

Source of finance & Money Market instrument

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→ Economic Value Added:-

$$EAV = NOPAT - \text{Capital charge}$$

$$NOPAT = \text{Net operating profit after tax } [EBIT \times (1-t)]$$

$$\text{Capital charge} = \text{Weighted Average cost of capital} \times \text{Capital Invested or Assets}$$

$$\Rightarrow EAV = ROI - K_0$$

ROI = Return on Capital Invested

K_0 = overall or Weighted Average cost of capital

→ Return on Capital Employed or Return on Investment

$$= \frac{\text{operating net Profit before interest and Tax}}{\text{Capital Employed}} \times 100$$

$$\Rightarrow \text{Capital Employed} = \text{E.S.C} + \text{P.S.C} + \text{undistributed profit} + \text{Revenue surplus} + \text{fixed Liabilities} - \text{fictitious Assets or}$$

$$C.E = \text{fixed Assets} - \text{Current Assets} - \text{current Liabilities}$$

→ Return on Shareholders funds:-

$$= \frac{\text{Net profit after tax}}{\text{Shareholders funds}} \times 100.$$

$$S.H.F = \text{E.S.C} + \text{Capital Reserve} + \text{Revenue Reserve} + \text{P\&L A/c} + \text{P.S.C} - \text{fictitious assets.}$$

→ Return on Equity ratio

$$= \frac{\text{Net profit after tax \& Preference dividends}}{\text{Equity share holder's funds}} \times 100.$$

$$\text{E.S.H funds} = \text{E.S.C} + \text{C.R} + \text{R.R} + \text{P\&L} - \text{f.A (fictitious)}$$

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→ Return on Total assets

$$= \frac{\text{Net profit after tax}}{\text{Total assets excluding fictitious assets}}$$

→ Interest coverage ratio

$$= \frac{\text{earnings before interest \& taxes}}{\text{Interest on long term debt.}}$$

→ Types of factoring:-

- 1) Non recourse factoring:- on this case factor assumes the risk of bad debts and charges higher commission
- 2) Recourse factoring:- on this case factor does not assume the risk of bad debts charges the lower commission.

f) → LCD TV selling price ₹50000

Down payment ₹10000

Balance amount by adopting any following option

Tenure of monthly installments

Equal monthly installments

12

3800

24

2140

You are required to determine the flat and effective rate of interest for each alternative.

Sol:-

Particulars	12 months	24 months
1) Total Annual Charges for loan	$3800 \times 12 - 40000 = 5600$	$2140 \times 24 - 40000 = 5680$
2) Flat rate of interest	$\frac{5600}{40000} \times 100 = 14\%$	$\frac{5680}{40000} \times 100 = 14.2\%$
3) Effective interest rate	$\frac{n}{n+1} \times 2F = \frac{12}{13} \times 28 = 25.85\%$	$\frac{n}{n+1} \times 2F = \frac{24}{25} \times 28.40 = 27.2\%$