Business QA
Batch 366

25/1/2025 Day: Saturday

{Q No 7}

(a) Which financial ratios would you be most likely to Consult if you were the following: and why why.

A) A bankers Considering the financing of Seasonal inventory

- **Inventory Turnover ratio:-**
This ratio shows how quickly the firm is able to sell and replace its inventory. A high turnover ratio is Crucial for a Seasonal business to ensure that the inventory is sold in time.

- **Current Ratio:**
It measures the firm's ability to pay short-term obligations with its Current assets, which is Crucial for managing the liquidity of Seasonal inventory.

B) A Wealthy Equity Investor

- **Price to Earning ratio:** This ratio helps evaluate the market value of a Company's stock relative to its earning, Crucial for assessing the stock's investment potential.
- **Return on Equity:-** It shows how effectively the firm is using shareholder's equity to generate profits, which is important for investors looking for strong returns.
- **Earning Per Share:-** This is a key metric for profitability that investors use to gauge a firm's earnings performance on per-share basis.

C) The Manager of a pension fund Considering the purchase of a firm's bonds.

- **Interest Coverage ratio:** This ratio helps assess the firm's ability to pay interest on its debt, which is Crucial for bond investor.

- **Debt to Equity Ratio:-** It measures the firms leverage, indicating how much debt is used in relation to equity. Pension fund managers would seek companies with manageable debt levels.

D) **The President of a Consumer product firm:-**

- **Gross Profit Margin:-** It reveals how much profit is made after covering the cost of goods sold, important for understanding operational efficiency.
- **Operating Profit Margin:-** It shows the percentage of revenue left after covering operating expenses, essential for assessing overall profitability.

(Part B)

Following are the selected data taken from Books of A ltd at the end of year 2005.

1) Working Capital

Working Capital = Current Asset − Current Liabilities

Current Assets:-

- Cash = Rs 108,000 ✓
- Account receivable = $\frac{380{,}000 \text{ (beg)} + 350{,}000 \text{ (end)}}{2}$

  = 365000 ✓
- Marketable Securities = Rs 142,000 ✓
- Merchandise Inventory = $\frac{120{,}000 \text{ (beg)} + 150{,}000 \text{ (end)}}{2}$

  = 135000* ✓

Total Current Asset = 750,000

Current Liabilities:-
- Account Payable = Rs 200,000
- Bills Payable = Rs 50,000

Total Current liabilities = 250,000

Working Capital = 750,000 − 250,000
= Rs 500,000.

2) Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{750,000}{250,000} = 3$$

3) Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$= \frac{750,000 - 135000^{*}}{250,000}$$

$$= \frac{615000}{250000} = 2.46$$

4) Inventory Turnover

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods sold}}{\text{Average Inventory}}$$

$$= \frac{540,000 \text{ (given)}}{135000}$$

$$= 4$$

5) Account Receivable Turnover:-

$$\text{Account Receivable Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

- Net Credit Sales = 18,25,000
- Average Account Receivable $= \frac{380,000 + 350000}{2}$

$$= 365000$$

$$\text{Average Receivable Turnover} = \frac{18,25,000}{365000}$$

$$= 5$$

6) Gross Profit Percentage

Gross Profit = Net Sales – Cost of Good sold
= 18,25,000 – 548,000
= 1285 000

7) Net Profit Percentage

Net Profit = Gross profit – Operating Expenses
= 1285000 – 600,000
= 685000

8) Operating Expences Turnover

Operating Expenses Turnover = $\frac{\text{Net Sales}}{\text{Operating Expenses}}$

= $\frac{1825000}{600,000}$ = 3.04

(Question No 8)

(a) Discuss the Scope of financial Management, describe different types of financial market and financial Security.

Definition of Financial Management:-

Financial Management is the Process of planning, Organizing, and Controlling a Company's financial resources to achieve its goals and maximize its value. It involves making ~~decion~~ decision about investments, funding and managing daily financial operations to ensure the business remains profitable and financially Stable.

Scope of Financial Management:-

Financial management involves planning, organizing, directing and Controlling the financial activities of an organization. Its Primary goal is to maximize shareholder

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Wealth. The Scope of financial management includes.

1) **Investment Decisions:-**
Investment decision involves evaluating and Selecting projects or assets in which the firm should invest.

