Iqra National University

Sessional Assignment

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Financial management

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Chapter # 1

Case study

a) What should the managment of Sports Products, Inc. pursue as its overiding goal?

The goal of Sports products, Inc. should be maximization of shareholder wealth, which means maximization of share price, should be the primary goal of the firm. Unlike profit maximization this goal counter timeing, cashflow, and risk. It also reflects the worth of the owner's investment in the firm at any time. It is the value they can realize should they decide to sell their shares.

b) Does the firm appear to have an agency problem?

Yes, there appears to be an agency problem. Although compensation for managment is tied to profits, it is not directly linked to share price. In addition, managments actions with regard to pollution controls suggest a profit maximization focus, which would maximize their earnings, rather than an attempt to maximize share price.

c) Explain . . . . . — -

?

The firm's approach to pollution control seems to be questionable ethically. While it is unclear wether their acts were intentional or accedental, it is clear that they are voilating law and as a result are damaging environment, an immoral and unfair act that has potential negative consequences for society in general.

Date: / /

d) Recommendations:

→ Set goal of company maximization of shareholder wealth

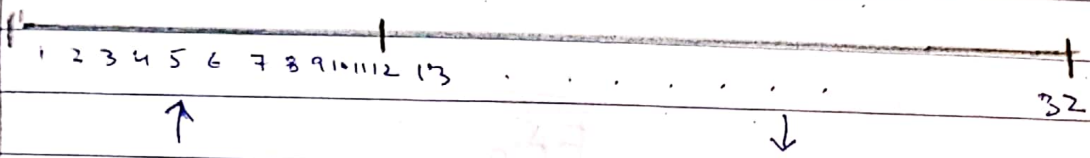
→ Obey and comply with laws

→ All employees should be ethical.

Chapter 4

Case study:

a) Time line



Cash inflow
Accumation period
12 end of year
deposit interst 9%

Cash out flow
Distribution period
20 end of year
payment of 42000
~~interest~~ at 12%

(b) Total amount accomulated by the end of 12 year.

$PV_A = A(PVIFA_{i,n})$

$PV_{20} = 42000\,(PVIFA_{12\%,20})$

$PV_{20} = 42000\,(7.469)$

$\boxed{PV = \$313,698}$

Date:

(c) End of year deposit 9%

$A = ?$

$FVA = A\,(FVIFA_{i,n})$

$$A = \frac{FV_A}{(FVIFA_{i,n})}$$

$$A = \frac{313\,698}{(FVIFA_{9,12})}$$

$$A = \frac{313698}{20.141}$$

$$\boxed{A = 15575.10}$$

(d) End of year deposit at 10%

$A = ?$

$$A = \frac{FVA}{FVIFA_{i,n}}$$

$$A = \frac{313698}{FVIFA_{10,12}}$$

$$A = \frac{313698}{21.384}$$

$$\boxed{A = 14669.75}$$

Date:

c) Initial deposit if annuity is perpetuity at 9%

$$PV_{per} = A \times \left(\frac{1}{i}\right)$$

$$= 42000 \times \frac{1}{.12}$$

$$= 42000 \times 8.33$$

$$PV_{per} = 349986$$

$$A_{per} = \frac{FVA}{FVIFA_{i,n}}$$

$$= \frac{349986}{FVIFA_{9\%,12}}$$

$$= \frac{349986}{20.141}$$

$$\boxed{A_{per} = 17376.79}$$

Date:

Case study chapter #2

Martin Manufacturing's

a) Calculate the firm's 2003 financial ratios.

