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Finance

Business

(Ac501) Business finance: 1. Business finance words

2. combination of finance

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کو فروغ دینا کہ اس کے لئے یہ فرض کیا کہ لازمی ادا کرنا پڑے گا
 stock / share = packet owner ایسی issue
 equity کے لئے ادائیگی
 invest کرنے کے لئے

ideal capital structure =>

- | | |
|-------------------|------------------------|
| 1) Current Assets | 3) Current liabilities |
| 2) Fixed Assets | 4) long-term debt |
| • tangible | 5) share holders |
| • Intangible | equity |

70% investment کرنے کے لئے اور 30% loan (debt) ایسی
 business کے لئے

3) Net working capital Management:

maintain expenses (day to day) جس میں سے اپنے
 The difference between current Assets
 and current liabilities is known as working
 capital.

=> (lecture 3) ←→

Forms of business organization
=> Types of organization

- 1) Sole proprietorship
- 2) partnership
- 3) Corporation

1) → Sole proprietorship.

ایک شخص کا ایک ہی دھوکہ ہے (A business owned & controlled by one person.)

Advantages

- Easy formulation.
- Unlimited liability
- Single tax
- Transfer of Business
- Easy dissolution

disadvantages

- Difficult to raise capital
- Limited life of business

2) → Partnership:

تین یا دو یا دو سے زیادہ لوگ شامل ہوتے ہیں جو کاروبار کرتے ہیں (A business which carried out by relation of two or more person.)

Advantages

- Easy formulation
- Unlimited liability
- Single tax
- Transfer of business
- Partner Dissolve Business

Disadvantages

- Only few partners in business
- Difficult Transferring ownership

3) Corporation:

ایسا کاروبار جو ایک سارے لوگوں سے مل کر چلتا ہے (A business which is carried out by association of persons)

Advantages

Disadvantages

- Legal formation
- Limited liability
- Double tax
- Transfer of shares
- Common seal

- Shareholder not same mind
- Separation of ownership & management

(Lecture 4):

1) Financial Market:

ہر ایسی مارکیٹ جہاں لوگ اپنی سیکورٹیز یا کہ ان کے ہونڈ شیئرز کو خرید و فروخت کرتے ہیں۔ اس کی دو types ہیں۔

• Primary Market

ایسی مارکیٹ جہاں new shares فروخت یا خریدے جاتے ہیں۔

• Secondary Market

ایسی مارکیٹ جہاں already issued shares فروخت یا خریدے جاتے ہیں۔
یعنی existing shares جو کہ پہلے سے ہی موجود رہے ہیں ان کو فروخت کرتے ہیں۔

⇒ Difference

Primary Market

اس میں beneficiary (یعنی حوالہ دہندگان) کو organization کو فروخت کرنے کے لیے issues (new shares) کا حق ہے۔

Trading new issue of securities

Raising capital

Secondary market

اس میں beneficiary کو وہ investor یا Shareholder بننا پڑتا ہے۔

Trading previously issues of securities

No need to raise capital

c) Secondary market types:

Dealer Market:

price dealer - financial market
bond & share security price
market میں بتاتے ہیں کہ price
جزیرہ اور فروخت کرتا ہے

Auction Market:

the best bidder will win
The best bidder will win
اور لٹی کر share دے گا

(Lecture 5)

Balance sheet:

Balance sheet سے مراد یہ ہیں کہ کسی کمپنی کی مالی position
business کی ادا کیا ہے کیا نہ
business کے اثاثہ کیا ہیں کیا نہ
لیج کی ذمہ داریاں کیا ہیں (liabilities) اور اس کے اثاثہ (Assets) کیا ہیں

NWC:

Net working capital = day to day expense
Net working capital

(NWC) Formula

Net working capital = Current Assets - Current liabilities

Balance sheet سے یہ چیزیں analyze کریں

- 1) Accounting Liquidity
- 2) Debt versus equity
- 3) Value versus cost

1) Accounting

Assets (short-term) $\rightarrow$ Liquidity: $\rightarrow$ The ability to convert assets into cash quickly without a significant loss of value.
pay short term obligations $\rightarrow$ Liquidity: $\rightarrow$ The ability to convert assets into cash quickly without a significant loss of value.

2) Equity

shareholders invest in business owner's equity $\rightarrow$ Debt: $\rightarrow$ The amount of money that a business owes to its creditors.

Debt:

financial institutions $\rightarrow$ Debt: $\rightarrow$ The amount of money that a business owes to its creditors.

