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Program MBA.90
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Subject : Financial Management.

Mid Term Assignment.

Q 1
a)
Gross profit = Sales x Gross profit Margin
= $40,000,000 x 80 %

Gross profit = $ 32,000,000

b) Cost of goods Sold

CGS = Sales - Gross profit
40,000,000 - 32,000,000

CGS = $ 8,000,000

c Operating ~~expenses~~ profit = Sale x operating profit margin.
= 40,000,000 x 35%
Operating profit. = $ 4,000,000

d) Operating Expenses

Operating Expenses = Gross profit − operating profit.

32,000,000 − 14,000,000

Operating Expenses = $ 18,000,000

f) Total assets.

Total Assets = $\frac{\text{Sales}}{\text{Total asset Turn over}}$

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

Total assets = $ 20,000,000

g) Total Common Stock equity.

= $\frac{\text{Net income}}{\text{Return on Common Stock equity}}$

Net income = Sales x Net profit margin

40,000,000 x 8%

Net income = $ 32,00,000

Total Common stock equity = $\frac{3200,000}{20\%}$

Total common stock equity = $ 1600,000

h) Account Receivable

$$\text{Acc Receivable} = \text{Average collection Period} \times \frac{\text{Sale}}{365}$$

$$62.2\,\text{days} \times \frac{4,000,000}{365}$$

Acc Receivable = \$6816438.355

QN 3

Primary activities of financial Manager within the firm.

Financial managers have a complex and challenging Job. They analyze financial data prepared by accountants, monitors the firm's financial status, and plans. The key activities of the financial managers are.

Financial Planning. Preparing the financial plan which projects revenues, expenditures, and period.

Investment. (spending money)

Investing the firm's funds in projects and returns in relation to their risks.

Financing: (raising Money)

obtaining funding for the firm's operations and investments and seeking the best balance between debt (borrowed funds) and equity (funds raised through the sale of ownership in the business).

The main goal of the financial manager is to maximize the value of the firm to its owners. The value of publicly owned corporation is measured by the share price of stock. A private company's value is the price at which it could be sold.

To maximize the firm's value, the financial manager has to consider both short and long term consequences of the firm's actions. maximizing profit is one approach. but it should not the only one. Such an approach favors making short term gains over achieving long term goals.

Wealth maximization rather than profit maximization

The process through which the company is capable of increasing earning capacity is known as profit maximization, on the other hand the ability of the company in icreasing the value of common stock is known as wealth maximization.

Wealth maximization is a better operative criteria the profit maximization. on following ground.

- Profit maximization avoids time value of money but wealth maximization recognises it.
- Profit maximization is a short term objective where wealth maximization is a long term objective -
- Profit maximization ignore risk and invest but wealth maximization take care of it.
- Profit maximization acts as a yard stick for completing the operational effeciency of the entity, on the other hand wealth maximization aims at gaining a large market share.

Throug profit maximization necessary for the survival and growth of the enterprises but where as wealth maximization accelerate the growth rate of enterprises and aims at attaining the maximum market share of the economy.

How Agency Issues related?

An agency problem results when managers as agents for place personal goals ahead of corporate market forces, both activism on the part of holders particularly large Institutional Investors, and the threat of hostile takover, tend to act to prevent or minimize agency problems. In additions firm Incur agency costs ~~and~~ in the form of monitoring and bonding expenditures opportunity costs, and structuring expenditure, which involve both Incentive - and Performance - based Compensation plans to motivate management to act in the best Interest of Shareholders. Stock options are an example of such agency costs.