CA Mohnish Vora (MVSIR)

- CA, CFA LEVEL 1, B.COM
- Faculty for
  - CA Foundation- Economics & BCK
  - CA Intermediate- Financial Mgt, Strategic Mgt, Economics for Finance
- 4+ years of teaching experience
- Passionate about teaching, started teaching at a young age
- Known for making difficult concepts easy by innovative examples, charts, summary & tricks
- Taught thousands of students on various online platforms in a short span of time
- Author of Best selling Books on Economics, BCK, FM

ULTIMATE CA`

CA INTER

— MAY 2024 —

FM & SM

REGULAR **BATCH 1**

FROM 02 SEP'23
TO 31 JAN'24
5:30 to 7:30 PM

3 classes per week (Tue, Thu & Sat)

REGULAR **BATCH 2**

FROM 01 DEC'23
TO 29 FEB'24
1:15 to 3:15 PM

6 classes per week (Mon to Sat)

CA FOUNDATION

— DEC 2023 —

ECONOMICS BCK

YALGAAR FASTRACK **BATCH**

FROM 11 SEP'23
TO 05 NOV'23
2:00 to 3:15 PM

6 classes per week (Mon to Sat)

- Combo of all subjects also available.
- First 10 sessions of Inter & Foundation Batches free on YouTube "Ultimate CA".
- Later classes will be on "Ultimate CA" App.
- Printed books will reach students by 20 Sep.

CA MOHNISH VORA (MVSIR)

MODES OF CLASSES

Live streaming on
"Ultimate CA" App
(Android / Windows)
1 Live + 2 Rec. views

Google Drive
3 recorded views

Pen Drive
3 recorded views

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CA Intermediate – May 2024
Financial Management

BASICS OF FM & TIME VALUE OF MONEY

Handwritten Notes

Handwritten Notes by MVSIR

BASICS of FM

* Financial Management is the process of EFFICIENT
  - Acquisition of funds [Procurement]
  - & Allocation of funds [Utilisation]

  with the objectives of -
  i) maximisation of profits.
  &
  ii) maximisation of wealth (value) of shareholders.

* Wealth of shareholders = No. of shares x MPS

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* F.M. subject focusses on 3 major financial decisions
  - Financing Decision
    - i) How much funds are required?
    - 2) From where (source) to bring these funds?
    - Chp 2: Types of Financing
    - Chp 4: Cost of Capital
    - Chp 5: Capital Structure
    - Chp 6: Leverage Analysis
  - Investment Decision
    - Where to invest (allocate) the funds raised?
    - Fixed Assets & Current Assets
    - Chp 7: Investment Decisions [Capital Budgeting]
    - Chp 9: Working Capital Management
  - Dividend Decisions
    - How much profits to be distributed among EQUITY shareholders (as dividend) & how much to be retained?
    - Chp 8: Dividend Decisions

FM Chp 1 → Scope & Obj of FM → (Basics of FM)
FM Chp 3 → Ratio Analysis

Balance Sheet

Liabilities & Capital		Assets	
Equity Share Capital		Fixed Assets	
Reserves & Surplus			
Pref. Share Capital			
Long Term Debt		Current Assets	
Current Liabilities			

Long term sources of finance

Short term source of finance

* COMPARISON OF DIFFERENT SOURCES OF FINANCE

Basis	Point of view [POV]	Comparison (ESC vs. LTD vs. PSC)
RISK	Company [Issuer]	LTD > PSC > ESC
RISK	Investor	ESC > PSC > LTD
EXPECTATION OF RETURN	Investor	ESC > PSC > LTD
COST OF CAPITAL	Company	ESC > PSC > LTD

* INCOME STATEMENT

Sales	xx
(-) Variable cost	(xx)
Contribution	xx
(-) Fixed cost	(xx)
PBIT or EBIT (Operating Profit)	xx
(-) Interest	(xx)
PBT or EBT	xx
(-) Tax	(xx)
PAT or EAT	xx
(-) Preference Dividend	(xx)
Earnings available for equity SH [EFES]	xx
(-) Equity Dividend	(xx)
Retained Earnings.	xx

* Earnings Per Share = $\frac{\text{EFES}}{\text{No. of Eq. Sh.}}$

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* "Interest on Debt" is a CHARGE AGAINST PROFIT
[i.e., Tax pay karne se pehle, Interest pay KARNA HI PADTA HAI, chahe profit/loss ho]

* "Pref. Dividend" & "Equity Dividend" are APPROPRIATION OF PROFITS.
[i.e., Tax pay karne ke baad, agar Profit bacha toh hi dividend pay hoga]

INTEREST is a TAX DEDUCTIBLE EXPENSE

(Amt in ₹ Lakhs)

