Victoria university of Bangladesh

Assessment

Course Code: FIN 329

Course Title: Financial Management

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01

FIN-329

Ans to the Q. No. 02

* The proprition principal in each installment = loan Amount ÷ Year

= 50,00,000 ÷ 5

= 10,00.000

Loan Amortization schedule unde Balloon Payment Method:

Year	Begining loan	Interest (12%)	Principle	installment Repayment	Balance
1	50,00,000	6,00,000	10,00,000	16,00,000	40,00,000
2	40,00,000	4,80,000	10,00,000	14,80,000	30,00,000
3	30,00,000	3,60,000	10,00,000	13,60,000	20,00,000
4	20,00,000	2,40,000	10,00,000	12,40,000	10,00,000
5	10,00000	1,20,000	10,00,000	11,20,000	00

Ans to the Q. No. 01

☒ Mid term financing:

A mid term is a term used in investment to describe an investment holding period of between 1 to 3 years. The time horizon in a medium-term investment is intermediate, the investors is expected to receive the receive the return on investment and the initial capital within 1 to 3 years. Sometime a medium-term investment can last up to five years.

* Features of Mid term financing:

1) Maturity: Maturities of term finance typically range from 1 to 10 years, with the majority of loans drawn for less than 5 years.

2) Repayment: the repayment schedule for the loan usually can be made to fit the needs of each borrower. Most common arrangement calls for amortization the loan with equal annual, semiannual, quarterly or monthly installment payments.

3) Interest Rate: The interest rate on most term loans is variable and tied to the prime lending rate. Large firms can usually borrow at lower rate then small firms.

4) collateral: Many terms loans are secured by assets, specially borrowing is used to acquire specific high value items equipment building, land and machinery.

5) Protective covenant: In addition to an in place of collateral, the leader may require the borrower to maintain certain financial protective covenants of the firm.

6) Use of funds: Term loans primarily provide working capital and secondary plant and equipment financing.

7) Size of loans: The term loans in a smal loan in term of its amount. Banks usually make the smaller and shorter term loans.

* Souces of Mid term financing:

1) Commercial Banks: The majority of term loans are made by commercial banks. The banks prefer to make term loans of less then five years maturity.

2) Insurance company: Insurance company have a highly predictable flow of funds they prefer long term arrangement unto 10 years or more.

The insurance companies engage some what in the installment type of term loan.

3) <u>Finance company:</u> Term finance is made from finance company which is specialized financial institution.

4) <u>Development Bank:</u> Development bank is generally specialized bank which provides term loan for special sector in the economy.

5) <u>NGO:</u> NGO is another source of term loan. They provide loan for poor people in ~~rural~~ rural area, like Grameen Bank.

6) Pension funds: Pension funds may be considered as funds can make loans with a maturity of ~~10~~ 10 to 20 years.

7) Equipment financing: The borrower may find fund to finance machinery and equipment from several sources. The major sources of this financing are bank, direct vendor or leasing Company.

Ans to the Q. No. 04

* Cost of trade credit:

(A) There is no cost of trade credit in two ways:

i) If there is no cash discount on the transections.

ii) There is cash discount on the transections and the buyer accepts the opportunity. So, the buyer can get to rebate the full payment.

(B) There is cost of trade ~~care~~ credit in towo ways.

i) Mention the amount of discount and payment date.

ii) The buyer would not be able to ~~A~~ receive the opportunity. The buyer pays the full amount at last date. So the cost of trade credit is raised.

ⓒ Nominal Annual cost of trade credit under simple interest:

The cost on ~~the~~ an annual percentage basis of not taking a cash discount can be generalized as simple interest rate.

ⓓ Effective Annual Rate of trade credit under compound interest:

The effective annual rate formula does take account of compounding at compound interest rate and is effective annual rate term, the cost of trade credit is even higher.

* The problem is shown with a diagram:

↓ credit period Begining	credit period End ↓
0 day 10 day	← discount period end 30 day
Pay 98 taka ↑	↑ Pay 100 taka
	← credit period →

$$Kt = \frac{\text{Discount Rate}}{100 - \text{Discount Rate}} \times \frac{360}{\text{credit Period} - \text{discount Period}}$$

where: Discount Rate = 2
Discount Period = 10
credit Period = 30
Kt = Nominal Annual cost of trade credit = ?

$$Kf = \frac{2}{100-2} \times \frac{360}{30-10}$$

$$= \frac{2}{98} \times \frac{360}{20}$$

$$= 0.0204 \times 18$$

$$= 0.3672$$

$$= 36.72\%$$

Ans:

Ans to the Q. NO.5

* Short term financing: It is that form of ~~fo~~ financing ~~A~~ Which includes borrowing or lending of funds for a short period of time. It refers to the finance obtained on short term basis. usually one year or less duration. Short term financing is secured financing the current assets and inventories.

* objectives of short term financing:

1) Duration.
2) cost of fund
3) Easier to obtain
4) use of funds.
5) Sources of funds.

6) Flexibility.

7) Collection and control.

8) Security.

9) Risk.

10) Renewal.

* Spontaneous Financing:

Spontaneous financing is raised from the normal course of business operation. The major spontaneous sources of short term financing are trade credit, advance and accrual payments. They are naturally from the firms day to day transection.

Scholars' view.

i) Spontaneous sources of financing in the sense that it arises from ordinary business transections.
- Brigham.

ii) Spontaneous financing arises from the normal course of business

- L.J. Gitman.

iii) Spontaneous financing are trade credit and other payables and accrual that arise spontaneously in the firms day to day operations.

-Van Home.

So, spontanean financing is the automatic sources of short term fund arising in the normal course of business operations. Special types of this financing are

i) Trade credit.
ii) Advance Payment.
iii) Accrued Expense.