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Submitted to :

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Subject:

Business Finance

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# **QUESTION NO.1**

**A:**

50,000 RS compounded annually for 8 years at 8 %

60,000 RS for 10 years at 65%

Annuity 80,000 RS for 10 years at 8%

**1:**

FV8= Po (FIVF 8% ,8)

FV8 = 50,000(1+0.8)2

FV8 = 50,000 (1.8509)

= 92545

**2:**

FV10 = Po (FIVF 65% ,10)

= 60,000 (149.56)

= 8973600

**3: Annuity:**

FVA10 = A. (FVIFA i,n)

= 80000 (FVIFA 8%, 10)

= 80000(14.487)

= 11,58,960.

**B:**

PVAn = A (PVIFA i,n)

A = 80,000

i = 8%

n = 2 years

PVA2 = 80,000 (PVIFA 8%, 2)

= 80,000 (1.783)

=142,640

# **QUESTION NO. 2**

A:

**GROSS PROFIT MARGIN:**

A company’s gross profit margin is the most basic measure of a company’s profitability: how much money is left after accounting for the cost of producing goods and services and paying workers. Businesspeople and investors generally hope to see a stable or growing gross profit margin; when this measure is shrinking, either the business is investing in its operations or it has a problem.

Gross profit margin is computed by dividing the difference between total revenue and the cost of goods or services sold by total revenue, and is generally represented as a percentage.

Gross profit margin = (total revenue – cost of goods sold) / total revenue x 100

**OPERATING PROFIT MARGIN**

Operating Profit Margin is a profitability or performance ratio that reflects the percentage of profit a company produces from its operations, prior to subtracting taxes and interest charges. It is calculated by dividing the operating profit by [total revenue](https://corporatefinanceinstitute.com/resources/knowledge/accounting/sales-revenue/) and expressing as a percentage. The margin is also known as [EBIT (Earnings Before Interest and Tax)](https://corporatefinanceinstitute.com/resources/knowledge/finance/ebit/) Margin.

Operating profit margin=operating earnings/revenue

**NET INCOME to SALES / NET PROFIT MARGIN :**

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized..

Net profit margin= *(Net Profits ÷ Net Sales) x 100*

**B: LIQUIDITY ANALYSIS:**

**Liquidity** is the ability to convert assets into cash. Liquidity analysis is widely used by banks and other financial institutions to assess a business entity's ability to repay debt.

There are three common calculations that fall under the category of liquidity ratios. The current ratio is the most liberal of the three. It is followed by the acid ratio, and the cash ratio. These three ratios are often grouped together by financial analysts when attempting to accurately measure the liquidity of a company.

**Current Ratio**

The **current ratio** indicates a company's ability to pay its current liabilities from its current assets. This ratio is one used to quickly measure the liquidity of a company. The formula for the current ratio is:

Current Ratio = Current Assets ÷ Current Liabilities

**Acid Ratio**

This ratio is also referred to as the quick ratio. The purpose of this ratio is to measure how well a company can meet its short-term obligations with its most liquid assets turn into cash. The formula for calculating the acid ratio is:

Acid Ratio = (Cash & Cash Equivalents + Short-Term Investments + Accounts Receivable) ÷ Current Liabilities

**CASH RATIO**

Cash ratio(also called cash asset ratio)is the ratio of a company's cash and cash equivalent assets to its total liabilities.

Cash ratio = Cash and cash equivalents / Current Liabilities

**C:**

Cost of goods sold=50,000

Beginning inventory=50,000

Ending inventory=45,000

Inventory Turnover=cost of goods sold/average inventory

Now we find average inventory

Average inventory =beginning inventory+ ending inventory/2

=50,000+45,000/2

=47500

=50,000/47,500

=1.05 Ans

# **QUESTION NO.3**

B:

Firm finances a portion of its expected seasonal funds requirement , less payables and accruals on a long term basis. If the unexpected net cash flows do occur as a forecast, it will pay interest on excess debt during seasonal through when these particular funds are not needed. In the extreme peak requirements might be financed entirely on a long term basis , as would be the case if we drew the long term financing line across the seasonal humps at the top . the higher the long term financing line the more conservative the financing policy of the firm and the higher the cost.

C:

When the firm follows hedging approach, long term financing will be used to finance fixed assets and permanent current assets and short term financing to finance temporary or variable current assets. As the level of fixed assets increases, the long term financing level also increases. Under matching plan, no short term financing will be used if the firm has a fixed current assets need only. As the level of current assets increases, the short-term financing also increases. Short term financing may be preferred over long term financing for two reasons, i.e., the cost advantage and flexibility. Short term financing should generally be less costly than long term financing. The short term and long term financing have a leveraging effect on shareholders’ return. In India, the short term loans cost more than long-term loans. Using short term financing to fiancé its current assets, a firm runs the risk of renewing borrowings again and again. There is always less risk of failure when the long term finance is used.

# **QUESTION NO. 4**

A:

The firm can adopt a financial plan which matches the expected life of assets with the expected life of the source of funds raised to finance assets. Thus, a ten-year loan may be raised to finance a plant with an expected life of ten years; stock of goods to be sold in thirty days may be financed with a thirty day commercial paper or a bank loan. The justification for the exact matching is that, since the purpose of financing is to pay for assets, the source of financing and the asset should be relinquished simultaneously. Using long-term financing for short-term assets is expensive as funds will not be utilized for the full period. Similarly, financing long-term asses with short-term financing is costly as well as inconvenient as arrangement for the new short-term financing will have to be made on a continuing basis.

When the firm following **matching approach**(also known as **hedging approach),**long-term financing will be used to finance fixed assets and permanent current assets and short-term financing to finance temporary or variable current assets. However, it should be realized that exact matching is not possible because of the uncertainty about the expected lives of assets. However, it should be realized that exact matching is not possible because of the uncertainty about the expected lives of assets.

Figure 3 is used to illustrate the matching plan over time. The firm’s fixed assets and permanent current assets are financed with long-term funds and as the level of these assets increases, the long-term financing level also increases. The temporary or variable current assets are financed with short-term funds and their level increases. The level of short-term financing also increases. Under matching plan, no short-term financing will be used if the firm has a fixed current assets need only.

**B:**

Assume initially that the firm cannot borrow on short notice to meet unexpected cash drains. As a result, it can provide a margin of safety only by (1) increasing the level of current assets (especially cash and marketable securities), or (2) lengthening the maturity schedule of financing. Both of these actions affect profitability. In the first choice, funds are committed to relatively low-yielding assets. In the second, the firm may pay interest on borrowings over periods of time when the funds are not needed. In addition, long-term debt has a higher expected interest cost than does short-term debt.

**Or**

The current asset of the business ranging from cash, marketable securities, inventory and receivable are considered as the gross working capital. The net working capital comprises of difference between the current assets and the current liabilities. The working capital management represents the planning of the business’s current assets and assessing the need of finance to support the current assets.