Particulars	Case I: No Debt [No Interest]	Case II: Debt ✓ [Interest ✓]
Sales	1000	1000
(-) Variable cost	(300)	(300)
Contribution	700	700
(-) Fixed cost	(200)	(200)
PBIT	500	500
(-) Interest	0	(150)
PBT	500	350
(-) Tax @ 30%	(150)	(105)
PAT or EAT	350	245

₹ 45 L → Tax saving

In case II, due to Interest expenditure, the company is able to save Tax of ₹ 45 lakhs

Tax Saving / Shield on Interest

= Interest Exp (x) Tax Rate

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* Due to issue of Debt } Interest Exp ↑ } Tax Saving ↑ } EPS ↑

Case I: Total Capital = ₹ 10 L ESC = ₹ 10 L ; LTD = 0 (₹ 100/Sh.)		Case I: Total Capital = ₹ 10 L ESC = ₹ 7 L ; LTD = ₹ 3 L (10%) (₹ 100/Sh.)
EBIT	3,00,000	3,00,000
(-) Interest	0	(30,000)
EBT	3,00,000	2,70,000
(-) Tax @ 40%	(1,20,000)	(1,08,000)

EAT	1,80,000	1,62,000
(-) Pref Div	0	0
EFES	1,80,000	1,62,000
(÷) No. of Eq sh.	10,000 sh.	7,000 sh.
EPS	₹ 18/sh.	₹ 23.14/sh.

As, debt ↑ , Int ↑ , EPS ↑,
BUT, simultaneously financial risk also increase.
Thus, we cannot just go on increasing debt in our capital structure.

Hence, a finance manager, while selecting capital structure, focusses on 3 aspects -
1) Risk (Risk as per tolerable limit)
2) Control (Existing shareholders control should not dilute)
3) Cost of capital. (should be minimum)

Practically, achieving all 3 together is difficult, thus, a finance manager shall try to achieve a trade-off (balance).

TIME VALUE OF MONEY [TVOM]

* TVOM means
  Value of ₹1 Today > [greater than] Value of ₹1 in future.

That is, value of an amount of money is different in different time periods.

- Since money received today has more value, rational investors would prefer current receipts over future receipts.

- Thus, if we borrow ₹1 Lakh (Principal) from Bank for 1 year. At the end of 1 year (at maturity), we will have to repay to bank an amount greater than ₹1 Lakh, say ₹1,10,000

The excess amount we have to pay (₹10,000) over principal amount (₹1 lakh), is called Interest

* Bank (or any lender) charges interest for use of their money because of -

a) Time Value of Money
Present worth (value) of money received after some time will be less than same amount of money received today.

b) Opportunity Cost
Lender incurs opp. cost because of the possible alternative uses of the money lent.

c) Inflation
Inflation means fall in purchasing power of money. Eg: Earlier when your parents were young, they used to buy 1 plate samosa for ₹5, but now in ₹5 you can get only its chutney.

d) Risk factor
There is always a risk that borrower may go bankrupt or default on loan.
A lender charges more interest rate (risk premium) for taking more risks.

Thus, INTEREST is the price paid by a borrower for the use of lender's money.

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* Interest amount is directly proportional to-
a) Amt of money borrowed (principal amt)
b) Period of time for which money is borrowed.
c) Rate of interest agreed upon.

SIMPLE INTEREST Vs. COMPOUND INTEREST

* SIMPLE INTEREST is the interest computed on the same principal amt for entire period of borrowing.

It is calculated on outstanding principal balance & not on interest previously earned.

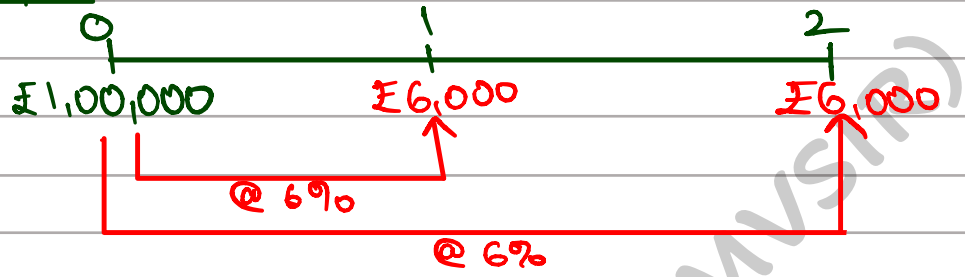
$$S.I. = P.r.t$$

Example

Alia deposited £1,00,000 in her bank for 2 years at simple interest rate of 6%.

- How much interest would she earn?
- How much would be the final value of deposit?

Solution:



a) Simple Interest = P. r. t
= 1,00,000 × 6% × 2 yrs
= £12,000

b) Final value of Deposit = 1,00,000 + 12,000
= £1,12,000.

In F.M. subject we do NOT use "Simple Int" F.M. revolves around the concept of "Compound Interest"

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* COMPOUND INTEREST is the interest that accrues when earnings of each specified period are added to the principal, thus increasing the principal base on which subsequent interest is computed.

INTEREST ON INTEREST