What do you mean by an asset and what are different types of assets?

Solution

Assets are economic resources of an enterprise that can be expressed in monetary terms. Assets are items of value used by the business in its operations. e.g., Super Bazaar owns a fleet of trucks, which is used by it for delivering foodstuffs; the trucks, thus, provide economic benefit to the enterprise. This item will be shown on the asset side of the balance sheet of Super Bazaar. Assets can be broadly classified into two types

(i) Fixed Assets:

Fixed assets are those assets which last for a long period of time or the benefit of these assets are availed considerably long period i.e., more than a year. In this way, fixed assets are assets held on a long-term basis, such as land, buildings, machinery, plant, furniture and fixtures. These assets are used for the normal operations of the business.

(ii) Current Assets:

Current assets are those assets which get converted into cash within an operating cycle generally one year. In this way, current assets are assets held on a short-term basis such as debtors (accounts receivable), bills receivable (notes receivable), stock (inventory), temporary marketable securities, cash and bank balances.

What is Equity?

In simplest terms, equity meaning involves ownership in an organization. As corporations issue shares in the secondary market to raise capital, investors provide the required finance through those shares.As a result, they gain ownership in a company proportionate to the number of shares they have invested in.

What is right shares?

A rights share issue is an offering of rights given to a company's existing shareholders, allowing them to purchase additional shares directly from the company at a discounted price, rather than buying them through the secondary market. The number of additional shares that a shareholder can purchase depends on their existing holding.

Annual Reports ?

Annual reports typically include financial statements, such as balance sheets, income statements, and cash flow statements. In addition, there will often be graphs or charts included, helping break down the financials into easily readable information.

- Annual reports are comprehensive documents designed to provide readers with information about a company's performance in the preceding year.
- The reports contain information, such as performance highlights, a letter from the CEO, financial information, and objectives and goals for future years.
- There are many users of annual reports, including shareholders and potential investors, employees, and customers.

Variours Fixed Income Securities

Meaning of Fixed Income Securities

Fixed income securities yield guaranteed returns on investments. They act as a liability for the organisation launching them in the market. Returns on fixed-income investments are generated periodically, and the interest payable on these securities remain constant, irrespective of market fluctuations.

The final value of the fixed income security at the time of maturity is calculated before it is issued. It is made known to the investor at the time of investment. This type of market investment tool is a popular choice for individuals who do not want to

be exposed to risks and instead want secure returns on their investment, with additional yields.

Types of Fixed Income Securities

- **Exchange-Traded Funds**

Bond exchange-traded funds mainly operate by investing in various debt securities available in the market, which generate regular and fixed returns. As such, they guarantee stability as returns are provided periodically at a fixed rate of interest. Fixed-income securities are popular among retired and risk-averse investors, who prefer stability over gaining market advantage.

- **Debt Mutual Funds**

These funds use the accumulated corpus for investment in various types of fixed income securities, such as corporate and government bonds, commercial papers, money market instruments, corporate bonds, etc.

The main advantage of debt Mutual Funds is that they offer a higher return in comparison to standard savings schemes such as fixed deposits and savings accounts maintained with banks or other financial institutions.

- **Bonds**

It is one of the most common types of tool in the list of fixed income securities, issued by companies to fund the day to day operations to ensure a smoother production run.

Since fixed-income bonds pose as a liability for the issuing organisation, it has to be redeemed as soon as the company generates adequate revenue.

- **Money Markets Instruments**

Specific money market instruments such as treasury bills, certificate of deposits, commercial papers, etc. are offered as investment avenues at a fixed rate of interest, and hence, are classified under fixed income securities. They are offered for a short period of time, with a maturity period that usually does not exceed a year.

However, such fixed-income bonds in India are sold over the counter, and hence, are not accessible to standalone investors. It can only be purchased through money market Mutual Funds.

- **Bank Deposits**

Commonly known as fixed deposits, these tools are one of the most secure forms of investment. These fixed-income securities can be availed for both short and long tenures, depending upon the investor.

However, money invested in bank deposits cannot be withdrawn before its maturity period. In case of emergencies, premature withdrawal can be made, but against a penalty.

There are various government-sponsored fixed income bonds available as well –

- **Public Provident Fund**

Investing in such securities is beneficial as these are exempted from tax deductions, and offers a higher interest rate than regular savings schemes. It has zero risks associated with it as a Central Government sponsored scheme.

- **Senior Citizen Savings Scheme**

These fixed-income bonds aim to provide financial security to the senior citizens of India. Any person aged 60 and above can invest their funds under this scheme, which is subject to a substantial interest rate fixed by the ministry of finance.

- **Bonds of Listed Public Sector Units**

One of the most popular types of fixed income securities, these funds attract high returns as they are offered by top-performing public sector units of the country. They are associated with a negligible risk.

Explain the Various parameters that RBI uses to control liquidity?

What Is a Liquidity Adjustment Facility?

