WOA mock Business Ad

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Q:- 2

Describe major functions of Management. Discuss its significance for modern business organizations.

Answer

Introduction

Management always plays a key role in business organizations in achieving their goal. An effective and efficient management not only enhances the credibility of the firm but also aide in increasing its wealth and profits.

Defination of Management

Management is the planning, organizing, leading and controlling of the human, physical and financial resources of the company to achieve the organization goals.

Overall there are 4 broad functions of Management

1- Planning
2- Organizing

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3- Leading
4- Controlling

An / organization which has a strong management system

A strong management is very crucial for the success of modern bussiness organizations

Four Functions of Management

Overall there are 4 functions of management. An organization management with these 4 functions performing effectively, no doubts is a successful organization

1- Planning

This is the 1st step of management in which the manager plans in how to achieve the business goals. The manager forsights a big picture of what to do and how to do the tasks to reach the goals and objectives of the organization. A manager can use various tools for planning such as:

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Tools used for planning

- Forcasting tools
- ~~Situations~~ Contingency planning
- Staff planning
- Scenario analysis

Steps taken for planning

An effective planning is indispensable for an organization to reach its desired goals. The steps taken for planning are

- Identify the bussiness goals
- Identify resources / Planning premises
- Identify the alternatives
- Evaluating the alternatives
- Developing a supporting plan
- Monitor the process

In these steps the manager knows the bussiness goals, then he identify the resources in which he'll conduct SWOT analysis and look at his organization where it stands right now financially. In the next step he identify the alternatives by whom it can achieve his goals for instance contacting various suppliers for quality and cheap supply of raw materials. In the next step he'll evaluate the different alternatives or in this case suppliers according to their desired importance of

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weightage and then in the next step he'll develop a supporting plan to assist the existing plan such as buying more assets and equipment. In the last step he'll monitor the whole process.

Types of planning

- Strategic planning (3-5 yrs)
- Operational planning (low level operations)
- Specific planning

There are many more ~

2- Organizing

The next function of management is organizing. Organizing is the practical steps that the manager takes to implement the planning function.

In organizing the manager organizes the resources according to the early function of planning to reach the business goals.

Steps in organizing

- Identification of activities to be taken by the manger to achieve organization goals

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- Departmentally organizing the activities (Manager divideds the activities into based on work into specific departments such as Finance, Marketing, human resource e.t.c.

- Classifying the authority (Manager makes a hierarchy of authority according to responsibility and whom should report to whom

- Coordintion between authority and responsibility (Relationships are established among various groups)

Principles of organizing

- Principles of specialization

People should be assigned on duties based on their specialization and expertise

- Priniciples of Functionality

Each person and department should be clarified that what he has to do, with their functions properly explained to them. For e.g Finance dept function to perform financial operations

- Principle of unity of command

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Every employee should know who is supervising him and to whom is he accountable to and report to.

- Principle of scalar chain

A proper hierarchy of command from top to lower management must be established

- Span of control

Each manager should be assigned a certain span of ~~me~~ employees he has to manage whether narrow span or wide span.

3- Leadership

It is the 3rd function of management. A manager after planning and organizing the tasks, now has to play a leadership role. A manager should motivate and influence his employees to ~~achie~~ in achieving the goals.

Leadership roles of a manager

- Motivate the employees
- Influence the employees
- As Forming groups and assigning tasks

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Types of Leadership

- Transactional leader
- Charismatic leader
- Transformational leader
- Participative leader
- Authoritarian leader

4- Controlling

The 4th ~~step~~ function of management is controlling in which the manager keeps a check whether the things are going as planned or not. If things are not going as planned and according to the standard then what measures should be taken to correct them

Steps taken in controlling

1- Measuring the performance
2- Determining whether the performance matches the standard
3- Taking corrective action

The controlling phase of the management is an ongoing and a continious process ~~and~~ which aids in keeping the organization resources in a positive direction towards achieving goals.

