

Mid Term Assignment (Spring-2020)

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Answer of Question No 1.

Calculate values for the following:

(a) Gross Profit:

$$\text{Gross Profit} = \text{Sales} \times \text{Gross Profit Margin.}$$

$$= 40,000,000 \times 0.8 \text{ (80\%)}$$

$$= \underline{\underline{32,000,000/-}}$$

(b) Cost of Good Sold:

$$\text{Cost of Good Sold} = \text{Sales} - \text{Gross Profit.}$$

$$= 40,000,000 - 32,000,000$$

$$= \underline{\underline{8,000,000/-}}$$

P.T.O

Q 3: Continued —

(c) Operating Profit:

$$\begin{aligned}\text{Operating Profit} &= \text{Sales} \times \text{Operating Profit margin} \\ &= 40,000,000 \times 0.35 \quad (35\%) \\ &= \underline{\underline{14,000,000 \text{ /-}}}\end{aligned}$$

(d) Operating Expenses:

$$\begin{aligned}\text{Operating expenses} &= \text{Gross Profit} - \text{Operating Profit} \\ &= 32,000,000 - 14,000,000 \\ &= \underline{\underline{18,000,000 \text{ /-}}}\end{aligned}$$

(e) ~~EAT~~ Earnings Available for Common Stockholders:

$$\begin{aligned}\text{Net Profit} &= \text{Sales} \times \text{net Profit margin} \\ &= 40,000,000 \times 0.08 \quad (8\%) \\ &= \underline{\underline{3,200,000 \text{ /-}}}\end{aligned}$$

P.T.O

Q1: Continued

(H) Total Assets:

$$\begin{aligned} \text{Total Assets} &= \frac{\text{Sales}}{\text{Total assets turnover}} = \frac{40,000,000}{2} \\ &= \underline{\underline{20,000,000 /-}} \end{aligned}$$

(g) Total Common Stock equity:

$$\begin{aligned} \text{Total Equity} &= \frac{\text{net income}}{\text{ROE}} = \frac{3,200,000}{(20\%) \cdot 20} \\ &= \underline{\underline{16,000,000 /-}} \end{aligned}$$

(h) Account receivable:

$$\begin{aligned} \text{Account Receivable} &= \text{average collection period} \times \frac{\text{Sales}}{360} \\ &= 62.2 \text{ days} \times \frac{40,000,000}{360} \\ &= 62.2 \text{ days} \times 111,111 \\ &= \underline{\underline{69,111,111 /-}} \end{aligned}$$

X _____ & _____ & : _____ &

Q2: Anses of the Questions No,02

Primary activities of the Financial Managers:-

The Financial Managers Primary activities are making Investment and Financing decisions:

Investment decision determine what types of assets

the Firm holds. Financing decision determine

How the Firm raises money to pay for the assets

in which it invests. The Two key activities of

Financial managers related to the Firm Balans-

-Sheet are:

(a) Making investment decision determining

both the most efficient level of and the best

mix of assets. and (b) making financing

decisions: Establishing and maintaining the proper

mix of short and long term financing and

Raising needed financing the most economical

way.

P.T.O.

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Profit and wealth 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 increasing the value of stock is known as wealth maximization.

⇒ Wealth maximization is a better operative criteria than profit maximization on the following ground
⇒ Profit maximization avoids time value of money but wealth maximization recognises it.

P.T.O.

Q 2: Continued —

→ Profit maximization is short time objective
whereas Wealth maximization is long time —
— objective.

⇒ Profit maximization does not consider risk.

and uncertainties, whereas wealth maximization
takes risk and uncertainties into consideration.

⇒ Profit maximization is important for growth

Survival, whereas wealth maximization accelerates

the growth rate and aims at market

Share maximization.

Agency issue is related to wealth maximization

The Financial Management is generally generally

assumed that the goal of Private Firm

is Shareholder wealth maximization and

Value maximization. The Question arises if

a Shareholder wealth maximization is an appropriate

goal, since are other individuals besides —

