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**DEPARTMENT OF BUSINESS ADMINISTRATION**

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***Q.1. A. Compute the present values discounted at 12% of receiving; a. An initial Rs. 55,000- at the end of year 4; b. Rs. 60,000- at the end of year 5; c. Rs. 80,000- a year for the next 10 years.***

**Ans**: (a) PV =FV(1\1+i)n

 P=55000(PVIF12%,4)

 P=55000(0.6355)

 **P=34952.5**

(**b**) PV=FV(1\1+i)n

 P=60000(PVIF12%,5)

 P=60000(0.5674)

 **P=34044**

**(c)** PV=FV(1\1+i)n

 P=80000(PVIF12%,10)

 P=80000(0.3220)

 **P=25760**

 ***B. Your uncle is about to retire at the age of 60. His firm has given him a choice of retiring with a lump sum of RS. 2,000,000- or an annuity of Rs. 120,000- for 10-years. Which is worth more now, if annual interest rate of 8% is used for an annuity?***

**Ans**: Annuity

PV=120000x1\0.08{1-1\(1+0.08)10}

**PV= 805200**

***C. A 56 years old executive is about to retire and expects to live to age of 80. Assuming 8% rate of return, find the amount he must have at age 60 in order to receive Rs. 80,000- annually from retirement until his death.***

**Ans**: A=80000

PV=56

Year=24

i=8%

FVA=A(FViFAi,n)

FV=80000(FViFA8,24)

FV=80000(6.3412)

**FV=507296**

Amount at age 60 =507296/24x4=**84549.3**

***Q.2. A. you have applied for a home mortgage of Rs. 2,500,000- to finance the purchase of a new home for 10-years. The bank required 12% interest rate. What will be the annual payment?***

**Ans**: PVA=A(PViFAi,n)

2500000=A(PViFA12%,n)

2500000/(0.8929)=**279986.561**

2500000/(1.6901)=**1479202.414**

2500000/(2.9018)=**861534.2201**

2500000/(3.0373)=**82309.4633**

2500000/(3.6048)=**693519**.**7514**

2500000/(4111.4)=**608065**.**3792**

2500000/(4.5638)=**547789**.**1231**

2500000/(4.9676)=**503261**.**1321**

2500000/(5.3282)=**469201**.**6065**

2500000/(5.6502)=**442462**.**2137**

 ***B. It has been observed that year-end financial statement may show rosier picture of the financial condition than at any other time in the year due to some window dressing steps being taken by the management. As a financial analyst how can you overcome this issue, so that the actual financial position may be looked into? Please comment briefly.***

**Ans**: Yes it is ture that the companies do some big transactions at the end of financial year to show better condition of the company. That cause biasness, as it is not the actual picture of the company for the whole ended year. The management should taken into account the quarterly financial statement for the evaluation of the company.

 ***C. An XYZ company has net accounts receivable of Rs. 280,000- as of Dec. 31, 2012 and RS. 320,000- as of Dec. 31, 2013. Net cash sales for 2013 were Rs. 120,000-. The accounts receivable turnover for 2013 was 3x. What were the company’s total net sales for 2013?***

 **Ans**: A/R=280000+320000/2

 A/R=**30000**

Rec turnover =3

So, the net credit sales will be

Net credit sale =300000x3

Net credit sale =900000

Net Cash Sale

Total Net Sales 2013 =900000+120000

Total Net Sales 2013 =**1020000**

 ***Q.3. A. What is meant by liquidity analysis? And what are the three ratios that are used to measure liquidity of a firm?***

**Ans**: Liquidity proportions are the proportions that measure the capacity of an organization to meet its momentary obligation commitments. These proportions measure the capacity of an organization to take care of its transient liabilities when they fall due. The liquidity proportions are a consequence of partitioning money and other fluid resources by the transient borrowings and current liabilities. They show the occasions the transient obligation commitments are secured by the money and fluid resources. In the event that the worth is more noteworthy than 1, it implies the transient commitments are completely secured. By and large, the higher the liquidity proportions are, the higher the edge of wellbeing that the organization forces to meet its present liabilities. Liquidity proportions more noteworthy than 1 show that the organization is in acceptable monetary wellbeing and it is more outlandish fall into money related troubles. Most basic instances of liquidity proportions incorporate current proportion, basic analysis proportion (otherwise called snappy proportion), money proportion and working capital proportion. Various resources are viewed as significant by various examiners. A few examiners consider just the money and money counterparts as pertinent resources since they are destined to be utilized to meet transient liabilities in a crisis. A few examiners consider the account holders and exchange receivables as applicable resources expansion to money and money reciprocals. The estimation of stock is likewise viewed as important resource for counts of liquidity proportions by certain examiners. The idea of money cycle is likewise significant for better comprehension of liquidity proportions. The money ceaselessly spins through the activities of an organization. An organization's money is generally tied up in the completed merchandise, the crude materials, and exchange indebted individuals. It isn't until the stock is sold, deals solicitations raised, and the indebted individuals' make installments that the organization gets money. The money tied up in the money cycle is known as working capital, and liquidity proportions attempt to quantify the harmony between current resources and current liabilities.

