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2ND SEMESTER = MS (FINANCE)

EXAM = MID TERM (SPRING)

PAPER /ASSIGNMENT = WORKING CAPITAL MANAGEMENT

**Q.1. A. Some firms finance their working capital with short term financing. What impact would this decision have on their profitability and risk?**

 **Answer**. The impact on short-term financing is positively related to firms’ profitability and risk because of its lower cost and monitoring role. However, a higher percentage of short-term financing is expected to increase risk of financial distress or insolvency.

**Example**.

 In light of this risk effect of short-term financing it is hypothesized that greater reliance on short-term financing will not affect risk-adjusted profitability of a firm. The study uses partial adjustment panel data models adopted from the study of Baum et al., (2007). The results show that short-term financing is positively related to profitability; however, the relationship for the sample is statistically insignificant. Further, the results partially support the contracting cost hypothesis and signaling hypothesis but not the tax hypothesis. As far as the relationship between short-term financing and risk adjusted profitability is concerned, the results confirm the hypothesis that short-term financing has no impact on risk adjusted profitability The results of all variants of dynamic panel data models and alternative measures of profitability send a strong message that greater reliance on relative short-term financing does not affect operational performance of firms included in the sample.

**B. Some companies finance their seasonal current assets with long term financing. What impact would this policy has on their profitability and risk?**

**Answer**. We can say that long term financing for seasonal current assets in terms of profitability is not a good idea because for 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 uncertainty 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.

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

 **Answer**. When the firm follows hedging approach, long term financing will be used to finance fixed assets and permanent current assets and short term financing to finance temporary or variable current assets. As the level of fixed assets increases, the long term financing level also increases. Under matching plan, no short term financing will be used if the firm has a fixed current assets need only. As the level of current assets increases, the short-term financing also increases. Short term financing may be preferred over long term financing for two reasons, i.e., the cost advantage and flexibility. Short term financing should generally be less costly than long term financing. The short term and long term financing have a leveraging effect on shareholders’ return. Using short term financing to fiancé its current assets, a firm runs the risk of renewing borrowings again and again. There is always less risk of failure when the long term finance is used.

**Q.2. A. Discuss the important variables in selection of the marketable securities for investment.**

**Answer.**  **Marketable securities**

Marketable securities are liquid financial instruments that can be quickly converted into cash at a reasonable price. The liquidity of marketable securities comes from the fact that the maturities tend to be less than one year, and that the rates at which they can be bought or sold have little effect on prices. There we some of variables which will discuss

1. **Safety.**

It is the most basic test that when I buy marketable security I have safety for financial instrument .its have very important variable for selecting a marketable securities.

1. **Marketability.**  The marketability (or liquidity) of a security relates to the owner’s ability to convert it into cash on short notice. Although it is possible that a security could be quite “safe” if held to maturity, this does not necessarily mean that it is always possible to easily sell the security before maturity without incurring a loss.
2. **Yield**. The yield, or return, on a security is related to the interest and/or appreciation of principal provided by the security. Some securities, notably Treasury bills, do not pay interest. Instead, they are sold at a discount and redeemed at face value.

**B. What is meant by net float? How a company can play with its float through controlling its disbursement.**

**ANSWERS. Net Float.**

The net float at a point of time is simply the overall difference between the firm's available bank balance and the balance shown by the ledger account of the firm. If the net float is positive, i.e., payment float is more than receipt float, and then the available bank balance exceeds the book balance.

 **Disbursement float** .A decrease in book cash but no immediate change in bank cash, generate by checks written by the firms

**Controlling its disbursement.**

 Disbursement policies are designed to reduce a firm’s liquid asset balances (cash and marketable securities) by exploiting imperfections in the collection and payment process. The objective is to speed up collections and slow down disbursements. Financial managers should be aware that policies designed to speed up collections and slow down disbursements are highly competitive. If all firms were to employ the same procedures, the net benefit would be zero. Thus, incremental benefits associated with procedures designed to control collections and disbursements will accrue only to the most aggressive and progressive firms. Similarly, cash managers who do not do at least as much as the average firm in speeding up collections and slowing disbursements will find their firms at a competitive disadvantage.

The primary objective of cash collection involves expediting collections by reducing the lag between the time customers pay their bills and the time the checks are collected. In contrast, the primary objective of cash disbursement is to slow payments so that the firm can keep the funds invested or in the bank as long as possible. Expediting collections and slowing disbursements help increase a firm’s cash balance and provide it with funds to use for other profitable investments. Policies designed to control collections and disbursements take advantage of the float present in the payment and disbursement system.

**3. A. What is outsourcing? Why a company outsource some or all of its receivables.**

**ANSWER. Outsourcing .**Put in simple words, the definition of outsourcing is the practice of obtaining goods and services from a foreign supplier. This practice is most commonly used in industries where there’s either a [shortage of labor](https://medium.com/coderslink/what-you-should-know-about-the-tech-labor-shortage-in-the-us-b414dc319278) for particular positions or where the cost of labor is too high. For example, software developers or designers, as it reveal the [Tech Salaries Report](https://coderslink.com/company/tech-salaries-report-2019/?utm_source=Blog%20Agency%20-%20Optimized%20-%20Discovery&utm_medium=Medium&utm_campaign=2019%20Q4%20-%20US%20-%20Blog%20Agency%20-%20Tech%20Salaries).

 **Why do companies outsource?**

The simplest way to put it is that companies outsource because it reduces their overhead to produce a product, thus increasing their profit margins. It’s purely a business decision.

**Here is a thorough breakdown of the reasons as to why people outsource**:

* Reduce or control costs
* Gain [access to IT resources](https://coderslink.com/company/blog/outsourcing-options-for-tech-companies-why-mexican-developers-are-topping-the-list/?utm_source=Blog%20Agency%20-%20Optimized%20-%20Discovery&utm_medium=Medium&utm_campaign=2019%20Q4%20-%20US%20-%20Blog%20Agency%20-%20Medium) unavailable internally
* Free up internal resources
* Improve business or customer focus
* Accelerate company reorganization/transformation
* Accelerate project
* Gain access to management expertise unavailable internally
* Reduce time to market

**B. Discuss the three motives for holding cash?**

**Answer. Motives for Holding Cash**

 **Definition:** The Motives for Holding Cash is simple, the cash inflows and outflows are not well synchronized, i.e. sometimes the cash inflows are more than the cash outflows while at other times the cash outflows could be more. Hence, the cash is held by the firms to meet the certain as well as uncertain situations.

**Majorly there are three motives for which the firm holds cash.**

1. **Transaction Motive:**The transaction motive refers to the cash required by a firm to meet the day to day needs of its business operations. Example salaries, wages, interests, dividends, goods purchased, etc.
2. **Precautionary Motive:** The precautionary motive refers to the tendency of a firm to hold cash, to meet the contingencies or unforeseen circumstances arising in the course of business.
3. **Speculative Motive:** The firms hold cash for the speculative purposes to avail the benefit of bargain purchases that may arise in the future. For example, if the firm feels the prices of raw material are likely to fall in the future, it will hold cash and wait till the prices actually fall.