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Subject :- Financial mangment

Mid term assignment

Q1

(a) Gross profits ~~margin~~

Gross profit = Sales X Gross profit margin

= $40,000,000 X 80%

$\boxed{\text{Gross profit} = \$32,000,000}$

(b) Cost of goods sold

CGS = Sales − Gross profit

= 40,000,000 − 32,000,000

$\boxed{\text{CGS} = \$8,000,000}$

(c) Operating profits

Operating profits = Sale X Operating Profit margin

= 40,000,000 X 35%

$\boxed{\text{OP} = \$14,000,000}$

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(d) Operating Expenses

Operating Expenses = Gross Profit − Operating Profit

=

= 32,000,000 − 14,000,000

$\boxed{\text{Operating Expenses} = \$18,000,000}$

(f) Total assets

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

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

$\boxed{\text{Total assets} = \$20,000,000}$

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(g) Total common stock equity

$$= \frac{\text{Net income}}{\text{Return on C. stock equity}}$$

Net income = Sales X Net profit margin

= 40,000,000 X 8%

Net income = \$ 32 00000

$$\text{Total C. Stock equity} = \frac{3200000}{20\%}$$

$\boxed{\text{Total CS equity} = \$\ 16000000}$

(h) Account Recievable

$$\text{Acc Recievable} = \text{Average collect period} \times \frac{\text{sale}}{365}$$

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

= 62.2 X 109589.04

$\boxed{\text{Acc Recievable} = \$\ 6816438.35}$

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(E) Earning available for common stock

= Total Asset X Return on Asset

= 20,000,000 X 16%

$\boxed{\text{EACS} = \$\ 32,00000}$

Q#2 Primary activities of financial Manager, goal of a firm ?

Financial managment is concerned with acquisition, financing and managment of assets with some overall goal in mind. So there are three major activities of a financial manager

i) Investment decision
ii) Financing decision
iii) Managment of Assets

i) Investment decision:-

Investment decision is the most important of the firm's three major decisions. It begins with

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determination of the assets needed to be held by the firm. Total assets a firm have, is the size of that firm. Even if a financial manager knows the size of firm, the composition of assets must still be decided. for example what specific asset should be acquired? What asset should be reduced?

Financing decision:- The second major decision of the firm is the financing decision. Here the financial manager ~~~~ is concerned with makeup of Right hand side of balance sheet. In financing decisions, financial manager determines how the asset should be financed.

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Asset managment decisions:-

The third important decision of the firm is the asset managment decision. Once assets have been acquired, these assets must still be managed efficiently. The financial manager is charged with varying degrees of operating responsibility over existing assets.

Goal of the firm:-

The goal of the firm is to maximize the wealth of stock holder rather than maximization of profit, because profit maximization as a goal has some limitations, which are;

i) Earning per share would fall,

ii) Ignores changes in the risk level of firm.

On the other hand wealth maximazation as as a goal of the firm has taken care of all the shortcomming of other goals or perpectives.

Agency Issues:-

Managment is the agent of the owner (shareholder). In a large corporation, stocks may be so widely held that shareholders can not even make known thier objectives. Thus this separation of ownership from managment create a situation in which managment may act in its own best interests rather than those of the shareholders.

Agency theory states that principal must provide incentive so that managment act in best interest of principals and then monitor results.