2) **Financing Decision:-**
Financing decision concerned with determining the best Capital structure (debt vs equity) to fund the firm's investments.

3) **Dividend Decisions:-**
Dividend decisions involves determining the amount of Profit to be distributed to Shareholders as dividends and the portion to be retained for reinvestment.

4) **Working Capital Management:-**
Working Capital Management managing the firm's Short term assets and liabilities to ensure liquidity and operational efficiency

5) **Risk Managements:-**
Identifying, analyzing, and managing financial risks to Safeguard the organization's financial health.

Types of Financial Markets:-

The following are the types of financial markets are.

1) **Money Market:-** The Money market is a short-term financial market where instruments & with maturities of one year or less are traded. It is Primarily used for liquidity management.

For Example
- Treasury bills
- Commercial papers.

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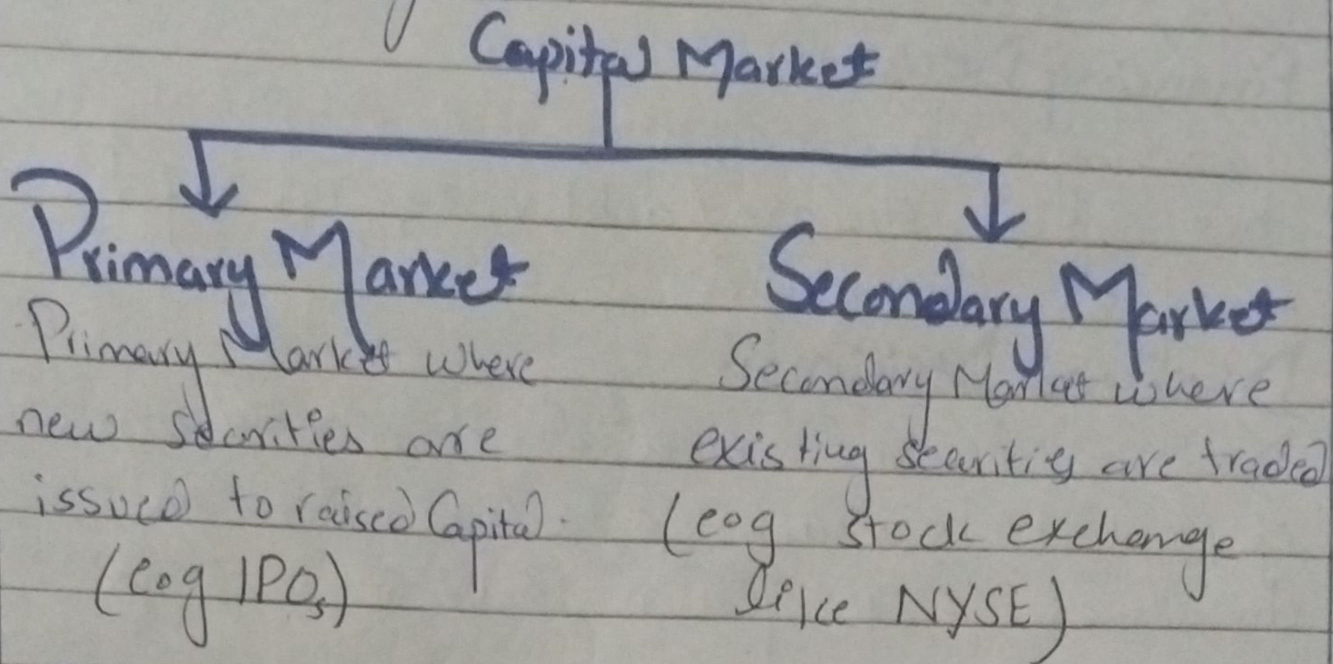
2) **Capital Market:-** The Capital market deals with long-term financial instruments, Providing funds for investment projects with longer horizons. They are divided into two segments.



3) **Foreign Exchange Market:-** Foreign Exchange Markets facilitates the trading of Currencies, essentially for international trade and investment.

4) **Derivatives Market:-** The derivatives market involves trading financial instruments like futures, options and swaps, whose value is derived from underlying assets.

5) **Commodity Markets:-** The Commodity Market facilities trading in Physical goods like metals, energy and agricultural products, as well as their derivates.

