

Paper: Financial Management

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Q101: Given Data.

Total sales = \$ 40,000,000

Gross profit Margin = 80%

operating Expense = 35%

Net profit Margin = 8%

Return on total asset = 16%

Return on common Equity = 20%

Total Assets Turn Over Ratio = 2

Average collection Period = 62.2 days

Required:

- 1) Gross Profit
- 2) Cost of good sold
- 3) operating Expense
- 4) operating Profit.
- 5) Earning Available for Common share holder
- 6) Total Assets
- 7) Total Common Equity
- 8) Account Receivable.

Solution

Note, (i) We will find out the required ~~data~~ answer from the given ratios.

(ii) All values are in ₹.

a) Gross Profit = ?

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$80 = \frac{\text{Gross Profit}}{40,000,000} \times 100$$

$$\frac{80 \times 40,000,000}{100} = \text{Gross Profit}$$

$$\text{Gross Profit} = 32,000,000$$

b) Cost of good Sold = ?

$$\text{Gross Profit} = \text{Sales} - \text{Cost of good Sold}$$

$$32,000,000 = 40,000,000 - \text{Cost of good Sold}$$

$$\begin{aligned} \text{Cost of good Sold} &= 40,000,000 - 32,000,000 \\ &= ₹ 8,000,000 \end{aligned}$$

ATD

c) Operating Profit = ?

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit} \times 100}{\text{Sales}}$$

$$35 = \frac{\text{Operating Profit} \times 100}{40,000,000}$$

$$\frac{35}{100} \times 40,000,000 = \text{Operating Profit}$$

$$\text{Operating Profit} = 14,000,000$$

d) Operating Expenses = ?

$$\text{Operating Profit} = \text{Gross Profit} - \text{Operating Expenses}$$

$$\begin{aligned} \text{Operating Expenses} &= \text{Gross Profit} - \text{Operating Profit} \\ &= 32,000,000 - 14,000,000 \end{aligned}$$

$$\text{Operating Expense} = 18,000,000$$

e) Earning Available for Common Share holder = ?

∴ Earning Available for Common share holder is basically Net Profit available for Common share holder

$$\text{Net Profit Margin} = \frac{\text{Net Profit} \times 100}{\text{Sales}}$$

$$8 = \frac{\text{Net Profit} \times 100}{40,000,000}$$

$$\frac{8}{100} \times 40,000,000 = \text{Net Profit}$$

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$$\text{Net Profit} = 32,000,000$$

So earning available for common share holder
is 32,000,000

(f) Total Assets = ?

$$\text{Total Asset turnover} = \frac{\text{Sales}}{\text{total Asset}}$$

$$2 = \frac{40,000,000}{\text{Total Assets}}$$

$$\text{Total Assets} = \frac{40,000,000}{2}$$

$$\text{Total Assets} = 20,000,000$$

(g) Total Common Stock Equity = ?

$$\text{Return on Equity} = \frac{\text{Net Profit} \times 100}{\text{Total common stock ~~holder~~ equity}}$$

$$20 = \frac{32,000,000}{\text{Total stock equity}} \times 100$$

$$\text{Total Common stock equity} = \frac{32,000,000 \times 100}{20} = 16,000,000$$

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W) Account Receivable ?

$$\text{Average Collection Period} = \frac{\text{Account Receivable} \times 365}{\text{sales}}$$

$$62.2 = \frac{\text{Account Receivable} \times 365}{400000000}$$

$$\frac{62.2}{365} \times 400000000 = \text{Account Receivable}$$

$$\text{Account Receivable} = 6816438.35$$

or

$$6816439.$$

- Q #2
- Financial manager typically in the firms:
- 1) Prepare financial statement, business activity, report and forecast.
 - 2) Monitor financial details to ensure that legal requirements are met.
 - 3) Supervise employees who do financial reporting and budgeting.
 - 4) Review company financial report and seeks ways to reduce costs.
 - 5) Analyze market trends to find opportunities for expansion or for acquiring other companies.

Because wealth maximization is the net profit worth or value of the firm. The essential difference between the maximization of profit and maximization of wealth is that profit focus is on short term earning while the wealth focus is on increasing the overall value of business entity over time.

Agency issue is related to it because of agency problem which is when manager is working to maximize his value instead of maximizing company share holders.