Course Title : Financial Management

Instructor : Mr. Naveed Azeem Khattak

Student ID # 15509

Student Name # Mahir Rehman

Semester 3rd MBA (2.5).

Q2# Identify the primary activities of the financial manager within the firm. Explain why wealth maximization, rather than profit maximization, rather than profit maximization, is the firm's goal and how the agency issue is related to it?

Answer:

Primary Activities of the financial Manager

in addition to ongoing involvement in financial manager's primary activities are making investment decisions and making financial decisions. Investment decisions determine both the mix and the type of assets held by the firm. These sorts of decisions can be conventiently viewed in terms of the firm's balance sheet. However, the decisions are actually made on the basis of their cash flow effects on the overall value of the firm. financial perform information investigation and prompt ranking directors on benefit augmenting thoughts. Money related directors are liable for the monetary soundness of an association. They produce money reports, direct venture exercises, and create methodologies and plans for the drawn out monetary objectives of their organization. Financial managers typically:

- Prepare financial statements, business activity reports and forecasts,
- monitor financial details to ensure that legal requirements are met.
- Supervise employees who do financial reporting and budgeting.
- Review company financial reports and seek ways to reduce costs.
- Analyze market tends to find opportunities for expansion or for acquiring other companies,
- Help management make financial decisions.

The role of the financial manager, Particularly in business, ~~in~~ is changing because of Technology advances that have altogether diminished the measured of time it takes to create money related reports. Financial managers main responsibility used to be monitoring a company's finances, yet, they currently accomplish more information investigation and prompt ranking directors on ~~investigation~~ ~~and~~ thoughts to boost benefits. They often work on teams, acting as business advisors top executives.

Wealth Maximization is rather then profit maximization :-

Wealth maximization :-

The ability of the company to increase the value of its stock for all stakeholders is referred to as Wealth maximization. It is a long-term goal and involves multiple external factors like sales, products, services, market share, etc. It assumes the risk and recognizes the time value of money given the business environment of the operating entity. It is mainly concerned with the long-term growth of the ~~operating~~ ~~entity~~. company and hence is concerned more about fetching the maximum chunk of the market share to attain a leadership position.

Profit maximization :-

The process of increasing the profit earning capability of the company is reported to as profit maximization. It is mainly a short-term goal and mainly is restricted to the accounting analysis of the financial year. It ignores the risk and aviods the time value of money. It is mainly concerned as to how the company will survive and growth in the existing competitive business environment.

Wealth maximization is based on cash flows & not profit, unlike the profits. Cash flows are exact and therefore avoid and ambiguity associated with accounting profit. Profit maximization presents a shorter term view as compared to wealth maximization. Wealth maximization consider the time value of money.

Wealth maximization consists of a set of activities that manage the financial resources with the aim to increase the value of the stakeholders, whereas, profit maximization consists of the activities that manage the financial resources with the aim to increase the profitability of the company.

Qn 1:

McDougal Printing, Inc. had sales totaling $40,000,000 in fiscal year 2003. Some ratios for the company are listed below. Use this information to determine the dollar values of various income statement and balance ~~and~~ sheet accounts as requested.

McDougal Printing, Inc.
Year Ended December 31, 2003.

Sales	$ 40,000,000
Gross profit margin	80%
Operating ~~profit~~ profit margin	35%
Net profit margin	8%
Return on ~~common~~ total Assets	16%
Return on common equity	20%
Total asset Turnover	2
Average collection period.	62.2 days.

Calculate values for the following.

a:- Gross Profit:

Gross Profit = Sales x gross profit margin

= $ 40,000,000 x 0.8

= 32,000,000

b:- Cost of goods Sold:-

Cost of goods Sold = Sales − gross profit.

= $ 40,000,000 − $ 32,000,000

= $8,000,000

C:- Operating profits:-

Operating profits = Sales x operating profit margin.

= $ 40,000,000 X ~~[illegible]~~ 0.35

= $ 14,000,000

d:- Operating expenses:-

Operating expenses = gross profit − Operating profit.

= $ 32,000,000 − $14,000,000

= $ 18,000,000.

e:- Earning available for Common Stockholders:-

Earning available for Common Stockholders = Sales x Net profit margin.

= $ 40,000,000 x 0.08

= $ 3,200,000.

Scanned with CamScanner

f:- Total Assets :-

Total Assets = $\frac{\text{Sales}}{\text{Total asset turnover}}$

$= \frac{\$40{,}000{,}000}{2}$

$= \$20{,}000{,}000$

g:- Total equity :-

Total equity = $\frac{\text{Net income}}{\text{Return on Common equity}}$

$= \frac{3{,}200{,}000}{0.20}$

$= \$16{,}000{,}000$

h:- Accounts recievable :

Accounts Recievable = Average collection Period $\times \frac{\text{sales}}{365}$

$= 62.2 \text{ days} \times \frac{\$40{,}000{,}000}{365}$

$= 62.2 \times \$109{,}589.04$

$= \$6{,}816{,}438.28$