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Subject; Financial Management.

Final Term Assignment ~~2~~

a.) Maximization of shareholders wealth, which means maximization of share price, should be the primary goal of the firm. Unlike profit maximization, this goal considers timing cash flows, and risks. It also reflects the worth of owners investment in the firm at any time. It is the value they can realize should they decide to sell their share.

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

c) The firm's approach to pollution control seems to be questionable ethically, while it is unclear whether their acts were intentionally or accidental it is clear that they are violating the law, an illegal act potentially leading to litigation costs - and as a result are damaging the environment an immoral and unfair act that has potential negative consequences for society in general clearly. Sports products has not only broken the law but also established poor standards of product and moral judgment.

- d) Some specific recommendations for the firm include -
- ⇒ Tie management, and possibly employees, compensation to share price or a performance-based measure and make sure that all involved own stock and have a stake in their firm being compensated partially on the basis of share price or another performance measure and owning stock in the firm will more closely link the worth of managers and employees to the firm's performance
 - ⇒ Comply with all federal and state laws as well as accepted standards of products or moral judgment.
 - ⇒ Establish a corporate ethics policy, to be read and signed by all employees.

Martin manufacturing company is an integrative case study addressing financial analysis techniques. The company is a capital intensive firm which has poor management of accounts receivable and inventory. The industry average inventory turnover can fluctuate from 10 to 100 depending on the market.

a Ratio Calculations.

Financial Ratio	2003
Current Ratio	$\$153,181 \div \$616,000 = 2.5$
Quick Ratio	$(\$153,181 - \$700,625) \div \$616,000 = 1.3$
Inventory turnover (times)	$3,704,000 \div \$700,625 = 5.3$
Average collection period (days)	$805,556 \div (5075,000 \div 360) = 5.7$
Total asset turnover (times)	$5075,000 \div 3125,000 = 1.6$
Debt ratio	$178,1250 \div 3125000 = 57\%$ $153,000 \div 93,000 = 1.65\%$
Times interest earned	$153,000 \div 93,000 = 1.6$
Gross profit margin	$1,371,000 \div 5,075,000 = 27\%$
Net profit margin	$36,000 \div 5,075,000 = 0.71\%$
Return on total assets	$36,000 \div 3,125,000 = 1.2\%$
Return on equity	$36,000 \div 1,345,250 = 2.7\%$

Historical Ratios Martin Manufacturing Company

Ratio	Actual 2007	Actual 2008	Actual 2008	Industry Average
Current Ratio	1.7	1.8	2.5	1.5
Quick Ratio	1.0	0.9	1.3	1.0 1.2
Inventory turnover	5.2	5.0	5.3	10.2
Average Collection Period	50	55	57	46
Total Asset turnover	1.5	1.5	1.6	2.0
Debt Ratio	45.8%	54.3%	57%	29.52
Time Interest earned	2.2	1.9	1.6	2.5
Gross profit margin	27.5%	28.0%	27.0%	26.0%
Net profit margin	1.1%	1.0%	0.71%	1.2%
Return on Total Asset	1.7%	1.5%	1.2%	2.4%
Return on equity	3.1%	3.3%	2.7%	3.2%
Price/earning ratio	33.5	38.7	34.48	43.4
Market /book	1.0	1.1	0.89	1.2

b) Liquidity: The firm has sufficient current asset to cover current liabilities.

The trend is upward and is much higher than the industry average. This is an unfavorable position. Since it indicates too much inventory.

Activity:

The Inventory turnover is stable but much lower than the industry average.

This indicates the firm is holding too much inventory. The average collection period is increasing and much higher than the industry average. These are both indicators of a problem in collecting payments.

The fixed asset turnover ratio and the total asset are stable but significantly lower than the industry average. This indicates that the sales volume is not sufficient for the amount of committed assets.

Debt:

The debt ratio has increased and is

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substantially higher than the industry average. This places the company at high risk. Typically industries with heavy capital investment and higher operating risk try to company at high risk. ~~Typically~~ ~~industries~~ to minimize financial risk. Martin manufacturing has positioned itself with both heavy operating and financial risk. The times-interest earned ratio also indicates a potential debt-service problem. The ratio is decreasing and is far below the industry average.

Profitability :o The gross profit margin is stable and quite favorable when compared to the industry average. The net profit margin however is deteriorating and far below the industry average. When the gross profit margin is within expectations but the net profit margin is too low, high interest payment may be to blame. The high financial leverage has ~~been~~ caused the low profitability.

Market

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The market price of the firm's common

stock shows weakness relative to both earning and book values. This result indicates clearly has a brief by the market that Martin's ability to earn future profits faces more and increasing uncertainty as perceived by the market.

C.2 Martin manufacturing clearly has a problem with its inventory level, and sales are not at an appropriate level for its capital investment. As a consequence the firm has acquired a substantial amount of debt which due to the high interest payment associated with the large debt burdens, is depressing profitability. These problems are being picked up by investors as shown in their weak market ratios.

Finding Jill Moran's Retirement Annuity.

a) Cash Flows:

Accumulated period
12 end-of-year deposits
Earns Interest 9%

Cash

Cash outflow Distribution Period
20 end-of-year Payment of
\$420,000 balance earns interest
at 12%

End of Year

b) Total amount to accumulated by end of year 12

$$PV_n = PMT \times (PVIFA i\% n)$$

$$PV_{20} = \$4200 \times (PVIFA 12\% 20)$$

$$PV_{20} = \$4200 \times 7.469$$

$$PV_{20} = \$313716.63$$

c) End of year deposits 9% interest. $\frac{FVA}{FVIFA i\% n}$

$$PMT = \$313698 \div (FVIFA 9\% 12 \text{ yrs})$$

$$PMT = \$313698 \div 20.141$$

$$PMT = \$15575.31$$

calculation solution 15575.31

sunrise industries must make a \$15575.31 annual end-of-year deposit in years 1-12 in order to

provide Ms. Moran a retirement annuity of \$4200 per year in year 13-32

d) End of-year deposits 10% interest.

$$PMT = 313698\% \quad (FVIFA_{10\%, 12yr})$$

$$PMT = \$313698 \div 21.384$$

$$PMT = \$14,669.75$$

Calculation solution \$ 14,669.56

The corporation must make a \$14,669.75 annual end-of-year deposit in years 1-12 in order to provide Ms. Moran a retirement annuity \$4200 per year in years 13 to 32

e) Initial deposit in annuity is a perpetuity and initial deposit earn 9%.

$$PV_{\text{perp}} = PMT \times (1 \div i)$$

$$PV_{\text{perp}} = \$420,00 \times (1 \div 0.09)$$

$$PV_{\text{perp}} = \$420,000 \times 8.333$$

$$PV_{\text{perp}} = \$3,499,86$$

End of year deposit

$$PMT = FVA_n \div (FVIFA_{i\%, n})$$

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$$PMT = \$ 349,986 \div (\text{FVIFA } 9\% \text{ 12 yrs})$$

$$PMT = \$ 349,986 \div 20.141$$

$$PMT = \$ 17376.79$$

Calculator Solution. 17377.54 .