(i) Current ratio :-

$$= \frac{\text{Current asset}}{\text{Current liabilities}}$$

$$= \frac{1,531,181}{616,000}$$

Current ratio = 2.5

(ii) Quick ratio :-

$$= \frac{\text{Current asset} - \text{Inventory}}{\text{Current liabilities}}$$

$$= \frac{1531181 - 700625}{616000}$$

Quick ratio = 1.3

Date:

iii) Inventory turnover:-

$$= \frac{\text{Cost of Goods sold}}{\text{Inventory}}$$

$$= \frac{3704000}{700625}$$

Inventory turnover = 5.3

iv) Average collection period:-

$$= \frac{\text{Account recievable}}{\text{Annual sale / days in year}}$$

$$= \frac{805556}{(5075000/360)}$$

Ave collection period = 57 days

v) Average payment period:-

$$= \frac{\text{acc payable}}{\text{Average purchase/day}}$$

$$= \frac{230,000}{}$$

Date:

(vi) Total asset turnover

$$= \frac{\text{Sales}}{\text{Total assets}}$$

$$= \frac{5075000}{3125000}$$

Assets turnover = 1.6

vii) Debt ratio:-

$$= \frac{\text{Total liabilities}}{\text{Total assets}}$$

$$= \frac{1781250}{3125000}$$

$$= \underline{57\%}$$

viii) Times interest earned Ratio:-

$$= \frac{\text{Earning before interest \& Tax}}{\text{Interest}}$$

$$= \frac{153000}{93000}$$

$$= 1.6$$

Date:

ix) Gross profit margin :-

$$= \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sale}}$$

$$= \frac{5075000 -}{5075000}$$

Gross prof Mar = 27%

x) Operating profit margin :-

$$= \frac{\text{Operating profit}}{\text{Sales}}$$

$$= \frac{153000}{5075000}$$

=

xi) Net profit margin :-

$$= \frac{\text{Earning available for Com stock}}{\text{Sales}}$$

$$= \frac{33000}{5075000}$$

Net profit Margi = .65 %

xii) Earning per share:-

$$= \frac{\text{Earning available for com stock}}{\text{No of share of com stock outstand}}$$

$$= \frac{33000}{100,000}$$

$$= .33$$

xiii) Return on Assets:-

$$= \frac{\text{Earning available for com stock}}{\text{Total assets}}$$

$$= \frac{33000}{3125000}$$

ROA = 1.05%

xiv) Return on equity:-

$$= \frac{\text{Earnings available for com stock}}{\text{equity}}$$

$$= \frac{33000}{1343750}$$

ROE = 2.4%

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xv) Price/earning ratio :-

$$= \frac{\text{Market price per share for com. stock}}{\text{Earning per share}}$$

$$= \frac{11.38}{.33}$$

$$= 34.48$$

xvi) Market / Book ratio :-

$$= \frac{\text{M.P Pershare for com stock}}{\text{Book Price Per share for com stock}}$$

$$= \frac{11.38}{}$$

Date:

Martin manufactur
Historical ratio

Ratio	2001	2002	2003	I.A 2003
Current Ratio	1.7	1.8	2.5	1.5
Quick Ratio	1.0	0.9	1.3	1.2
Invent t/o	5.2	5.0	5.3	10.2
Ave coll Period	50	55	57	46
T asset t/o	1.5	1.5	1.6	2.0
Debt ratio	45.8%	54.3	57	24.5
Time Interest	2.2	1.9	1.6	2.5
Gross profit Mar	27.5	28	27	26
Net profit Mar	1.1	1	.65	1.2
ROA	1.7	1.5	1.05	2.4
ROE	3.1	3.3	2.4	3.2
(P/E) Ratio	33.5	38.7	34.48	43.4
(M/B) Ratio	1.0	1.1	.89	1.2

(b) Analyze the firm's current financial position from both cross sectional and time series view point.

Liquidity :- The firm has sufficient current asset to cover current liabilities. The trend is upwards and is much

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higher than the industry average. This is an unfavorable situation, since it indicate too much inventory.

Activity :- The inventory turnover is stable but lower than industry average, which indicates that the company is holding too much inventory. The collection period is increasing and is higher thah industry average which means that there is proflems in collecting payments.

The total asset turnover is stable but less than industry average, which means assets had not been used effectively.

Debt :- The debt ratio has increased and is higher than industry average. This places the Company at high risk.

Profitability :- The gross profit margin stable and is slightly higher than industry average. The net profit margin, however, is decreasing and far below the industry average. The high financial leverage has caused the harm to net profit margin.

Market :- The market price of the firm's common stock shows weakness relative to both earning and book value. This result indicate a belief by the market that Martin's ability to earn future profit faces more and increasing uncertainty as percieved by the market.