**Basic analysis Ratio**

The expression "Basic analysis proportion" is otherwise called fast proportion. The most essential meaning of basic analysis proportion is that, "it estimates current (present moment) liquidity and position of the organization". To do the examination bookkeepers weight current resources of the organization against the current liabilities which bring about the proportion that features the liquidity of the organization.

**Liquidity ratios:**

Current ratio = current assets / current liabilities

Quick ratio= current assets – inventory /current liabilities

Cash ratio= total cash & cash equivalent + short term investment / current liabilities

 ***B. If the company has Rs. 50,000- as cost of goods sold, the beginning inventory was Rs. 50,000-, and the ending inventory was Rs. 45,000-; what will be its inventory turnover?***

**Ans**: Average Turnover Ratio= cost of Good sold/Average stock

 Average Turnover Ratio= 50,000/47500

 **Average Turnover Ratio=1:05**

***Q.4. A. Distinguish between temporary and permanent working capital.***

**Ans**: However, temporary working capital refers to working capital that goes above and beyond the permanent working capital. It needs to meet seasonal needs and temporary needs. Permanent working capital is stable while temporary working capital is volatile, for example sometimes increasing and sometimes declining.

 ***B. If a firm follows Hedging approach to financing, how would it finance its current assets?***

**Ans**: Overseeing working capital guarantees an organization has the income to proceed with everyday business activities. A working capital examination gives data on the organization's budgetary position. For instance, organizations with a bigger measure of working capital experience less budgetary worry during troublesome periods or seasons of high client orders. All organizations have lasting working capital prerequisites, while a few organizations likewise experience transitory financing necessities. At the point when the firm follows coordinating methodology, i.e., supporting methodology, long term financing will be utilized to back fixed resources and lasting current resources and short term financing to fund transitory or variable current assets. As the degree of fixed resources builds, the drawn out financing level also increases. Under coordinating arrangement, no transient financing will be utilized if the firm has a fixed current resources need as it were. As the degree of current resources increments, the short-term financing likewise increases. Short-term financing might be favored over long haul financing for two reasons, i.e., the cost bit of leeway and adaptability. Transient financing should generally be less exorbitant than long haul financing. The present moment and long haul financing have an utilizing impact on shareholders' return. In India, the momentary advances cost more than long-term loans. Utilizing transient financing to life partner its present resources, a firm runs the risk of reestablishing borrowings over and over. There is in every case less danger of disappointment when the long haul account is used. Fundamentally, the supporting rule is one which manages a company's obligation development financing choices. The supporting rule expresses that the financing development ought to follow the income attributes of the benefits being financed. For instance, as resource that is relied upon to give incomes over a time of state, 5 years, at that point it ought to be account with an obligation having comparative example of income prerequisites. The supporting methodology includes coordinating the incomes creating attributes of a benefit with the development of the wellsprings of financing used to fund it. The supporting way to deal with working capital financing depends on the idea of bifurcation of absolute working capital needs into perpetual working capital and transitory working capital. As the name itself proposes, the existence term of current resources and the development time of the wellsprings of assets are coordinated. The overall principle is that the length of the money should coordinate with the existence span of the benefits. That is the reason the fixed resources are constantly financed by long haul sources as it were. Thus, the perpetual working capital needs are financed by long haul sources. Then again, the impermanent working capital needs are financed by transient sources as it were. At the end of the day, the center or fixed working capital is financed by long haul wellsprings of assets while the extra or fluctuating working capital needs the financed by the momentary sources. For instance, an occasional extension in inventories ought to be financed with transient credit or liabilities. The reason of the supporting guideline is straight forward. Assets are required for a restricted period state for acquisition of extra stock, and when that period is finished, the money expected to reimburse the advance will be produced by the offer of additional stock things. Acquiring the required assets from a long terms source would imply that the firm would at present have the store after the inventories had just been sold. For this situation, the firm would have abundance liquidity, which it either holds in real money or attractive protections until the occasional increment in inventories happens once more. The consequence of this would be brings down the benefits of the firm. The financing blend as recommended by the supporting methodology is an attractive financing design. In any case, it might be noticed that the specific match of development time of current resources and wellsprings of money is consistently unrealistic as a result of vulnerability included.