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**Q-1:**

**Answer:**

On an organization level the every sort of decision is basically directed towards to things

**1. Maximizing profitability**

**2. Reducing Risk.**

Thus all the investment decision are taken in this regard as well. Companies sometimes prefer short term financing instead of any other alternatives available, thus this decision effects profitability and risk in number of ways. First of all short term financing is cheaper than long term financing or any other also it has lower interest rates comparatively, which increases profitability for as greater the short term debt to total debt greater will be the profitability.

Similarly short term financing is the positioning of over draft and running fiancé thus when it is not needed one can avoid facing additional charges for it .The short term financing is also considered profitable because the because the debt can be paid in the times when it is not needed thus resulting in reduction of debts, but when it comes to the level of risk the risk is higher for as because short term financing suggest to have low current asset while higher proportion of current liabilities to total liabilities which ultimately increases the element of risk because the organization following this approach will not be keeping enough current assets.

**Q-1.B:**

**Answer:**

For seasonal current assets using of long term financing is very often used. Long term financing for seasonal current assets in terms of profitability is not a good ideas, for as the debts will incur for the period in which the amount borrowed hasn’t been used which means that the borrower has to pay interest for the period in which the borrower doesn’t make use of the amount borrowed.Thus is the effect of long term financing on profitability, speaking of risk the chance of the fluctuation of the interest rates for long term financing is low thus which leads to lower risk factor for as the interest rates are comparatively stable. The element of uncertainity in the interest rates indicates the risk which is low in case of long term financing and is high in case of short term financing.

**Q-1.C:**

**Answer:**

Hedging approach is basically an approach where firm uses financial instrument for as asset based on the maturity of the asset such that for short term asset it will use short term financial instrument and vice versa.

Speaking of current asset based on hedging approach the firm will used short term financial instruments for as if the firm uses long term financing for short term need it will end up paying interest for the times when there is no need for it. In short this approach suggest that one should uses a financial instrument according to the maturity in accordance with the asset acquired.

**Q-2.A:**

When selecting marketable securities following are the variables one has to consider:

**1. Safety:**

Safety is the first element that is considered when selecting marketable security. This basically means that the M.security should be at least able to return the same amount of money that was initially invested in it.

**2. Marketability:**

It means that the security should be easily convertible to cash when the owner desires or needs to, often a security is considered to safe for as it promises the amount on maturity but the element of marketability isn’t there, thus the marketability is an important variable to be considered.

**3. Yield:**

Yield refers to the amount of profit or the appreciation in the worth of security upon its maturity. A marketable security should be capable of returning certain profit on maturity. But in some cases such as Treasury bill the security instead of giving profit rather gives profit in shape of difference between the face values and the value on which it is bought back but in either case the security should give certain profit.

**Q-2.B:**

The difference between the cash book of the bank and the bank balance of the company is called as Net Float. A business may have a negative cash flow on the accounts and a good bank flow for as the checks written might be outstanding.

Companies manages or use the float to its advantages for as regulation of disbursements, which can slow down cash outflows and reduce the period that cash reserves become unused, is key to successful cash management. A business with several banks will be able to quickly move funds to banks from which disbursements are made to prevent immediate build-up of excess deposits in a single bank. The aim is to provide enough cash at the various banks but not to enable excess deposits to build up. It includes details on the balances obtained every day. Excess funds can instead be moved to banks that pay out bills or invest in marketable securities.

Following the different ways through which the firm plays with disbursements.

**1. Payable through Demand Draft:**

The payable by draft is not payable on request, unlike a regular check. Once it is submitted for processing to the bank of the issuer, the bank shall send it to the issuer for approval. The funds must then be collected by the collecting company to offset the draft bill. Firms uses it to delay the payments so that it can keep the cash till the due date and thus make maximum use of it.

**2. Dividend Disbursement:**

Most companies hold a separate salary disbursement account. To reduce the balance in this account, the company will anticipate when it will receive payroll checks released for payment. When repayment happens on a Friday not all payments for the day can be cashed. As a consequence, the company does not provide savings funds to support its whole payroll. Many checks won't be even issued again on Monday owing to due to the delay in the deposits.

**Q.3:**

**Answer:**

Outsourcing basically is shifting the normal in-house activity to an outsourced firm. When it comes to cash control, this is not a novel thought. Outsourcing has the power to slash costs for a client. The outsourcer can make use of economies of scale and their specialized skills to conduct an outsourced operation. As a result, the business can get the product it wants at both a cheaper expense and a better price than it should have received on its own. Outsourcing will, however, free up resources and workers so that the organization will spend further on its core market. Thus, although reducing costs in the outsourcing decision is a significant factor, it is not the only one. The lockbox company is the oldest cash processing program in the business. The usage of a lockbox is just one illustration of a important financial method outsourcing. Indeed, all big cash management fields – transactions, disbursements, and marketable-securities acquisition – are ideal for consideration of outsourcing for as outsourcing exist in these areas particularly.

**Q.3.B:**

**Answer:**

Holding cash reasons are basic, cash inflows and outflows are not well balanced, i.e. cash inflows are often more than cash outflows, whereas cash outflows that are more at certain times. Therefore, the companies keep the cash to fulfill the definite as well as the unpredictable circumstances.

Following are the three motives for holding cash:

**1: Transition Motive:**

Transaction motive is that a company wants to satisfy the everyday requirements of its corporate activities. The company needs cash in an ordinary course of business to allow purchases in the form of taxes, wages, fees, dividends, products bought, etc. Likewise, it often collects cash from its profits, debtors, and savings. The capital inflows and outflows of the company frequently do not suit, and therefore the capital is left back to meet its daily obligations.

**2. Precautionary Motive:**

The precautionary motive relates to a firm's propensity to keep currency, to meet the contingencies or unexpected situations that occur during company.

As the future is unpredictable, a company may face contingencies such as raw material price spikes, labor disputes, lockouts, market shifts, etc. Thus, the cash is retained by the companies to have smooth market practices in order to face such uncertainties.

**3. Speculative Motive:**

The companies keep cash for the speculation reasons to take advantage of the possible future opportunities. For instance, if the company thinks the raw material costs are going to decline in the future, it would keep cash and wait before the rates inevitably decrease.

Thus, a company keeps cash to take advantage of new prospects that are out of the usual course of operation. These incentives may be in the form of low interest rates paid on the lent funds, anticipated decline in the costs of raw materials, or beneficial government policy adjustments. The cash is also the most significant and stable commodity the company owns.