Types of Financial Securities:-

1) **Equity Securities:-** These represent Ownership in a Company, and Shareholders are entitled to a Portion of the Company's Profits through

dividends and potential capital gains
(e.g. • Common stock • Preferred stock)

2) **Debt Securities:-**
Debt securities represent borrowed funds that must be repaid with interest.
For Example:- • Bonds • Notes • Debentures.

3) **Derivative Securities:-**
These derive their value from underlying assets such as stock, bonds, or commodities.
For Example:- • Option • Futures Contracts • Swaps.

4) **Hybrid Securities:-**
Securities that combines elements of both equity and debt, such as convertible bonds or preferred stock.

(Part B)

9) • $NPV = \Sigma\left(\frac{Cashflow}{(1+r)^t}\right) - \text{Initial Investment}$

• Required rate of return: 15%.

Year	Cashflow	Discount factor	Discounted Cashflow
0	700,000	–	–
1	1000,000	$(1+0.15)^1 = 1.15$	869565
2	250,000	$(1+0.15)^2 = 1.32$	189393
3	300,000	$(1+0.15)^3 = 1.52$	197368
4	350,000	$(1+0.15)^4 = 1.74$	201149.
5-10	400,000		
			1457475

$NPV = \Sigma\left(\frac{Cashflow}{(1+r)^t}\right) - \text{Initial investment}$

$= 1457475 - 700,000$

$= \$757475$

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Let's Assume: Required rate of return 16%.

Year	Cashflow	Discount factor	Discounted Cashflow.
0	700,000	–	–
1	1000,000	$(1+0.16)^1 = 1.16$	862068
2	250,000	$(1+0.16)^2 = 1.345$	185873
3	300,000	$(1+0.16)^3 = 1.56$	192307
4	350,000	$(1+0.16)^4 = 1.81$	193370
5-10	400,000	$(1+0.16)^5 = 2.10$	~~190476~~
			1626491

$$NPV = \Sigma \left\{ \frac{\text{Cashflow}}{(1+r)^t} \right\} - \text{Initial investment}$$

$= 1626491 - 700,000$

$= 926491$.

Internal rate of return $= r_a \pm \frac{NPV_a}{NPV_a - NPV_b} (r_b - r_a)$

$= 15\% + \frac{757475}{757475 - 926491} (16\% - 15\%)$

$= 0.10\%$

So, the IRR is 0.10% which is lower than the required rate of return of 15%. Therefore, the project would not meet the required return threshold and would also be considered unacceptable.

(b) "IRR is the rate that makes the NPV of the project equal to zero. It can be found by trial and error or using a financial calculator or software. The formula is the same as for NPV but solved for r when NPV = 0."

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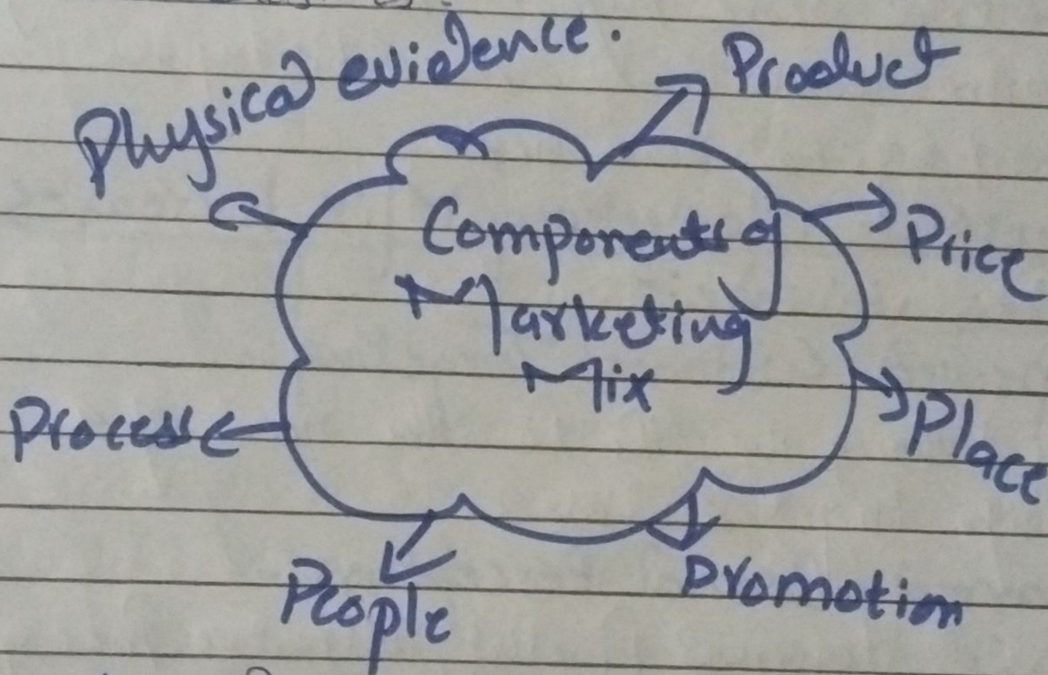
{Q no 3}