A liquidity adjustment facility (LAF) is a tool used in monetary policy, primarily by the Reserve Bank of India (RBI) that allows banks to borrow money through repurchase agreements (repos) or to make loans to the RBI through reverse repo agreements. This arrangement is effective in managing liquidity pressures and assuring basic stability in the financial markets. In the United States, the Federal Reserve transacts repos and reverse repos under its open market operations

- A liquidity adjustment facility (LAF) is a monetary policy tool used in India by the Reserve Bank of India or RBI.
- The RBI introduced the LAF as part of the outcome of the Narasimham Committee on Banking Sector Reforms of 1998.
- LAF's help the RBI manage liquidity and provide economic stability by offering banks the opportunity to borrow money through repurchase agreements or repos or to make loans to the RBI via reverse repo agreements.

- LAF's can manage inflation in the economy by increasing and reducing the money supply.

CASH RESERVE RATIO (CRR)

This is the percentage of a bank's total deposit that need to be kept as cash with the RBI. The central bank can change the ratio to a limit. A high percentage means banks have less to lend, which curbs liquidity; a low CRR does the opposite. The RBI can reduce or raise CRR to tighten or ease liquidity as the situation demands. At present, CRR is at 4%.

OPEN MARKET OPERATIONS

This refers to buying and selling of government securities by RBI to regulate short-term money supply. If RBI wants to induce liquidity or more funds into the system, it will buy government securities and inject funds, and if it wants to curb the amount of money out there, it will sell these to banks, thereby reducing the amount of cash that banks have. RBI uses this tool actively even outside of its monetary policy review to manage liquidity on a regular basis.

STATUTORY LIQUIDITY RATIO

This is the percentage of banks' total deposits that they are needed to invest in government approved securities. The lesser the amount of SLR, the more banks have to lend outside. The SLR has been brought down from 22% to 21.5% in this policy and the endeavour will be to reduce it by 0.25% every quarter till 31 March 2017.

BANK RATE

This is the re-discounting rate that RBI extends to banks against securities such as bills of exchange, commercial papers and any other approved securities. In recent years, it has been the repo rather than the bank rate that has acted as a guideline for banks to set their interest rates. It is currently at 8.25%. Directionally, bank rate follows repo.

Characteristics of Property Investments

Here are 6 unique characteristics of real estate to keep in mind.

#1 Durability

Real estate investments can be extremely durable and build multi-generational wealth.

Unlike other investments that have fixed maturities, there is no fixed maturity for a real estate investment. You can sell it in a few days if you see a good opportunity, or you can hold it for decades. Many of the most profitable pieces of real estate in American cities have been held for several decades, and some of the profitable real estate in Europe has been held by the same trust or family for centuries.

#2 Lack of Transparency

Some markets, such as stocks and commodities, are regulated to be as transparent as possible. Investors have access to real-time market information, and are able to make immediate changes to their portfolio.

Real estate works very differently. When an investor buys a property, there is a risk that the seller is withholding information, or that the seller is unaware of problems.

Therefore, research and inspections are important when buying real estate. And if you buy a property sight unseen, such as at auction, be sure to take the higher risk into consideration when making an offer.

#3 Heterogeneity

Location, location, location. All real estate is local, with every property being unique in terms of location, physical structure, and financing.

As a result, investors can leverage local knowledge of a community to acquire and manage a highly profitable portfolio of real estate investments. This is why the most successful investors have a team in each geographic area of their real estate investments, because of the heterogeneity of real estate.

#4 Illiquid

Real estate is considered illiquid because it can’t be easily sold without a substantial loss in value.

Even if you are flipping houses, it takes a substantial amount of time to purchase, rehab, find a buyer, and close. And if you own rental income with tenants leasing a property, it can take much longer.

The lack of liquidity is a good thing, though, when it comes to investing in real estate. The illiquidity of real estate contributes to making it a stable, appreciating asset class for long-term investors.

#5 High Startup Costs

The costs of acquiring real estate investments are higher than many other types of investments. Typical costs include purchase and closing costs, rehabbing, and financing.

The old adage, "it takes money to make money" applies to real estate investing. But, the reward is high in the form of cash flow and profits.

Like illiquidity, the high cost of acquiring a real estate investment is one reason property investing can be so profitable. The costs limit the number of investors in this asset class, and therefore add to stability and long-term appreciation.

#6 Investment Vulnerability

Risks associated with real estate makes investing in this asset class very profitable for savvy investors who have a proven plan for success.

Real estate investments can be fluid at times, and change as cities and neighborhoods change. Therefore, real estate is not a hands-off static investment, but one that requires constant attention.

The best investors either personally manage their investments, or hire an expert team to locate, rehab, and manage real estate investments on their behalf.

Implication of Budget on Market :-

The budget of a country shows its impact in its economy, its stock markets and also the interest rates. The way the Finance Minister invests the funds also affects the fiscal deficit. This in turn also influences the money supply and also the economy & interest rate.

If the interest rates are high, the capital cost of the industry increases which in turn lowers the profits earned and hence there can be a decrease in the stock prices. The fiscal measures that are taken up by the Indian government can show an effect on the expenditure of the common man.

