

Business

Business Finance Assignment

1. D

2. A

3. D

4. C

5.

(i) Cash flow $\Rightarrow$ sales - cost $\Rightarrow 2500 - 1500 \Rightarrow 1000$
 Tax deduction $\Rightarrow 1000 - 40\% \Rightarrow 600$

(ii) Discount Rate $\Rightarrow 20\%$

Net present value $\Rightarrow \frac{2500}{(1+20\%)} - \frac{1500}{(1+20\%)} - \frac{400}{(1+20\%)} \Rightarrow$

500.33

(iii) The net present value of the project will increase due to the increase in the time of the payment.

6. There are several ratios used to measure the efficiency of a business as follows:

(i) Trade Receivable Turnover period $\rightarrow$ It is used in business accountancy to qualify how well the business is managing the credit.

(ii) Inventory turnover: It is an important ratio to measure as to calculate how well the business is turning its inventory into ratio.

(iii) Trade payable turnover ratio: It is used to measure the number of times the business.

7. The limitation of ratio analysis are:
- (i) Financial accounting data is influenced by views and hypothesis to compare and thus it less effective
 - (ii) Ratio analysis done using past data and references are taken but these are lack of references.
 - (iii) The ratio of inflation also affects the ratio analysis majority.
 - (iv) changes in the operation are unexpected and hence these can be difference i.e before the changes.

- 8(i) Beta measure the ~~the~~ expected move in a stock relative to movement in the overall market.
- A beta greater than 1 ~~is~~ indicates a stock's price move widely.
 - A beta less than 1 indicates a stock's price is less volatile than overall market.

9. D In general market value of investment trust is not correlated to the net present value.
- 10(i) The problem associated in such scenarios are:
- There might be a conflict on clash components their thoughts and the company itself.
 - It is necessary for the manager to take shareholder into condition but it is not always trust.

11. (i) Beta is measure of stock's volatility is relative to the overall market. It measures the expected move in share relative to movement of the overall market.

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$$\text{Beta} = \frac{\text{Covariance of return of an asset}}{\text{variance of return on the overall}}$$

(ii) Beta greater than 1 indicates the volatility whereas beta less than 1 indicates less volatility of the price in the overall stock market

(iii) As an active investor I would invest in a stock of beta between 1 & -1

12 (i)
$$\text{Cost of equity} = R_F + (R_{\text{Equity Risk premium}} \times \beta)$$

$$= 7 + (5 \times 1.5) = 14.5\%$$

$$\text{Net cost of debt} = \text{Gross cost of debt} (1 - 25\%)$$

$$= 0.0675 = 6.75\%$$

$$\text{WACC} = \text{Net cost of debt} \left(\frac{\text{MV of debt}}{\text{MV of debt} + \text{equity}} \right) + \text{cost of equity}$$

$$1.5 = B (1 + (1 - 25\%)) = 0.857$$

$$\text{Required return on equity} = R_F + (\text{equity risk premium} \times \beta)$$

$$= 7 + (5 \times 0.857)$$

$$= 11.285\%$$

$$13 (i) \quad AF = \frac{1 - \left(\frac{1}{1.15}\right)^4}{0.15} = 2.855$$

$$NPV = 40000 \times 2.855 - PV \text{ of outflow at } 0$$

$$0 = 114200 - PV \text{ of outflow at } 1$$

$$PI = \frac{NPV}{\text{outflow}} + 1 = 1.064 = \frac{NPV}{114200} + 1$$

$$NPV = ₹ 7,308.8$$

$$(ii) \quad \text{Cost of capital} = 7308.8 = 40000 \left(\frac{1 - (1+i)^{-4}}{i} \right) - 114200$$

$$= 40000 - 40000(1+i)^{-4}$$

$$i = 12\%$$

$$(iii) \quad \text{Cost of project} = ₹ 1,14,200$$

$$(iv) \quad \text{Payback} = \frac{\text{outflow at } t_0}{\text{amount}} = \frac{114200}{40000} = 2.86 \text{ years}$$