$\rightarrow$ Book value:

the value of an asset as entered in a firm's book

$\rightarrow$ Market value:

the amount for which something can be sold on a given market.

3) Cost:

the cost of your product or service is the amount you spend to produce it.

Value:

The value is what your customer believes the product or service is worth to them.

Example.. / exercise..

Assets		Balance sheet		Liabilities	
Current assets	250			Short-term debt	300
Net fixed assets	950			Long-term debt	450
				Owner's equity	750
		1200			
		Assets	=	Liabilities	

(Lecture 6)

Income statement

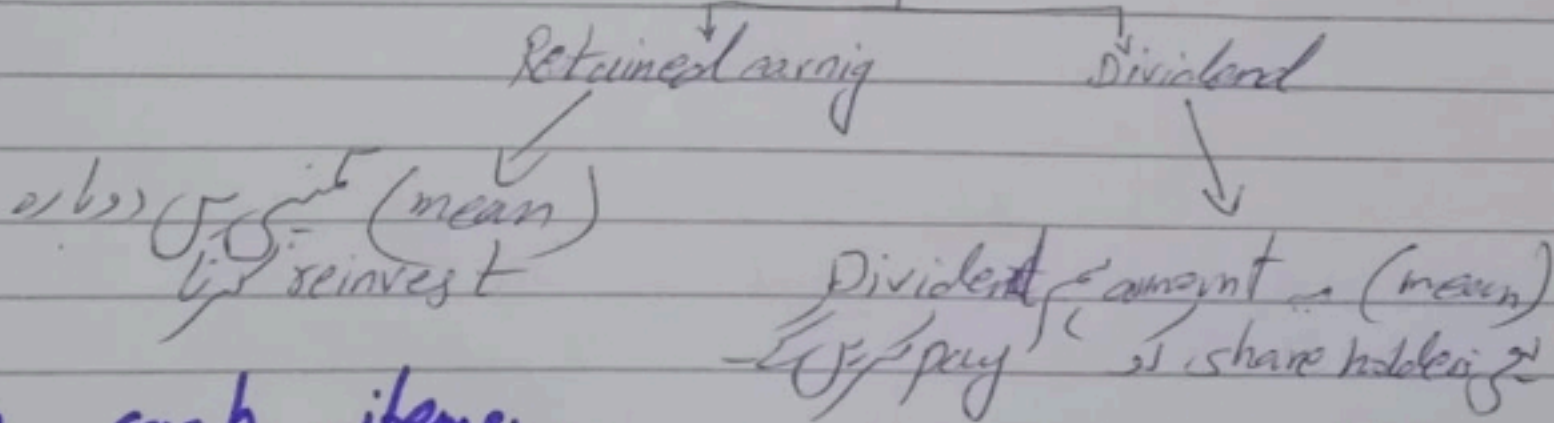
Income statement is a financial statement that shows the profitability of a company over a specific period. It is prepared by deducting expenses from revenues. The result is the net income or profit.

* Income statement formula:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

* Income statement Model:

$$\text{Revenue} - \text{Expenses} = \text{Net income}$$



Non cash items

Non-cash items are those items that are recorded in the income statement but do not involve cash. Examples include Depreciation (cash outflow) and Taxes.

The recognition principle:

Revenue (sales/revenue) is recorded in the period of sale
 - Expense is recorded in the period of sale

Matching principle:

Revenue (revenue) is recorded in the period of sale
 - Expense is recorded in the period of sale

Income statement practice:

Total revenue	3500	R	-3500
Cost of goods sold	2500	C	-2500
Selling and admin expenses	350	DS	-350
Depreciation	250	D	-250
Other income	400	OI	= 400
Interest expense	250	Gthe Income	400
Tax	150	Interest	= 850
		Income	-150
			700

non cash items: 7

Depreciation 250
 Tax 150
 400

Some basic information about accounting

Definitions:

Depreciation: Depreciation is defined as a reduction in the value of assets

کسی بھی asset کی ویس میں کسی کیس آتی ہے۔ جب وہ سیر کران پر گاتے یا ٹوٹ پھوٹ گاتے۔

New assets — max value
assets get older — value decreases ↓

(Lecture 7) ←

Tax:

tax ہمارے لائی جا رہے ہیں۔ اس کی ادائیگی ہمیں کرنی ہے۔
Taxpayer سے لے کر یہ حکومت کی طرف سے لیا جاتا ہے۔
ہم لے کر یہ public expenditure میں آتی ہے۔
کے لئے ملے۔ اگر آپ ملے ہیں تو pay نہیں کرتے تو قانون کا اندازہ
آپ پر کرنا پڑے گا۔

