14-04-21

BF Unit 3 & 4 Assignment.

Q1 Which of the following statement is not true about IRR method of project appraisal.

→ D) IRR is the most reliable means of choosing between mutually exclusive project.

Q2 Which one of the following is the correct formula for price earning ratio

→ A) Market price of share / Earning price per share

Q3 While calculating inventory turnover period, inventory include:

→ D) All of the above

Q4 The following figures were taken from a company's accounts; What is the company's cash inflow from operating activities for the year ended 2019?

→ ~~c) 9,00,000~~
c) 9,00,000

Q5) The project generates 2500 in sales and 1500 in costs (excluding depreciation) at dat 1 the tax rate is 40%.

The discount rate for the project is

20%

3) What is the cash flow from the project at date 1?

Cash flow = Operating Income + Depreciation − Taxes + change in working capital

$$\text{cashflow} = 2500 + 1500 + 4044 \times \frac{4x}{144} + 4000 \times \frac{24}{100}$$

$$= 3200$$

ii) What is NPV of the project?

$$NPV = \frac{\text{cashflow}}{(1+i)^t}$$

$$= \frac{3200}{(1+0.2)}$$

$$= \frac{3200}{1.2}$$

$$2666.667$$

iii) $t = 2$

$$NPV_2 = \frac{32000}{(1+0.2)^2} \quad \because NPV = \frac{\text{cashflow}}{(1+i)^t}$$

$$= \frac{2666.667}{(1.2)^2}$$

$$= 1851.852$$

5) If you want to measure any business efficiency, what ratios you will analysis and why?
→ Company asset using ability also liability management is short-term output are measured with efficiency ratio. These includes
① inventory turnover ratio
② Asset turnover ratio
③ receivable turnover ratio.
Inventory ratio shows company's ability to manage it's inventory efficiently. It also shows us the amount of sale being generated which helps us decide of future plans.
Asset turnover ratio shows ability to efficiently generate revenue from its assets.
Recievable Turnover shows debt collection and credit transactions. higher the ratio more favourable company it is

7) Briefly list down the limitation of ratio analysis.

→ Limitations of Ratios analysis are as follows

① No current Data

→ Information of Analysis is Historic so chances of repetition of same Information is negligible hence Ratio Analysis is not that reliable

② Inflation effects

→ Since Inflation is never stagnant as country either grows or falls but ratio have a specific inflation in it which result in ~~abolis~~ negligence of future.

③ No Ratio Standarisation

→ Some company have some priority which other don't. So later the comparision of these two Companies is bit difficult.

④ frauds in Ratio

→ Tricking the numbers to show ratio which depict better picture of future is not a big deal for company and some time major manipulation also occurs

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(5) Dynamic Nature of Business is not taken in account.
→ Business changes their plan of ~~op~~ action and thus new operations may come into picture this results in change of ratio but past ratios can't be used in here.

Q8. i) State possible reasons why stocks trade at different betas in the stock market.
→ Beta is a way ~~of~~ measuring the volatility of stocks compared to overall market. If beta value is more than 1.0 it is more volatile and if it is less than 1.0 it has less volatile.

ii) $\beta_a = 1.1$

$\frac{D_1}{E_1} = \frac{1x}{2x}$

$\therefore D_1 = 1x$

$\therefore E_1 = 2x$

$T_c = 30\%$

$D_2 = 2x, E_1 = 2x$

$\beta_{e_2} = ?$

~~$\beta_e = \beta_a x$~~

9) Which of the following statement is true?

→ c) In general the ~~M.V of in~~ market value of investment trust is equal to the net present value.

10) i) In theory, companies exist to maximize the wealth of their owners. Explain the problems associated with demonstrating that companies actually do operate in such a way as to maximise their shareholders wealth.

→ While some time the vision of wealth maximization for owner has it perks not only for owners specifically but to overall growth sometimes this idea can cause problems i.e for wealth maxization the path that company chooses is not great leading in short term profit long term losses. Sometime company only works for wealth and no vision which can lead to huge losses seeing the inflow is not enough accounting the inflow of cash and thoughtfully analysing is more important.

11) i) Explain the beta of a stock along with formula?

→ Beta is a risk measure determine the risk with the help of volatility

formula of Beta is,

$$\text{Beta} = \frac{\text{Covariance}}{\text{Variance}}$$

iii) As an active stock market investor I would invest in a stock with a beta ~~1~~ because it's less volatile and so it's more predictable and less prone to major losses.

iv Gold is a financial instrument that is likely to have a beta of 0.

14 i) a) Current ratio
→ A ratio that measure liquidity of company also it's ability to pay for short term projects.

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{current liabilities}}$$

b) Debtors turnover period
→ It measures the efficiency with which the company is able to collect on its receivables.