Types of control

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Feed
1- Forward control
2- Concurrent control
3- Feedback control

Significance For modern business organizations

The functions of a manager is crucial for the success of any modern organization. All four functions of a manager is like a nervous system who gives the direction to the whole body of the organization in achieving its goals. An effective management can boost even a bankrupting company to a surplus profit organization by effectively managing its human, physical and financial resources. Lets discuss the significance of the functions of management to the modern organizations

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1- Competitive advantage

An organization with effective management certainly will have an edge over its competitors. For example Huawei company in its nuisance was not in the market that much. But soon after its CEO hired effective and innovative management staff it certainly raised the company up, reaching every global market today and now stands at 3rd in the most bought smartphone brand.

2- Effective use of resources

An effective management will certainly make effective use of the available resources of the company. They will better understand the physical and financial position of the company and identify their goals with precision and hence will take steps that better help the organization to achieve its goals

3- Enhances the wealth of the company

An stern management will undoubtedly enhance the wealth of the company. We can take an example of every influential organization such as Apple, Samsung, Sony, Toyota, Suzuki who have an effective and professional management

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and are hence able to operate globally on large scales.

4- More innovation

Smart management will certainly promote more innovation in an organization. They will not only bring new innovative ideas on to achieve the organization goals more effectively and efficiently but also will bring out the best intellect out of the employees with their brilliant leadership skills. This will highly aid especially the tech related organizations

5- Reduce employee turnover

With an effective management system employee turnover would be vastly reduced and more and more people will want to join the organization. Examples of Japanese multinational corporations are on the forefront where employees turnover is the lowest and employees loyalty is the highest due to management treating employees as families.

6- Necessary for Multinational corporations

Due to globalization and organization

today working operating in every parts of the world it is necessary to have an effective management system especially for decentralized companies. McDonalds today is the most far reached ~~organization~~ restaurant ~~operati~~ chain with HQ in the US, needs effective coordination between the center and the subordinate.

7- Aids in increasing market value of share of the organization

An effective management undoubtedly increase the market value of the company. Example of Apple corporation is the most prominent

8- Enhances coustomers trust

More and more coustomer will feel priviliged to buy products of the company which is successful.

Conclusion

Without a doubt management is the backbone of an any organization. Without an effective management the firm can achieve its goal, however how much resources it has. Management and its functions are without a doubt of significance importance to the success

of any organization in the modern times

Qno3:-

Discuss the evolution of "marketing concept". Compare "marketing concept" with "selling concept". Also discuss the production concept and product concept.

Answer

Introduction

Marketing can be considered as the backbone of any company. Throughout history every business had to conduct some sort of marketing to raise awareness about its ~~enterprise~~ venture to the common people. There have been changes in ways of conducting marketing and raising awareness about your products to the consumers. The most latest breakthrough is the marketing and societal concept of marketing and the more conventional ones ~~were~~ are the production and selling concept

What is Marketing?

Marketing can be defined as knowing the needs of the consumers and finding the gap in the market and providing

products and services to satisfy those needs. This is the most latest concept in marketing in which we understand the need and fulfill the need by providing the product or service to our consumers.

Various concepts of marketing

1. Production concept
2. Product concept
3. Selling concept
4. Marketing concept
5. Societal concept

Marketing concept and its evolution

This is the most latest concept of marketing. In the marketing concept a company determines the needs of the coustomers and tries to fulfil those needs by providing the required product or service. This was never thought by businesses before as they always tried to sell their product without determining the needs and wants of the coustomers. This is the most coustomer friendly marketing approach and for the first time ever coustomer was the main focus of an organization.

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The birth of the marketing concept can be dated back to the starting of the 20th century when it first rose to the prominence. With advancing technology and intellect firms first realized the importance of what the coustomer ~~ne~~ wants rather than what the coustomer should get. The previous production, product, and selling concept were still very vague in the market but after some firms adapted marketing technique many more followed it and is now today the most effective marketing technique.

Selling concept

In a selling concept of marketing the firm focuses more on selling its product or service to the coustomers without identifying their needs ~~of the~~ and ~~resist~~ do not concentrate on establishing long term relationship with them. This is the most harsh selling technique in which a company has to bear alot of costs in marketing to sell their products or service. A coustomer might not need that product or service and as a result the firm has to do everything in its power to raise interest in the couetomer to buy its product or service

