**Final Assignment: Financial Management**

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**Q1:- Sources and uses of funds statement :-**

**Solution:-**

**Sources. Uses**

**Net profit. $ 5. Addition to fixed assets. $8**

**Depreciation. $5. Dividends. $3**

**Increase in: Accrued taxes. $2. Increase in: Note Payable. $20**

**Increase in: Common stock $6. Increase in: Account Receivable $ 7**

**Decrease in : other assets. $5. Increase in: inventories. $5**

**Decrease in: Cash. $ 2**

**Increase in: Account Payable $ 3**

**Increase in: long term debt $15**

**Total. $43. Total $43**

**Q2:- Cash flow statement:**

**Solution:-**

**ABC Corporation**

**Statement of cash flow**

**For the year ended Dec 31,20X2**

**Net income. $5**

**Depreciation. $5**

**Cash provided by current assets and operating related to current liabilities.**

**Cash flow from operating activities.**

**Increase in: Accrued Taxes. $2**

**Increase in: Account Payable $3**

**Increase in: account receivable. ($7)**

**Increase in: Inventories. ($5)**

**Net cash provided by operating activities $3**

**Cash flow from Investing Activities.**

**Addition to fixed assets. ($8)**

**Proceeds from other asset $5**

**Net cash provided by investing activities. ($3)**

**Cash flow from financing activities.**

**Increase in: long term debt. $15**

**Increase in: common stock $6**

**Decrease in: Note Payable. ($20)**

**dividends Paid. ($3)**

**Increase or (decrease) in cash. ($2)**

**Cash, December 31,20X1. $5**

**Cash, December 31,20X2 $3**

**Answer 3a)**

A company’s liquidity ratio is a measurement of its ability to pay off all of its debts with its current assets. Companies can increase their liquidity ratios in a few different ways, including using sweep accounts, cutting overhead expenses, and paying off liabilities. However, if you're looking to do this, then it's important to note that a very high liquidity ratio isn't necessarily a good thing.

Understanding Liquidity Ratios

A company can calculate its liquidity ratio by taking the difference between liabilities and conditional reserves and using that figure to divide its total assets. This ratio can be a valuable metric for market analysts and potential investors in helping determine if a company is stable and financially healthy enough to pay off the debts and outstanding liabilities it has incurred.

A low liquidity ratio could signal the company is suffering from financial trouble. However, a very high liquidity ratio may be an indication that the company is too focused on liquidity to the detriment of efficiently utilizing capital to grow and expand its business.

**So I think that the company should adopt policy A of 12 lack assets because it wil help them in maintaining their cash flow**

(b) Briefly explain the maturity matching approach with an example. (3+2=5 marks)

The maturity-matching approach requires that short-term assets be financed by short-term liabilities and long-term assets by long-term liabilities or equity. When a short-term debt matures, the short-term asset it finances also matures and can be used to repay the debt on time. By the same token, a long-term asset should be financed by funds of long-term sources to ensure no interruptions in the asset’s use of funds on a long-term basis. Mismatched maturities can cause liquidity issues on both the liability and asset sides.

**Q4. (a) Briefly explain permanent working capital with an example. (3+2= 5 marks)**

“Permanent” working capital is the normal or “standard” amount of investment in current assets less current liabilities. It assumes a steady, unchanging level of sales and production activity and no changes in terms of trade. With an understanding and quantification of permanent working capital, one can then monitor or project fluctuations around the norm to better manage a business’s cash flow and funding requirements.

**(b) Briefly explain the significance of working capital management (5 marks)**

Proper management of working capital is essential to a company’s fundamental financial health and operational success as a business. A hallmark of good business management is the ability to utilize working capital management to maintain a solid balance between growth, profitability and liquidity.

A business uses working capital in its daily operations; working capital is the difference between a business's current assets and current liabilities or debts. Working capital serves as a metric for how efficiently a company is operating and how financially stable it is in the short-term. The working capital ratio, which divides current assets by current liabilities, indicates whether a company has adequate cash flow to cover short-term debts and expenses.

Working capital is a daily necessity for businesses, as they require a regular amount of cash to make routine payments, cover unexpected costs, and purchase basic materials used in the production of goods.

Efficient working capital management helps maintain smooth operations and can also help to improve the company's earnings and profitability. Management of working capital includes inventory management and management of accounts receivables and accounts payables. The main objectives of working capital management include maintaining the working capital operating cycle and ensuring its ordered operation, minimizing the cost of capital spent on the working capital, and maximizing the return on current asset investments.

Working capital is an easily understandable concept, as it is linked to an individual’s cost of living and, therefore can be understood in a more personal way. Individuals need to collect the money that they are owed and maintain a certain amount on a daily basis to cover day-to-day expenses, bills, and other regular expenditures.