using the formula which compares the volatility of the company with average volatility of market.

(III) As an investor, we would like a Beta of 1 since it indicates that it amplified the return of the market.

(IV)

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14] (1) a.) Current ratio-
Current ratio is a liquidity ratio that measures a companys ability to pay one year dues or short term dues.

Formula ⇒ $\text{Current Ratio} = \dfrac{\text{Current assets}}{\text{Current liabilities}}$

b.) Debtors turnover period-
This ratio measures efficiency at which a company collects receivables or credits that it gives to its customers. It also measures how many times a company's receivables are converted to cash in a particular time period.

Formula ⇒
$\text{Debtors turnover period} = \dfrac{\text{Net credit sales}}{\text{Avg. accounts receivable}}$

(11) Xylo Ltd. should ~~check~~ check its inventory turnover ratio. This ratio shows how many times the inventory is sold/used or replaced in a given amount of time.
If inventory turnover ratio is high, it means that the inventory sells more times in a year. This means funds generated will be quick, hence short term liabilities will be covered

Formula —
$\text{Inventory Turnover ratio} = \dfrac{\text{Cost of goods sold}}{\text{Avg. inventory cost.}}$