Tax rate:

tax rate سے مراد وہ فیصد ہے جس کا آپ کو کرنی ہے۔
company یا individual کو tax کرنا ہے۔
percentage rate یا schedule in law ہے۔
جو اور اس کو ادارہ issue کرتا ہے۔
central board of revenue

personal income کی tax partnership و sole proprietorship
کی حساب کرنا ہے۔

Kinds of taxes:

1) Flat tax:

income level $\rightarrow$ tax rate $\rightarrow$ calculate tax rate

0 - 50,000	10%
50,001 - 75,000	10%

2) Fluctuating tax:

change tax rate $\rightarrow$ change income level

0 - 50,000	10%
50,001 - 75,000	20%

Average tax:

taxable income $\rightarrow$ divide $\rightarrow$ total tax bill
 numbers $\rightarrow$ percentage of pay taxes
 Average tax rate

Tax 210,000

Taxable income 2 200,000

Average tax 220%

Marginal tax:

extra tax rate $\rightarrow$ Marginal tax rate

0 - 50,000	10%
50,001 - 75,000	25%
Marginal tax	25%

Practice example...
XYZ Company

$$(50,000 \times 15\%) = \left(\frac{50,000 \times 15}{100} \right) = 7,500$$

$$(75,000 - 50,000) \times 25\% = \left(\frac{25,000 \times 25}{100} \right) = 6,250$$

$$(100,000 - 75,000) \times 34\% = \left(\frac{25,000 \times 34}{100} \right) = 8,500$$

$$(335,000 - 100,000) \times 39\% = \left(\frac{235,000 \times 39}{100} \right) = 91,650$$

$$(2,090,000 - 335,000) \times 34\% = \left(\frac{1,755,000 \times 34}{100} \right) = 5,966,500$$

$$\text{Total tax} = 6,800,000$$

(Lecture 8): Depreciation as tax shield

مثال کے طور پر ایک asset کی useful life 10 سال ہے۔ اس کا قیمت خرید 100,000 ہے۔ اس کی قیمت بچاؤ 25,000 ہے۔ اس کی depreciation rate 34% ہے۔ اس کی depreciation expense 7,500 ہے۔ اس کی depreciation shield 7,500 ہے۔

Depreciation is the allocation of the cost of an asset over its useful life. It is a non-cash expense that reduces taxable income and therefore acts as a tax shield.

Depreciation as tax shield

income statement اور financial statements میں depreciation expense کو cash out flow کے طور پر دیکھا جاتا ہے۔ لیکن یہ ایک tax shield ہے۔
 Depreciation expense income statement میں دیکھا جاتا ہے تو income tax میں یہ expense دیکھا نہیں جاتا۔
 Depreciation expense income statement میں دیکھا جاتا ہے تو income tax میں یہ expense دیکھا نہیں جاتا۔
 Depreciation expense income statement میں دیکھا جاتا ہے تو income tax میں یہ expense دیکھا نہیں جاتا۔
 Depreciation as tax shield

Exercise: ABC company		XYZ company	
Earning before interest and tax	500,000	500,000	
Depreciation	-100,000	-0	
Earning before tax	400,000	500,000	
Tax @ 20%	80,000	100,000	
Net income	320,000	400,000	
+ Depreciation	100,000	0	
Net income that company income	420,000	400,000	



(Lecture 14) :: Cash flow statement

جس کا حصہ ہے financial statement (جس میں) ہے cash flow statement
Cash flow (جس میں) ہے Cash flow (جس میں) ہے
تقریباً 12 normally ہے during the final year

Simple Model ::

Cash inflow



Cash flow from assets

Cash outflow



Cash flow to creditors

Cash flow to stockholders

$$\text{Cash flow from assets} = \text{Cash flow to creditors} + \text{Cash flow to stockholders}$$

Cash flow statement analysis

1) Cash flow from assets

* Operating cash flow

* Capital spending

* Change in Net working capital

2) Cash flow to creditors

3) Cash flow to stockholders

* (OCF) ::

Operating cash flow
کامیابی کا سبب ہے اور یہ کافی ہے کہ اس سے
sufficient positive cash flow
generate
negative (cash flow) ہے اور اس سے
negative (cash flow) ہے اور اس سے

* Capital spending ::

Capital spending sale of fixed assets

* Net working capital

NWC = Current assets - Current liabilities

2) Cash flow to creditors

Calculated = interest paid less net new borrowing

Cash flow to stockholders

Calculated = dividends paid less new equity raised

VU Solution Point