

10. ——— measure the systematic risk of a security that cannot be avoided through diversification

- a. Beta
- b. Gamma
- c. Probability Distribution
- d. Alpha

Answer: a (Beta)

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PART TWO:

easily tell the amount of interest cost you are paying and can then quickly identify whether it makes sense for you to refinance or not.

3. **Tax related issues:** Some loans, like [home loans](#), will give you tax benefits for interest repayment under Section 24 of the IT Act as well as benefits for principal repayment under section 80C. If you have your amortization schedule handy, you can easily do some financial planning to efficiently plan your taxes for the coming years. You can see how much principal you are likely to repay during the coming year, and accordingly choose your amount and type of 80C deduction.

How to Amortize a Loan

Amortization: Literally to "kill off" (root: mort) the outstanding balance of a loan by making equal payments on a regular schedule (usually monthly). The payments are structured so that the borrower pays both interest and principal with each equal payment. A payments and amortization calculator is available (no charge, no registration) to help you make quick calculations. But for those who really want to understand the ins and outs of mortgage amortization, the following will explain everything as a mathematical formula. To begin, here are the definitions of each of the variables used in the formula.

P = principal, the initial amount of the loan

I = the annual interest rate (from 1 to 100 percent)

L = length, the length (in years) of the loan, or at least the length over which the loan is amortized.

J = monthly interest in decimal form = $I / (12 \times 100)$

N = number of months over which loan is amortized = $L \times 12$

The following assumes a typical conventional loan where the interest is compounded monthly. Okay now for the big monthly payment (M) formula, it is:

$$M = P \times \frac{J}{1 - (1 + J)^{-N}}$$

So to calculate it, you would first calculate $1 + J$ then take that to the $-N$ (minus N) power, subtract that from the number 1. Now take the inverse of that (if you have a $1/X$ button on your calculator push that). Then multiply the result times J and then times P.

The formula above allows you to calculate the monthly payment, M. To calculate the

transportation, electronics, and heavy manufacturing. In the northwestern United States, many of the Perlence products are marketed by a wholly-owned subsidiary, Bajaj Electronics Company. Operating from a headquarters and warehouse facility in San Antonio, Strand Electronics has 950 employees and handles a volume of \$85 million in sales annually. About \$6 million of the sales represents items manufactured by Perlence. Gupta is the credit manager at Bajaj electronics. He supervises five employees who handle credit application and collections on 4,600 accounts. The accounts range in size from \$120 to \$85,000. The firm sells on varied terms, with 2/10, net 30 mostly. Sales fluctuate seasonally and the average collection period tends to run 40 days. Bad-debt losses are less than 0.6 per cent of sales. Gupta is evaluating a credit application from Booth Plastics, Inc., a wholesale supply dealer serving the oil industry. The company was founded in 1977 by Neck A. Booth and has grown steadily since that time. Bajaj Electronics is not selling any products to Booth Plastics and had no previous contact with Neck Booth. Bajaj Electronics purchased goods from Perlence International under the same terms and conditions as Perlence used when it sold to independent customers. Although Bajaj Electronics generally followed Perlence in setting its prices, the subsidiary operated independently and could adjust price levels to meet its own marketing strategies. The Perlence's cost-accounting department estimated a 24 per cent markup as the average for items sold to Bajaj Electronics. Bajaj Electronics, in turn, resold the items to yield a 17 per cent markup. It appeared that these percentages would be the cost of financing the receivable for the additional period of time. In addition to the potential profit from the account, Gupta was concerned about his company's exposure.

2. Suggestion regarding Credit limit. Should it be approved or not, what should be the amount of credit limit that electronics give to Booth Plastics.

Every concept offers a leeway that people can take advantage of. When people are offered the option to use credit as an alternative for cash, it is a cinch that some of them would utilize the opportunity to default on the payment. This phenomenon gives rise to the biggest problem associated with credit cards – bad debts. A credit card enhances the spending ability of a person. Although they gain financial flexibility through the credit concept, they lose the flexibility of managing one's funds. Once card debts rise, it is certain that your future spending power would plummet. A lot of people have experienced this the hard way. Credit card debts can stress you out. To ensure that you do not grapple with an incessantly climbing credit card debt, you must follow a systematic credit management plan.

Current assets

It is rightly observed that “Current assets have a short life span. These type of assets are engaged in current operation of a business and normally used for short– term operations of the firm during an accounting period i.e. within twelve months. The two important characteristics of such assets are, (i) short life span, and (ii) swift transformation into other form of assets. Cash balance may be held idle for a week or two, account receivable may have a life span of 30 to 60 days, and inventories may be held for 30 to 100 days.”

Fitzgerald defined current assets as, “cash and other assets which are expected to be converted in to cash in the ordinary course of business within one year or within such longer period as constitutes the normal operating cycle of a business.”

Current liabilities

The firm creates a Current Liability towards creditors (sellers) from whom it has purchased raw materials on credit. This liability is also known as accounts payable and shown in the balance sheet till the payment has been made to the creditors.

The claims or obligations which are normally expected to mature for payment within an accounting cycle are known as current liabilities. These can be defined as “those liabilities where liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current assets, or the creation of other current liabilities.”

Circulating capital

Working capital is also known as circulating capital or current capital.’ “The use of the term circulating capital instead of working capital indicates that its flow is circular in nature.”

Meaning of Working Capital Management

The management of current assets, current liabilities and inter-relationship between them is termed as working capital management. “Working capital management is concerned with problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them. In practice, “There is usually a distinction made between the investment decisions concerning current assets and the financing of working capital”

From the above, the following two aspects of working capital management emerges:

- (1) To determine the magnitude of current assets or “level of working capital” and
- (2) To determine the mode of financing or “hedging decisions.”