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Business Finance - 1 Assignment.

Esha Rane.

Q.1 D

Q.2 A

Q.3 D

Q.4 C

Q.5.

i) Cash of inflow = 2500
Cash outflow = 1500
total cash flow = 1000
tax rate is 40%.
∴ 1000 (1-40%.) = 600.

ii) PV of inflow (i = 20%.) = 2500 $(1+20\%.)^{-1}$
= 2083.3

iii) Pv of out flow = 1000 $(1+20\%.)^{-1}$
= 1250

PV = PV of inflow - Pv of outflow
= 2083.055 - 1,250
= 833.333

iii) If supplies allow delayed payment

Then PV of outflow = $1500 \times (1.2)^{-2}$

= 104.6667.

= 1041.6663

8.6) i) In a company there must be sufficient liquid assets available to ensure two one company can need in short term commitment otherwise the company could be fixed into liquidations.

ii) They efficiency ratios are related to company liquidity ratios.

iii) This gives insights to company ~~liquidity ratios~~ effectiveness of company's managed regarding the components of working capital

iv) Inventory Turnover Period.

$$= \frac{\text{Investment ores}}{\text{cost of sales}} \times 365$$

This ratio tells us about how long the inventory is held on an average. It shows how much inventory a company holds in relation to the scale of the companies operations.

The inventory turnover period that is less rapid than the period of companies in the same field may indicate inefficiency. large inventory holding.

One limitation of the ratio is that the figure of inventories may be subject to seasonal variations

1.) Trade receivable turnover period.

$$\frac{\text{trade receivables}}{\text{credit sales}} \times 365.$$

This is to measure the average legth of time taken to trade receivables to settle their balance.

It is desirable for this period of time to be as short as.

It will be better for the company easy lows if those owning the company pay as quickly as possible

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ii) Payable turnover period = $\frac{\text{payable}}{\text{Credit purchase}} \times 365$

Q.7)

a) It directs attention from the figure & statements themselves.

i) It is important to look at figures such as the shelter size of the company. A layer company will have more bargaining power

ii) It is also important to look at the notes which are generally not reflected in the ratios.
For eg. if a company is big sued for damages this will be measured in the notes along with the don-
annoyed if possibly given

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Q.8.) i) Beta is the measure of systematics risk
ii) CAPM divides the volability of a stock price into two parts specific risk
replent.

iii) $B = \frac{\sigma_{im}}{\sigma^2_m}$

where σ_{im} is the variance of market
σ_{im} is the covariance of individual
stock return of the market

iv Inflation rates can affect companies
in different ways

v) Tax changes in tax can have
an impact on all companies
Currency movements will affect
all the countries

ii) $B_{geared} = 1.1$
D : E = 1 : 2
t = 30%.
First we will find the ungeared
beta of the comtier.

$$B_u = B_{ug}\left(1 + \frac{D}{E}(1-t)\right)$$

$$1.1 = B_{ug}\left(1 + 1.2\,(1-30\%)\right)$$

$1:1 = B_u (1 + 1:2(70\%))$

$B_u = 0.81482$

$B_y = B_u \left(1 + \frac{D}{E}(1-t)\right)$

$= 0.81482 \left(1 + \frac{2}{2}(70\%)\right)$

$= 1.3851851$

Q.9) D) In general the market value of investments must is not related to the rent prest value

Q.10) The first problem is in measuring shareholder weather this is clearly indicated by two share price, but that can be avolated indicator, that is not necessarylly affected by just the company's efforts to manage the shareholders wealth. Furthermore management decisions that enhance shareho wealth will only be recognised in the sh price once the decision itself is announced This information might withheld for commercial reasons. The second proble is that the directors are often prcieve as Laving their own rewards at the

expense of the shareholder or of avoiding acceptable risks in order to put their jobs security before the wellbeing of the shareholder.

) Given

Price of the share = 70

Div. = 10

Growth (g) = 8%.

Risk free rate (RF) = 6%.

Risk Premium (Km - RF) = 5%.

Expected Dividend $Div_1 = Div_0 * (1+g) = 10 * 1.08$

$= 10.8.$

$Re = (Div_1 / Price) + g.$

$= (10.8 / 70) + 0.08,$

$= 23.43\%.$

Now, as per CAPM

$Re = RF + (Km - KR) * Beta.$

$23.43 = 6 + 5 * Beta.$

Hence Beta = 3.486

Now, systmetic risk is invested by 80% i.e

Beta is increased by 30%.

New Beta = 6.275

So, new $Re = 6 + 5 * 6.255$

$= 37.375\%.$

New share price = Div 1 / (Ke - g)
= 10.8 / (37375 - 0.8)
= 36.77.

Hence share price is expected to fall from current level of Rs. 70 to Rs. 36.77 i.e by 53.23%.

9.11)

i) The beta of a project is a measure of the systematic risk of the project relative to a diversified portfolio of all risky assets the market would have a beta of 1

The beta of the company (B_p) is given by the following

$$B_p = \frac{\sigma_{pm}}{\sigma^2_m}$$

where,

σ_{pm} - is the covariance between the returns expected from the company and the returns expected from the market

σ^2_m is the variance of the returns expected from the market

ii) The beta of the company may be measured by

- Looking at the company's historical returns on equity and comparing against market returns, for eg. dependent upon the time period considered.
- considering the industry