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Course : ~~Busin~~ Financial Management

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Assignment : Final

Chap 1

② Maximization of shareholder wealths which means maximization of share price, should be the primary goal of the firm. Unlike profit maximization, this goal considers timing, cash flow, and risk. It also reflects the worth of the owners' investment in the firm at any time. It is the value they can realize should they decide to sell their shares.

③ 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 actions with regard to pollution controls suggest a profit maximization focus, which would maximize their earnings, rather than an attempt to maximize share price.

© The firm's approach to pollution control seems to be questionable ethically. While it is unclear whether their acts were intentional 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 the society in general. clearly, sports products has not only broken the law but also established poor standards of conduct and moral judgment.

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④ Some specific recommendations for the firm include.

→ Tie management, and possibly employee, compensation to share price or a performance-based measure and make sure that all involved own stock and have a stake in firm. Being compensated partially on the basis of share price, or another performance measure.

→ Comply with all federal state laws as well as accepted standard of conducts or moral judgment.

→ Establish a corporate ethics policy, to be read and signed by all employees.

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Chap 2

(a) Ratio calculation

Financial ratio

2003

$$\text{Current ratio} = \frac{1531181}{616000} = 2.5$$

$$\text{Quick ratio} = \frac{1531181}{700625} = \frac{(1531181 - 700625)}{616000} = 1.3$$

$$\text{Inventory (time)} = \frac{3704000}{700625} = 5.3$$

$$\text{Average collection period (days)} = \frac{805556}{(5075000 \div 360)} = 57$$

$$\text{Total asset turnover (times)} = \frac{5075000}{3125000} = 1.6$$

$$\text{debt ratio} = \frac{1781250}{3125000} = 57\%$$

$$\text{Times interest earned} = 153000 \div 93000 = 1.6$$

$$\text{Gross profit margin} = \frac{1371000}{5075000} = 27\%$$

$$\text{Net Profit margin} = \frac{36000}{5075000} = 0.71\%$$

$$\text{Return on total Assets} = \frac{36000}{3125000} = 1.2\%$$

$$\text{Return on equity} = \frac{36000}{1343750} = 2.7\%$$

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Historical ratios
Martin manufacturing Company

Ratio	A 2001	A 2002	A 2003	Ind Avg
Current ratio	1.7	1.8	2.5	1.5
Quick ratio	1.0	0.9	1.3	1.2
Inventory turnover	5.2	5.0	5.3	10.2
Average collection period	50	55	57	10.2
Total Asset turnover	1.5	1.5	1.6	2.0
Debt ratio	45.8%	54.3%	57%	24.5%
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%	0.7%	1.2%
Return on total assets	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	34.8	43.4
Market/book	1.0	1.1	0.89	1.2

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① Liquidity: The firm has sufficient current assets 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.

② 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 collection payment.

The fixed asset turnover ratio and the total assets' turnover ratios are stable but significantly lower.

③ debt: The debt ratio is increased and is substantially higher than the industry average. This places the company at high risk.

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Times interest earned ratio also indicates a potential debt service problem. The ratio is decreasing and is far below the industry average.

Profitability: 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 payments may to be blame.

Market: The market price of the firm's common stock shows weakness relative to both earnings and book value. This result indicates a belief by the market that market's ability to earn future profits faces more and increasing uncertainty as perceived by the market.

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① 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 high interest payment association with the large debt burden, is depressing profitability. The problems are being picked up by investors as shown in their weak market ratios.

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Chap 4

Findings Jill Moran's Retirement Annuity

Ⓐ Cash inflows

Cash outflows
Distribution Period.

Accumulated Period

12 end of year deposits

Earns interest 9%

20 end of year Payment

\$420,000 balance
Earns interest at 12%

Ⓑ Total amount to accumulated by end of year 12.

$$PV_n = PMT \times (PVIFA_{i,n})$$

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

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

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

Ⓒ End of year deposits 9% interest

$$\frac{PVA}{PVIFA_{i,n}}$$

$$PMT = \$313698 \div (PVIFA_{9\%, 12})$$

$$= 313698 \div 20.141$$

$$= 15575.31$$

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Calculation Solution 15575.31

Sunrise industries must make a \$15575.31 annual end of year deposit in year 1-12 in order to provide Ms. Moran a retirement annuity of \$42000 per year in years 13 to 32

(d) End of year deposits, 10% interest

$$\begin{aligned} \text{PMT} &= 313698 \div (\text{FVIFA } 10\%, 12) \\ &= 313698 \div 21.384 \\ &= 14669.75 \end{aligned}$$

Calculator solution = 14669.56

The corporation must make a 14669.75 annual end of year deposit in year 1-12 in order to provide Ms. Moran a retirement annuity of \$42000 per year in years 13 to 32.

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© ~~Initiative~~ Initial deposit of annuity is a
Perpetuity and initial deposit earns 9%.

$$\begin{aligned}PV_{\text{Perp}} &= PMT \times (1 \div i) \\ &= 42000 \times (1 \div .12) \\ &= 42000 \times (1 \div .12) \\ &= 42000 \times 8.333 \\ &= 349,986\end{aligned}$$

End of Year deposit

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

Time of value of money

$$\begin{aligned}PMT &= \$349,986 \div (FVIFA_{9\%, 12}) \\ &= \$349,986 \div 20.141 \\ &= 17376.79\end{aligned}$$

$$\text{Calculator Solution} = \underline{\underline{17377.04}}$$