MID TERM ASSIGMENT

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SUBJECT : FINANCIAL MANAGMENT

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Q#1

Solution:-

a. Gross Profit:

Formula:-

Gross Profit = Sales x Gross Profit margin

Gross Profit = \$ 40,000,000 x 80%

" = 40,000,000 x .80 = 32000,000

Gross Profit => \$ 32000,000

b. Cost of Goods Sold:

Formula:

Cost of goods sold = Sales - Gross Profit

cost of goods sold = \$ 40,000,000 - 32000,000

" => \$ 8000,000

c. Operating Profits:

Formula:

Operating Profit = Sales x operating Profit Margin

Operating Profit = \$ 40,000,000 x 35%

" " = 40,000000 x .35

" " => \$ 14000,000

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d. Operating Expenses :

Formula:

Operating Expenses = Gross Profit − Operating Profit

" " = $ 32,000,000 − $ 14000,000

" " => $18000,000

e. Earning available for common stockholders :-

Formula :-

" = Sales × Net Profit Margin

" = $ 40000,000 × 8%

" = $ 40000,000 × .08

" = $ 3200,000

f. Total Assets:

Formula:

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

" = $\frac{\$40,000,000}{2}$ = 20,000,000

" = $ 20,000,000

g. Total Common Stock equity

Formula:

$$\text{Total equity} = \frac{\text{Net income}}{\text{ROE}}$$

$$'' \quad '' = \frac{\$3200{,}000}{20\%}$$

$$'' \quad '' = \frac{\$3200{,}000}{.20}$$

$$'' \quad '' = \$16\,000{,}000$$

h. Account Receivable:

Formula:

$$\text{Accounts Receivable} = \text{Average collection Period} \times \frac{\text{Sales}}{365}$$

$$\text{Accounts Receivable} = 62.2 \text{ days} \times \frac{\$40{,}000{,}000}{360}$$

$$'' \quad '' = 62.2 \times 111{,}111$$

$$'' \quad '' = \$6{,}911{,}104$$

Q #2

Answer:

Primary Activities of the Financial Manager in addition to ongoing involvement in financial analysis and Planning, the Financial manager's Primary activities are making investment decisions and making financing decisions, investment decisions determine both the mix and the type of Assets held by the firm. Financing decisions determine both the mix and type of the firm. These sorts of decision can be conveniently viewd in term of the firm's balance sheet. However, the decisions are actully made on the basis of their cash flow effects on the overall value of ~~the~~ firm.

Financial managers perform data anaylsis and advise senior managers on Profit-maximizing ideas, Financial managers are responsible for the financial health of an organization. They Produce financial reports, direct investment activities, and develop strategies and plans for the long term financial goals of their organization.

Financial Managers typically:

• Prepare financial statments, business activity reports, and forecasts.

• Monitor financial details to ensure that legal requirements are met,

• Supervise employees who do financial reporting and budgeting,

• Review company financial reports and seek ways to reduce costs.

• Analyze market trends to find opportunities for expansion or for acquiring other companies.

• Help management make financial decisions -

The Role of the financial manager, Particularly in business, is changing in response to technological advences that have significantly reduced the amount of time it takes to Produce financial Reports. Financial main responsibility used to be monitoring a Company's Finances. The often work on teams, acting as business advisors to top executives.

★ Wealth Maximization is Rather than Profit Maximization

Wealth Maximization:

The ability of the company to increase the value of its stock for all the Stake holders is reffered to as wealth Maximization. it is a long-term goal and involves multiple external factors like sales, Products, services, Market share etc.

it assumes the risk and recognizes the time value of money given the business environment of the operating entity. it is mainly concerned with the long-term growth of the company and hence is concerned more about fetching the maximum chunk of the market share to attain a leadership position.

Profit Maximization: The Process of increasing the Profit earning capability of the company is referred to as Profit Maximization. it is mainly a short term goal and mainly is restricted to the accounting analysis. of the financial year. it ignore the risk and avoids the time value of money. it is mainly concerned as to how the company will survive and grow in the existing competitive business environment.