For example, if the direct taxes are increased, then the disposable income would decrease and this will, in turn, reduce the demand for various goods. As the demand gets decreased, there would be a decrease in production and this shows an effect on the economic growth. On the other hand, if the indirect taxes are increased, there would be a decrease in demand. The main reason for this is that the indirect taxes are in many cases passed on to the consumers as higher prices.

Define Depreciation & What are the causes of depreciation?

Concept of Depreciation In simple words, Depreciation is a gradual reduction in the value of assets. In this way, depreciation may be defined as the permanent continuous diminution in the quality, quantity or value of assets.
According to the Institute of Cost and Management Accounting, London (ICMA) Terminology, "The depreciation is the diminution in intrinsic value of the asset due to use and/or lapse of time".

There are generally two main causes of depreciation, first is normal cause such as normal wear and tear due to usage or passage of time, expiration of legal right in case of some assets and obsolescence due to technological advancement and second is abnormal cause such as accidents due to fire, earthquake, floods etc.

What are Important Benefits of Mutual Funds?

1. Diversification

One of the most prominent advantages of investing in mutual funds is diversification. It is the process of spreading a given investment over multiple assets classes. Diversification helps us create an assorted portfolio that segregates the headwinds experienced in various sectors. Money is invested in a mixture of assets according to one’s risk appetite.

For e.g., an equity-oriented mutual fund would generally comprise of 60-70% investments in equities, and the remaining 30-40% in debt securities.

As mentioned earlier, diversification helps us reduce the risk associated with different asset classes. This proves to be beneficial when an underlying component of a given mutual fund experiences market headwinds. With diversification, the risk associated with one asset class is countered by the others. This way, you don’t lose out on the entire value of your investment if a particular compenent of your portfolio goes through a turbulent period.

2. Professional Management

A lot of investors do not have the time or resources to conduct their research and purchase individual stocks. This is where professional management becomes quite useful. Several people invest in mutual funds for the professional expertise it provides to one’s investments. A fund manager continuously monitors investments and adjusts the portfolio accordingly to meet its objectives. This professional management is one of the most important advantage of a mutual fund.

3. Tax Benefits[#]

The tax benefits associated with a particular kind of mutual fund is perhaps what draws most investors to this investment vehicle. To encourage investments in mutual funds, the Government of India offers several tax benefits.

For e.g., investments in Equity-Linked Saving Schemes (ELSS) qualify for tax deduction under Section 80C of the Income Tax Act. One can invest up to Rs1.5 lakh in this instrument to avail a tax saving of approximately Rs46,800 (assuming the highest slab of income tax i.e. @30% plus health & education cess 4% excluding surcharge as applicable) on their taxable income. The only caveat here is that the instrument comes with a lock-in period of 3 years, which means that you would not be able to access the invested funds during this period.

4. Highly Liquid

One can easily sell mutual funds to meet their financial needs. Upon liquidation, the money is deposited in your bank account in few days. Additionally, there are mutual funds that provide faster disbursal. They are called funds having instant redemption facuility , wherein the money is transferred to your bankon the same day.

5. Higher Return on Investment (RoI)

All investors aim to achieve a higher RoI by investing in financial instruments such as mutual funds to beat inflation and increase their wealth of the long-term. Mutual funds have greater prospects of potentially providing highreturns over time as one can invest in a diverse range of sectors and industries.

6. Well-regulated

All mutual funds are regulated by the capital markets watchdog Securities and Exchange Board of India (SEBI). This means that all mutual fund houses are required to follow the various mandates as laid down by SEBI. This, in turn, protects the interests of the investors. Moreover, SEBI makes it mandatory for all mutual funds to disclose their portfolios every month.

7. Easy Investment

It is very easy to invest in mutual funds, i.e. you can do this either online or offline. You simply need to visit your Asset Management Company’s (AMC) website and submit the necessary documents to start on your investment journey. Moreover, you can also visit your AMC in person and sign the

physical documents to get started. This ease of investment makes mutual funds are preferable avenue.

State the advantages of company in getting listed ?

Access to Capital for Growth

Most companies reach a level wherein additional capital is required to be infused to fund the company's growth / expansion plans. Going public is thereby a method of overcoming these constraints. By listing on a Stock Exchange, the company increases shareholder base and enhances credibility.

Enhanced Visibility

Going public improves company's visibility and credibility among institutions and the investing public due to complying with various regulatory norms and ensuring transparency while conducting operations.

Liquidity

Listing stimulates liquidity, giving shareholders the opportunity to realize the value of their investments. It allows shareholders to transact in the shares of the company, sharing risks as well as benefitting from any increase in the organizational value.

Increase in employee morale

Going public increases visibility and improves public perception of the organization, thereby increasing employee value and morale. It may also lead to hiring of new staff and may facilitate stock-based payments such as ESOPs etc.

Transparency and efficiency

Listing brings transparency and efficiency in the overall operations of the company. The board and management team of a listed company has accountability towards it shareholders. Further, listed companies also need to ensure timely compliance by providing information / disclosure to the Exchange / shareholders as laid down in the Listing Agreement or applicable guidelines.