Example :- Insurance companies, network marketing firms, are examples of

Firms following selling concept

Marketing concept and selling concept comparison

	Marketing concept	Selling concept
1-	Focuses on satisfying coustomer needs	2- Focuses on increasing sales volume
2-	Coustomers needs and satisfaction are first priority	2- Selling of product or service is the first priority
3-	Believes in establishing long term relations with the coustomers	3- No focus on establishing long term relations with the coustomers
4-	More profitable once successful	4- Less profitable
5-	Initially bears cost but results are fruitful and profitable	5- Bears more cost and less profit
6-	Gives you a competitive edge	6- No competitive edge
7-	Referal marketing only possible through marketing concept	7- No referal marketing is possible

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8. Focus on long term business goals	8. Focus on short term business goals
Examples:- Various electronic smartphone Firms, e.t.c	Examples:- Insurance companies, e.t.c

Production concept

This is quite an old approach to marketing in which a firm focuses on increase in producing products at lower price ~~and~~ in massive production scale. The idea is that the coustomer will buy the product as ~~it~~ ~~is~~ that is widely available and is lower in price. The managers hence focuses on producing more and more products and ~~he~~ believes that consumers will purchase it due to lower costs. ~~Chinese~~

Example:- Chinese companies focuses more on the production concept. They produce products at lower cost and less quality and focuses on mass production.

Features of production concept

- Focus on mass production
- ~~[illegible]~~ less focus on coustomer needs

- Less focus on quality of products
- Profit through selling more and more products
- Less profit margin
- Making products widely available

Product concept

This is also a widely used marketing concept. In the product concept of marketing a company focuses on quality of their product to increase their sales. It holds that the ~~customer~~ consumers will favor those products that offer the most quality, performance and innovation features. Managers hence focuses more on enhancing the features of their products and sometimes forgets what the customer needs.

Example:- ① Apple companies uses product concept by producing high quality electronic products with innovative features such as Iphone and Ipad.

Features of product concept

- Focuses on selling through producing quality products
- Focuses on uniqueness of products for sales
- High pricing of products

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- Creating prestige of products through setting high prices
- Less focus on customer needs
- More innovation will result in uniqueness and hence more profit

Conclusion

Marketing is without a doubt an indispensable tool for the success of modern organizations. Every organization has its own products, services and business goals and its the duty of the marketing dept of the respective firm to choose the best marketing concept, ~~plan~~, strategy and planning according to the goals of the organization.

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Qno 7:-

An international manufacturing concern has provided the income statement data. Give formulas to calculate the following ratios. Also explain how to interpret them?

i) Current ratio
ii) Quick ratio
iii) Average Collection period
iv) Time interest earned
v) Inventory turnover

Answer

A Financial ratios

Financial ratios can be defined as the ratios that tells us about the financial condition of an organizations financial statements. ~~They tell us about an overview of the condition of the financial~~

Types of financial ratios

1- Liquidity ratios
2- Profitability ratios
3- ~~Turnover~~ Efficiency ratios
4- Solvency ratios
5- Coverage ratios

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Lets discuss the required ratios

1- **Current ratio**

This is a type of Liquidity ratio. Current ratio tells that how much our current assets covers our current liability.

Formula

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

Example

Cash = 1000, Inventory = 500, A.R recievable = 100
A/P = 1000

Here current assets = Cash + Inv + A.R
= 1000 + 500 + 100
= 1600

Current liabilities = A/P = 1000

Current ratio = $\frac{C.A}{C.L}$ = $\frac{1600}{100}$ = 1.6 : 1 times

Interpretation

Now the current ratio of 1.6 interprets that our current—

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assets covers our current liabilities by 1.6 times. The more the current ratio is better for the company as it shows that the company can cover its short term obligations and cannot default.

1. ~~More~~ The ideal current ratio should be 2:1 as it means that the firm can meet its short ~~time~~ term debts two times. Current ratio of 3:1 or any exceeding 2 times also can be worrysome as it can showcast that you have idle cash, idle inventory or account recievables not getting paid.

2. **Quick ratio**

This is also a type of liquidity ratio. Quick ratio ~~contains~~ tells us that how much ~~quick~~ ~~asset~~ very liquid assets such as cash, marketable securities and account recievables covers our short term liabilities. It excludes inventory which is not much liquide from current assets.

