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Paper	Advance Corporate Finance
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"Q No 1"

Answar:-

The goal of financial management is to increase the stock value for a company's stockholders. Given that statement managers should not focus solely on the current stock value. Some consideration should be given to current stock, because maintaining a focus on current stock value may lead to a focus on immediately increasing current value which may lead to a compromise in quality and/or consistency, therefore, compromissing long term success. Consideration should be given to long-term success, quality, and consistently increasing profits.

Managers are not motivated towards long-term profit because their employment compensation is attached to short-term results. Many business prospects are being jeopardized because managers do not have the company's interests at heart. They will venture into risky projects for short-term profits and disregard any negative long-term effect to the company.

Such cash flow are discounted an appropiate discount rate that

reflects the risk of the Firm. Hence, a manger focused on maintaining or increasing the Stock's price will automatically pay at.

This is a good Statement to keep in mind becasue Stockholder value can fluctuate wildly and you don't want to harm your overall production capability by focusing too much on it. Now conceptually, it is far more complicated, because Share-holder value and Stock value can improve your operating income and give you liquid capital with which to work.

Overall, however, the job of Managers is to keep their employees working and ensure long term profitability. thing exterior to the production ability and work force can drastically alter the Stock price.

In all three Cases, we are not only Seeing Companies articulate a purpose that goes beyond just delivering returns to Shareholder but also making decisions that at least in the Short-term, will

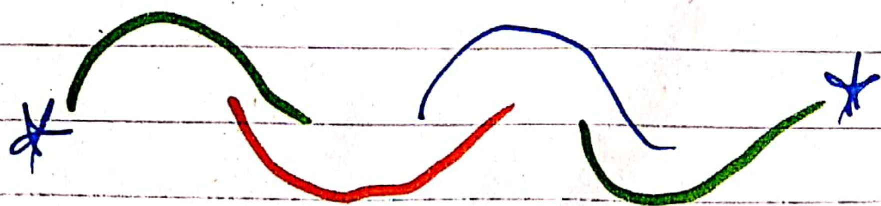
cost them in terms of reduced revenue and/or increased costs.

Short-term and Long-term Profit :-

Over the past few decades, both listed companies and investors (institutional investors and asset managers) have shifted their focus from long term to the increasingly shorter term. In the words of Tom Sweet, CFO of Dell attention is "focused on the ninety day cycle, on achieving the earnings per share target. This is partly driven by use of short-term benchmarks and short-term remuneration structure. The financial Times defined this "short-termism" as "an excessive focus on short-term results at the expense of long term interests". this perspective results the options open to listed companies when it comes to innovation, investement and growth.

A long-term investment horizon is not a direct guarantee of quality and stability. However, we are convined that long-term focus can contribute to a batter alignment of interests between all the stakeholder in the investment

chain. The result of a short-trem focus is that companies place too much emphasis on short-trem profitability, which creates a sense of false certainty. This causes them in invest less and in fact to perform less will in the long term. This means that both pension fund and society miss out on return and economic growth. Investment with a long-term investment horizon deepens qualitative knowledge of companies and in doing so restricts risk. The dialogue needs to be converted into tangible action aimed at minimising conflicts of interest between pension funds and asset managers and at maximising the impact on companies through long-trem engaged shareholdership.



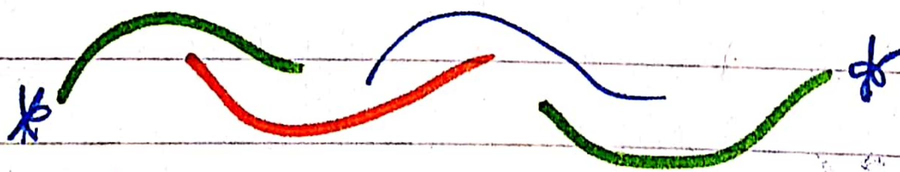
"Q No 2"

Answer :- Generally accepted accounting principle require the use of accrual accounting instead of Cash basis accounting. So, revenue and expense on the income Statement does not exactly line up with the Cash inflows and outflows for the period, particularly as it relates to transactions occurring at the beginning or end of the period. The recognition and matching principles in financial accounting call for revenue, and the costs associated with producing those revenues, to be "booked" when the revenue process is essentially complete, not necessarily when the cash is collected or bills are paid. Note that this way is not necessarily correct; its the way accountants have chosen to do it.

Stock price fundamentally is based on the all the expected Cash flows of the firm be it in the Short run, medium run

or Long run. A Share price today is nothing but present value of all future Cash flow the firm will generate.

Such Cash flows are discounted at an appropriate discount rate that reflects the risk of the firm. Hence a manager focused on maintaining or increasing the stock price will automatically pay off.



"Q No 3"

Answer :-

Time trend analysis gives a picture of Changes in the Company's Financial Situation over time. Comparing a Firm to itself over time allows the Financial manager to evaluate whether Some aspects of the Firm's operations Finances or investment activities have Changed. Peer group analysis involves Comparing the Financial ratios and operating performance of a particular Firm to a Set of peer group Firms in the Same industry or line of business. Comparing a Firm to its peer allows the Financial, manager to evaluate whether Some aspects of the Firm's operations, Finances, or investement activities are out of line with the norm, thereby providing Some guidance on appropriate actions to take to ajust these ratios if appropriate. Both allow an investigation into what is different about a Company from a Financial perspective, but neither method gives an indication of whether the difference is positive or negative. For example

Suppose a Company's Current ratio is increasing over time. it Could mean that the Company had been facing liquidity problems in the Past and is rectifying those Problems, or it Could mean the Company has became less efficient in managing its Current accounts accounts. Similar arguments Could be made for a peer group Comparison A Company with a Current ratio lower than its peers Could be more efficient at managing its Current accounts, or it Could be facing liquidity problems. Neither analysis method tells us whether a ratio is good or bad, both Simply Show that Something is different, and tells us where to look.