**IQRA NATIONAL UNIVERSITY HAYATABAD PESHAWAR**

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**Q No: 01:** Evaluate the following statement. Managers should not focus on the current stock value because doing so will lead to an overemphasis on short term profit at the expenses of long term profits?

**Ans: Step 1:** The statement is false, because stock price is fundamentally based on the all 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 the future cash flow the firms who generate such cash flow are discounted at appropriate discount rate that reflects the risk of the firm. Hence a manager focuses on maintaining and increasing the stock price.

**Step 2:** Manager should not focus on the current stock value because doing so will lead to overemphasis on sort term profit at the expenses of long term profit.

In corporate managers are employees of stock holders and their job to maximize the wealth of these owners.

They are consider residual claimant that they have claims to the funds that are left over after that all bills have being paid. The creation of shareholder wealth means making investment whose value is greater than the amount of capital used. In this concept of time values have been considered. Current stock value is represented by stock price and then calculated on individual portfolio by multiplying the value price point time by the number of share owned. Management contract focus on long term profitability as by long term appreciation in the stock price.

Suppose in market price apart from the book value per share stock price or market price will judged by many factors book value per share will be the preference for investor to set their expected price. Financial performance will be analyzed carefully to confirm about its operations effectiveness.

**Q No: 02:** why might the revenue and cost figures shown on a standard income statement not represent the actual cash inflows and outflows that occurred during a period? while looking at the accounting statement of cash flow, what does the bottom line number mean? How useful is this number for analyzing?

**Ans:** The main difference between the income statement and the cash flow statement in cash, the income statement is based on an accrual basis (due or received), while the cash flow statement is based on the actual receipt and payment of cash.

The income statement is a part of the financial statement used to show revenues, gain expenses and losses for a particular accounting period. On the other hand the cash flow statement is a part of the financial statement use to reflect cash inflows and out flows for a particular accounting period.

In the income statement all expenses and income are accounted for on an accrual basis. It whether paid or not will have an impact on the financial statement. On the other hand only paid activities are accounted for and disclosed in the cash flow statement.

The purpose of the income statement is to know the profitability of the entity; on the other hand the objective of the cash flow statement is to know the current and future cash flows.

The income statement is divided into two major operating and non-operating activities while the cash flow statement is divided into three operating, investing and financing activities.

A cash flow statement shows exactly how much money a company has received and how much it has traditionally spent over a period of one month. It records current operating results and balance sheet changes such as increases or decreases in accounts receivable, or account payable, and does not include non-cash accounting such as depreciation and amortization. A cash flow statement is used to determine a company’s short term viability and liquidity in particular how well it is able to pay its bill and vendors.

A cash flow statement also called the statement of cash flow shows how much cash is generated and used during a given time period. It is one of the main financial statement analyst’s uses in building a three statement model. The main categories found in a cash flow statement are,

1. Operating activities
2. Investing activities
3. Financing activities

In the above three categories financing activities of a company and are organized respectively. The total cash provided from or used by each of the three activities is summed to arrive at the total change in cash for the period which is then added to the opening cash balance to arrive at the cash flow statements bottom line, the closing cash balance. And on of the primary reasons cash inflows and outflows are observed is to compare the cash from operation to net income. This comparison helps company management, analysts, and investors to gauge how well a company is running its operations.

**Bottom Line**

The bottom line is a company’s income after all expenses have been deducted from revenues. These expenses include interest charges paid on loans, general and administrative costs, and income taxes. A company bottom line can also be referred to as net earnings or net profits.

The bottom line refers a company’s earning, profit, Net income, or earnings per share. The references to bottom line describe the relative location of the net income figure on a company’s income statement.

Bottom line commonly used in reference to any action that may increase or decrease net earing or a company overall profit. A company that is growing its earnings or reducing its cost is said to be improving its bottom line. Most companies aim to improve their bottom lines through two simultaneous methods. Increasing revenue generates top line growth and improving efficiency (or cutting costs).

1. The bottom line refers to a company’s net income which is presented at the bottom of the income statement.
2. Management can increase the bottom line by enacting strategies to increase revenues or decrease expenses.
3. Net income, or the bottom line, can be retained for future use in the business, distributed in the form of dividends, or use to repurchase shares of outstanding stock.

**Q No: 03:** Financial ratio by itself tells us little about a company because financial ratios vary a great deal across industries. There are two basic method for analyzing financial ratios for for a company. Time trend analysis and peer group analysis. Why might each of these analysis methods be useful? What does each tell you about the company financial health?

**Ans:** Financial ratio or accounting ratio is a relative magnitude of two selected numerical values taken from enterprises financial statements. Often used in accounting there are many standard ratios used to try to evaluate the overall financial statement condition of corporation or other organization.

Financial ratios are figures calculated based on the provided information on the financial statements, which are used to determine the business performance.

There are two popular methods used in financial analysis, time trend and peer group analysis. Those two types of analysis would be useful to determine how well the business is operating in the comparison with itself over periods and its rivals in the industry.

**1. Time Trend Analysis:**

The time trend analysis would provide the performance over the periods. Alternatively the time trend analysis makes the firm compare to itself over each year which will produce the evaluation from the internal side or it is so assess the business improvement through periods. The higher ratios of the following years suggest the advance in business improvement.

**2. Peer Group Analysis:**

The peer group analysis the overall evaluation about the firm position when compared to other rivals who are operating in the same industry. The higher ratios would indicate that the firm is well managed in generating profits and other aspects compared to other companies or the industries average performance.

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. e.g. suppose a company 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 become less efficient in managing its current accounts. Similar argument 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 nor bad, both simply show that something is different, and tells us where to look.

**-------------------The End----------------**