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Formula

Quick ratio = $\frac{\text{current assets - inventory}}{\text{Current liabilities}}$

Example

Cash = 1000 , Inventory = 500, A·R = 100,
A/P = 1000

Current assets = 1000 + 100 + 500
= 1600

Current liabilities = 1000

Quick ratio = $\frac{1600 - 500}{1000}$

= $\frac{1100}{1000}$ = 1·1 : 1 times

Interpretation

The 1·1 quick ratio shows that with our very liquid assets we can cover our current liabilities 1·1 times. This means that we have quick liquid assets 1·1 times more than current liabilities

Quick ratio of 1:1 times is ideal as it means that we always have enough quick assets to pay our

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current obligations. It also raises the confidence ~~our~~ of our supplier to give us supply on credit.

3- Average collection period

It is a type of efficiency ratio. It states that after how much days on average a firm is able to collect its account recievables from the debtors

Formula

$$\text{Average collection period} = \frac{\text{Account recievable}}{\text{Total sales/revenue}} \times 365$$

Example

Total net sales = 10000 , A.R = 1000

$$\text{Average collection period} = \frac{A.R}{\text{Total net sales}} \times 365$$

$$= \frac{1000}{10000} \times 365$$

Average collection period = 36.5 days

Interpretation

The average collection period of

36.5 days states that on average the firm collects its account recievable after 36.5 days from their debtors.

The earlier we recieve account recievable and less the average collection period, its better for the firm.

It depends ~~of~~ on the firm's policy of how much quick it prefers to collect ~~@~~ account recievable. 30-45 days is better and exceeding those days is not better. Sometimes discounts could be offered by the firm to the debtors for earlier payment.

4- ~~Inter~~ Time interest earned

Its a type of coverage ratio. It states that how much times our earnings before deducting interest and tax can cover. our interest payments

Formula

$$\text{Times interest earned} = \frac{\text{Earning Before interest and tax}}{\text{Interest exp}}$$

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Example:-

EBIT = 10000 , interest exp = 100

Times interest earned = $\frac{10000}{100}$ = 100 times

Interpretation

The time interest earned of 100 times states that our ~~income~~ earning after deducting operational expenses can cover our interest payments 100 times and is 100 times more than the interest payments

The more the times interest earned ratio the better it is.

It also raises the confidence of ~~our~~ the banks which have lend us money and also increases our credibility to get more loans. ~~from~~

5- **Inventory turnover**

It is a type of efficiency ratio. It states that how much times our inventory is ~~turning~~ sold in a period such as a year

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Formula

Inventory turnover ratio = $\frac{\text{Cost of Goods sold}}{\text{Avg inventory}}$

Example

COGS = 10000 , Inventory = 1000

Inventory turnover ratio = $\frac{10000}{1000}$ = 10 times

Interpretation

The inventory turnover ratio of 10 times means that in a period of a year our inventory is being sold 10 times.

More the inventory turnover ratio the better it is.

Lower inventory turnover ratio suggests that our inventory is not being sold and is idle hence increasing storage costs.

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Qno8:-

Discuss the three common capital budgeting decision techniques with examples and Formulas.

Answer

Introduction

Every firm wants to make a best decision in its interest, especially when it comes to investment decisions. No firm would ever want to go in loss after investing in a certain asset. For this, to make sure that an investment is fruitful firm asks the financial manager to evaluate certain projects before they invest their money in it. For this the manager uses capital budgeting techniques in order to find out which investment produces profit and is viable for the company's interest.

Capital budgeting techniques

Capital budgeting techniques are the techniques or methods used by the financial manager in order to assess which project would produce profitable cash flows and would be beneficial to invest in for the company

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There are 3 types of common capital budgeting decision techniques

Types of capital budgeting techniques

1- Payback period
2- Net present value
3- Internal rate of return

Lets discuss all three of them

1- Payback period

This is the most simple capital budgeting technique. It tells us that after how much time period our initial investment is returned

Formula # FUM

$$\text{Payback period} = \text{Full years until recovery} + \frac{\text{unrecovered cost at the beginning of last year}}{\text{Cash flow during the last year}}$$

Further explanation:

Payback period is the most simple cash budgeting technique. In this technique cash flows are not taken into consideration but only focuses in how much time our initial investment is being returned.

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The more the quick the initial investment is returned the better it is. It very much depends on the companies policy.

