Mid Term Assignment (Spring 2020)

Program: MBA-90

Semester: 4th

Course: Financial Management

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Q. McDougal Printing, Inc
Year Ended December 31, 2003

Sales	\$ 40,000,000
Gross profit margin	80 %
Operating Profit margin	35 %
Net Profit margin	8 %
Return on total assets	16 %
" " Common equity	20 %
Total asset turnover	2
Average Collection Period	62.2 days

Calculate for the following:

a, Gross Profits.

Answer:- Formula:-
Sol

$$\text{Gross Profit} = \text{Sales} \times \text{Gross Profit margin}$$
$$" \quad " = \$\,40,000,000 \times 0.8$$
$$\text{Gross Profit} = \$\,32,000,000.$$

b, Cost of Goods Sold

Answer:-

Formula:- Cost of good Sold = Sales − Gross Profit

$$\text{CGS} = \$\,40,000,000 - \$\,32,000,000$$
$$\text{CGS} = \$\,8,000,000$$

C, Operating Profits

Answer:-
Formula:- Operating Profit = Sales x Operating Profit Margin

Operating Profit = $ 40,000,000 x 0.35

Operating Profit = $ 14,000,000

D, Operating Expenses:-

Answer:-
Formula:- Operating Expenses = Gross Profit - Operating Profit

Operating Expense = $ 32,000,000 - $ 14,000,000

Operating Expense = $ 18,000,000

E, Earnings available for Common Stockholders.

Answer:-
Formula. Net Profit = Sales x Net Profit Margin.

Net Profit = $ 40,000,000 x 0.08

Net Profit = $ 3,200,000

F, Total Assets

Answer:- Formula:- Total Assets = $\frac{\text{Sales}}{\text{Total Asset Turnover}}$

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

$= \$ 20,000,000$

G/ Total Common Stock Equity

Answer:

Formula:

$$\text{Total Equity} = \frac{\text{Net Income}}{\text{Return on Common Equity}}$$

$$\text{Total Equity} = \frac{\$\ 3{,}200{,}000}{0.20}$$

$$\text{Total Equity} = \$\ 16{,}000{,}000$$

H/ Accounts Receivable

Answer:- Formula:-

$$\text{Accounts Receivable} = \text{Average Collection Period} \times \frac{\text{Sales}}{360}$$

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

$$\text{Accounts Receivable} = 62.2 \times \$\ 111{,}111$$

$$\text{Accounts Receivable} = \$\ 6{,}911{,}104.$$

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Q2:- Indentify the primary activities of the Finanical Manager within the firm. Explain why wealth maximization, rather the Profit maximization, is the Firm's goal and how the agency issue is ~~too~~ related to it.

Answer:- The Primary activities of the Financial Manager are as follows:

1, Estimating the Amount of Capital Required
2, Determining Capital Structure.
3, Choice of Sources of Funds.
4, Procurement of Funds.
5, Utilisation of Funds.
6, Disposal of Profit or Surplus
7, Management of Cash
8, Financial Control.

Wealth Maximization:- A company has the ability to increase the market value of its general stock over time. The market value of the Firm is based on many factors like their Services, Sales, Goodwill, quality of Products etc.

This is a versatile goal of wealth maximization of the company and recommended standard for evaluating the performance of a business organization. This will help the Firm to increase its stake in market, gain leadership maintain consumer satisfaction and also have many other benefits.

It has been universally acknowledged that the basic aim of the business venture is to increase the property of its shareholders because they are the owners of the venture, and they buy shares of the company with hope that it will give some returns.

It states that the firm's financial decisions should be taken in such a way that the net present value of the company's profit ~~max~~ increase.

Profit Maximization:- is the ability of the firm in maximum output with limited input, or it uses the maximum input for the said output. It is called the company's most important purpose.

Traditionally it has been ~~re~~ recommended that the profit, obvious objective of any business organization is to ~~[illegible]~~, it is essential for the company's success, ~~[illegible]~~ survival and development. The benefit is a long-term ~~the~~ objective, but it has a short-term perspective, i-e financial year.

The profit can be calculated by cutting total cost from total revenue. Through profit maximization, a firm may be able to detect input-output levels, which gives the ~~higher~~ highest amount of profit. Therefore, the finance officer of a ~~of~~ organization should make a decision - in order to maximize profit, although this is not the sole purpose of the company.

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According to HBS Professor, Michal C. Jensen, many managers are caught in between the desire to maximize the value of their companies and the demands of "~~Stakeholder~~ "Stakeholder theory" to take into account the interests of all the stakeholders in a firm. It is already agency problems arise within a firm whenever managers incentives to pursue own interests at the shareholders expense. This is common knowledge in the business world. There have also been devises and mechanisms that have been created to reduce these problems such as managerial share holdings, concentrated share holdings by institutions or by block holders.