What do you know about Marketing mix and how its effect on increasing the sales volume of a Company.

Definition of Marketing Mix:-

The marketing mix refers to the combination of Controllable elements that are Company uses to Promote its Products or Services in the market. It is Commonly represent by the **4Ps**: Product, Price Place, and Promotion. Some framework expand this to **7Ps** including People, Process and Physical evidence, especially in Service industries.



1) **Product:-** Product refers to goods or services offered by a Company to meet Customer need. It includes Product design, quality, features, Packaging, and branding.

2) **Price:-** Price refers to the Cost Customers Pay for the Product. It strategies Can include Penetration Pricing, skimming, discount Pricing, or Premium Pricing.

3) **Place:-** Place refers to how and where the Product is made available to Customers. It includes Channels, retail locations

Online platforms, and logistics.

4) **Promotion:-** Promotion referes to the activities used to Communicate the Product's value to Customers. It includes advertising, Sales Promotions, Public relations, Personal Selling and digital marketing.

5) **People:-** Employees and customer-facing staff affect Customer experience and Satisfaction.

6) **Process:-** Efficient service delivery Processes enhance Customer Satisfaction and loyalty.

7) **Physical Evidence:-** Tangible elements like store layout website design build trust and credibility in Physical evidence.

How the Marketing Mix Increases Sales volume:-

1) **Improved Customer Targeting:-**
By tailoring the 4Ps to the needs of a Specific target audience

2) **Enhanced Brand Perception:-**
A well designed Product, attractive Pricing, and effective Promotion helps Position the brand Positively in Customer's minds.

3) **Higher Market Reach:-**
Expanding distribution Channels (Place) allows Companies to reach a larger audience, resulting in more Sales opportunities

4) **Boosted Customer Engagement:-**
Promotions Such as discounts, contests and advertisements Can attract more Customers, encouraging repeat Purchases and building loyalty.

Conclusion:- The marketing mix plays a Pivotal role in driving sales volume by ~~Ess~~ ensuring that the right Product is offered at the right Price, Promoted effectively, and made available in the right Place.

(Q No 2)

Discuss the Contigency factors that affect Planning. Describe how manager can effectively Plan in todays environment.

Contigency Factors affecting Planning:-

Planning is influenced by various factors that determine the effectiveness and applicability of Strategies. These Contigency factors vary based on ~~Orgrar~~ organization's environment, goals and resources. following are the key factors are:-

1) **Organization Internal environment:-**
Internal environment organizational structure, Culture, resources and workforce Capabilities to that ensures its success.

2) **Organization External environment:-**
External environment include economic, Political, legal, Social, technological and Competitive factors influence planning.

3) **Uncertainity and Risk.**
Uncertainity ~~is~~ of high level such as Volatile markets or political instability, make planning challenging. Plans must be include Contigencies to address unforseen events.

4) **Leadership Style:-**
Autocratic leadership often focus on

Centralized, top down planning, while participative leadership involves employees in the planning process, leading to more inclusive and practical plans.

How Managers Can Effectively Plan in Today's Environment.

To succeed in the dynamic and unpredictable modern business environment, managers must adopt the following practices:

1) Embrace Flexibility and Adaptability
2) Conduct Continous Environmental Scanning
3) Set Clear, Realistic and Achievable Goals
4) Foster Collaboration and Inclusivity
5) Leverage Technology and Data Analytics
6) Prioritize Risk Management
7) Focus on Innovation
8) Evaluate and Adjust Plans Regularly -

Conclusion:-

Planning is a dynamic process influenced by several contigency factors Managers must recognize these factors and adapt their strategies to remain effective in today's fast changing environment