Some limitations

- Not focuses on cash flows but only on payback of initial investment
- No focus on cash flows after the payback period
- Gives very less information to make a decision

Example

Project A

Years	Cash flow
0	(2000)
1	1000
2	200
3	500
4	400
5	100

$PBP = 3 + \frac{300}{400}$

$PBP = 3.75$ years

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The Payback period of 3.75 years states that after 3.75 years of investment in project A our initial investment would be covered.

Discounted Payback period

It is similar to the previous payback period but in this we take discounted present value cash flows instead of ~~at~~ undiscounted cash flows. The formula is also the same.

Net present value

The NPV is a discounted cash flow method of capital budgeting. NPV is the sum of all discounted cash flows of the project less the initial investment. If the NPV comes in positive it is favorable otherwise if its negative the financial manager should reject that project. The NPV is zero when the PV of the benefits and the PV of costs are equal.

Formula

NPV = PV of net cash inflows − initial cash outflow

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Further explanation

NPV is the most effective and helpful capital budgeting technique out of the 3. The net present value of a project if its positive shows that the project will be fruitful to invest in and if it's negative it would be costly to invest in ~~that~~ project. The main ~~point~~ good point is that it takes Discounted cash flows and not profits and evaluates all the cashflows from the project unlike the payback period.

Limitations

- It is sometimes difficult to understand ~~as~~ for someone with no background of finance.

Example

Project A cost of capital = 10%.

Year	Cash Flow	PV
0	(2000)	(2000)
1	1000	909.09
2	100	82.64
3	600	450.78

NPV = PV of all cash flows − initial investment

= 909.09 + 82.64 + 450.78 − 2000

NPV = −557.49

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The negative NPV suggests that the project is costly to invest in and the PV of the cash flows is not less than the initial investment. The firm should reject this project.

Internal rate of return

It is another method of the discounted capital budgeting technique. The internal rate of return is a discounted cash flow method which give a return of zero NPV. It is in short the rate in which our the NPV of the project is equal to zero

Formula

$$IRR = r_a + \frac{NPV_a}{NPV_a - NPV_B} \times (r_b - r_a)$$

Further explanation

If a project IRR is equal to or higher than the minimum acceptable rate of return, it should be undertaken. If the IRR is lower than the minimum required return it should be rejected. The higher the IRR the more prefforable it is. IRR can be used to rank

Limitations

- Not much details are ~~given~~ extracted from it
- We assume that the positive future cash are reinvested at IRR
- We prefer NPV over IRR in case both are given

Example

Find ~~NPV~~ IRR of Project A

First assume 10% IRR

Year	CF	PV
0	(1000)	(1000)
1	200	$\frac{200}{(1.1)^1} = 181.81$
2	500	$\frac{500}{(1.1)^2} = 413.22$
3	600	$\frac{600}{(1.1)^3} = 450.78$

$$NPV = 181.81 + 413.22 + 450.78 - 1000$$
$$= 45.81$$

Now lets assume 12% IRR

Year	CF	PV
0	(1000)	(1000)
1	200	$\frac{200}{(1.12)^1} = 178.57$
2	500	$\frac{500}{(1.12)^2} = 398.59$
3	600	$\frac{600}{(1.12)^3} = 427.06$

$$NPV = 178.57 + 398.59 + 427.06 - 1000$$

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NPV = 1004.22

Lets assume k_e = 13%

Year	CF	PV
0	(1000)	(1000)
1	200	$\frac{200}{(1.13)^1} = 177$
2	500	$\frac{500}{(1.13)^2} = 391.57$
3	600	$\frac{600}{(1.13)^3} = 415.83$

NPV = 177 + 391.57 + 415.83 − 1000
NPV = −15.6

Now for IRR we'll take
k_e = 12% and 13%.

$$IRR = 0.12 + \frac{1004.22}{1004.22 + 15.6} \times (0.13 - 0.12)$$

~~= 11.194 (0.01) 0.12 ×~~
~~IRR = 0.01184~~

= 0.12 + 0.009847
IRR = 0.1298 or 12.9847%.

This means that at k_e = 12.9847% the project's ~~IRR~~ NPV would be zero.

Conclusion

Capital budgeting technique are the most widely used budgeting techniques in bussiness. Every business financial mangger has to properly use these techniques inorder to make good and beneficial investment decisions for the company.

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