Name: Hazrat Bilal
ID : 14904
Cource: Financial Management
Instructor: Mr. Naveed Azim.

MID TERM ASSIGNMENT.

Q1:

(a) Calculate Gross Profit

$$\text{Gross profit margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$0.80 = \frac{\text{Gross profit}}{40,000,000}$$

$$0.80 \times 40,000,000 = \text{Gross Profit}$$

Gross Profit = $ 32,000,000

(b) Cost of Goods Sold

Cost of Goods Sold = Sales - Gross profit

Sales	$40,000,000
less: Gross profit	(32,000,000)
Cost of Goods Sold	$ 8,000,000

(c) Operating Profit

$$\text{Operating Profits Margin} = \frac{\text{Operating Profit}}{\text{Sales}}$$

$$35\% = \frac{\text{Operating Profit}}{\$\,40,000,000}$$

$$\Rightarrow \text{operating Profits} = 40,000,000 \times 0.35$$

$$\text{operating Profits} = \$\,14,000,000$$

x———x———x

(d) Operating Expenses

Gross Profit	\$ 32,000,000
less: operating Profit	(14,000,000)
Operating Expenses	\$ 18,000,000

x———x———x

(e) Earnings available for common Stockholders:

$$\text{Return on Total Assets} = \frac{\text{Earnings available for common Stockholders}}{\text{Total Assets}}$$

$$16\% = \frac{\text{EAFCSH}}{\$\,20,000,000}$$

$$\Rightarrow \text{Earnings available for common Stockholder} = \$\,20,000,000 \times 0.16$$

$$= \$\,3,200,000$$

(f) Total Assets

$$\text{Total Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

$$2 = \frac{\$\,40{,}000{,}000}{\text{Total Assets}}$$

$$\text{Total Assets} \times 2 = \$\,40{,}000{,}000$$

$$\text{Total Assets} = \frac{\$\,40{,}000{,}000}{2}$$

$$\text{Total Assets} = \underline{\underline{\$\,20{,}000{,}000}}$$

x———x———x

(g) Total Common Stock Equity

$$\text{Return on Common Equity} = \frac{\text{Earnings available for Common Stockholder}}{\text{Common Stock Equity}}$$

$$20\% = \frac{3{,}200{,}000}{\text{Common Stock Equity}}$$

$$\text{Common Stock Equity} = \frac{\$\,3{,}200{,}000}{20\%}$$

$$\text{Total Common Stock Equity} = \underline{\underline{\$\,16{,}000{,}000}}$$

x———x———x

(ii) = Account Receivables

$$\text{Avg Collection Period} = \frac{\text{Accounts Receivables}}{\text{Avg Sales per day}}$$

$$62.2 \text{ days} = \frac{\text{Account Receivables}}{\$\ 40{,}000{,}000/360}$$

$$62.2 \text{ days} = \frac{\text{Account Receivables}}{111111.11}$$

$$\text{Account Receivables} = \$\ 111111.1 \times 62.2 \text{ days}$$

$$\text{Account Receivables} = \$\ 6911111.11$$

Q: Identify the primary activities of financial Managers ------ --- How the agency issue is related to it

Financial Management ~~is~~ concerns the aquisition, financing and management of assets with some overall goal in mind, the financial manager in a firm regulates the above mentioned activities.

A financial manager's primary activities are making investment decisions, and making financing decisions. Investment decisions determines both the mix and the type of assets held by firm, while the financing decisions tells the mix and the kinds of financing used by the firm.

• ~~The goal of~~ Goal of Firm:

The Ultimate goal of firm is to maximize wealth rather than profit is because profit is " the amount earned during the period on behalf of each outstanding share of common stock, calculated by dividing the period's total earning available for the firms common stockholders by number of share of common stock outstanding." It fails for a number of reasons

i. the timing of Return
ii. Cash flow available ~~for~~ to Stockholders
iii. Risk

The goal of firm is to maximize wealth of ~~common~~ owners.

Wealth maximization is measured by the share price of stock, which in turn is based on the timing of return, their magnitude and their risk.

Agency Issue:

- In theory, most financial managers would agree with the goal of owner's wealth maximization. In practice, managers are concerned with their personal wealth, job security. Consequently managers reluctantly make decision, that taking too much risk might put their jobs in risk.

The agency problem is the likelihood that managers may place personal goals ahead of firm's goal.

To minimize agency problems, two strands acts

(i). Market Forces
(ii). Agency Cost

(i) Market Force:

One market force is major shareholders, particularly large institutional investors such as mutual funds, life insurance companies, and pension funds. These holders of large block exert pressure on management to perform. When necessary, they exercise the voting right to replace underperforming management.

(ii) Agency Cost

Stockholders incurs agency cost in order to prevent agency issue. These cost monitors management behavior, dishonest acts of management, and providing incentives to managers to mentain firm's overall goal.