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PROGRAME: MBA 90
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SUBJECT : Financial Management
ASSIGNMENT: Mid term

(a) Gross Profit: Sales x gross Profit margin
40,000,000 x 80% = 32,000,000

(b) Cost of goods sold: Sales − gross profit
40,000,000 − 32,000,000 = 8,000,000

(c) operating Profit = Sales x operating Profit margin
40,000,000 x 35% = 14,000,000

(d) Operating Expenses: Gross Profit − operating Profit
32,000,000 − 14,000,000 = 18,000,000

(e) Net profit : Sales x Net Profit Margin
40,000,000 x 8% = 3200,000

(f) Total Assets: $\frac{\text{Sales}}{\text{Total Asset turnover}} = \frac{40,000,000}{2} = 20,000,000$

(g) Total common stock equity: $\frac{\text{Net income}}{\text{RoE}}$ =

$\frac{3200,000}{20\%} = 16,000,000$

(h) Accounts Recievable : ACP x $\frac{\text{Sales}}{365}$

$= 62.2 \text{ days} \times \frac{40,000,000}{360} = 62.2 \times 111,111 = 6911,104$

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QNo 2:. Identify the Primary activities of the financial manager within the firm. Explain why wealth maximization is the firm's goal and how the agency issue is related to it.

Ans:- The financial manager acts as a conduit between the financial markets and the company.

She raises Capital from financial markets through the issuance of debt and equity.

She then invests this capital in Profitable investments opportunities She has identified

The investments generate Profits in the form of Cash and finally the financial manager decides how much of the cash generated Should be retained by the company and re invested in the Companies operations and how much should be paid out to the investors.
Retaining and re investing Profits back into the companies operations is commonly refers to as flow back.
The manager will not have any control over how much is paid back to debt holders because those are obligations Failure to pay debt holders on time

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leads to the company obligation going bankrupt and likely being liquidated.

Managers may decide against paying any dividends - if they feel that the money is better used, if interested in profitable investments oppertunities.
This is one of the reasons that firms in the information technolog industry usually do not pay dividends for example Google and now its holding companies Alphabits incorporator has never pay dividends

The primary activities of the financial managers are catogories
→ Investment decision
→ Fininacing decision
→ working capital management.

The investment decision is indentifying profitable opportunities from a number of available investments. and also look for capital budgeting weather the investment is profitable or not.

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Once the manager identify Profitable opportunities she need cash for that. The decision will made through financing decision how to raise this capital.

The manager decides how money should raise through debts and how much through equity.

Similarly she decided how much should be raise through various ~~of~~ aquity channels like Common Stock, Preffered Stocks etc.

Finally the manager is also responsible for working capital managent.

working capital ensures that the company has sufficient cash to meet its short-term operating costs and debts obligations.

why wealth maximisation is the firms goal:-

wealth maximisation means maximisation of share holders wealth. it is a combination of two words wealth and maximation. wealth of a

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Share holder maximises when the net worth of the company maximises. The objective of any shareholder or investor would be a good return on their capital and would be a safety of their capital.

How to calculate wealth. The present value of ~~of~~ all cash inflows less the costs.

→ The wealth maximization is based on cash flows and not profits.

→ Profit ~~maxiza~~ maximization presents a shorter term of view as compared to wealth maximization.

→ wealth maximization consider the time value of money.

→ The wealth maximation criterion considers the risk and uncertainty factor while considering the discounting rate.

→ In the light of modern and improved approach of wealth maximization, A new initiative called "Economic value Added" (EVA) ~~is~~ is implemented and presented in the annual report of the companies. Higher EVA increase weath of share holder.

EVA = Net profit after tax − cost of capital.

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