TAZEEN
BATCH - 373
LMS ID - 35095
SUBJECT - BUSINESS AD.

Q. NO. 8

(A)

FINANCIAL MANAGEMENT:

"Financial management is the operational activity to obtain and utilize the funds in an effective manner to bring the efficiency in the ~~op~~ operations."

Financial management is mainly the domain of top-level management and the company's financial risk analyst. It is highly specific and technical. It is necessary to maximize the value of share holders equity.

Scope of Financial Management:

The scope of financial management is wide. capital structure, pattern of investments, return on investment, return on equity, allocation

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of budget, cash management and implementation of all financial decisions are come under the umbrella of Financial Management.
It also include Financial planning, Financial control, and financial decision making.

1) **Financial Planning:** It includes the long-term road map to achieve the financial goals. Financial planning addresses the questions like where to investment? and when to invest? Financial planning asses the company's financial condition and plan accordingly.

2) **Financial Control:** Financial control refers to the control of capital structure (means an effective debt-to-equity ratio), control over budget that are allocate to different departments, and efficient cash management.

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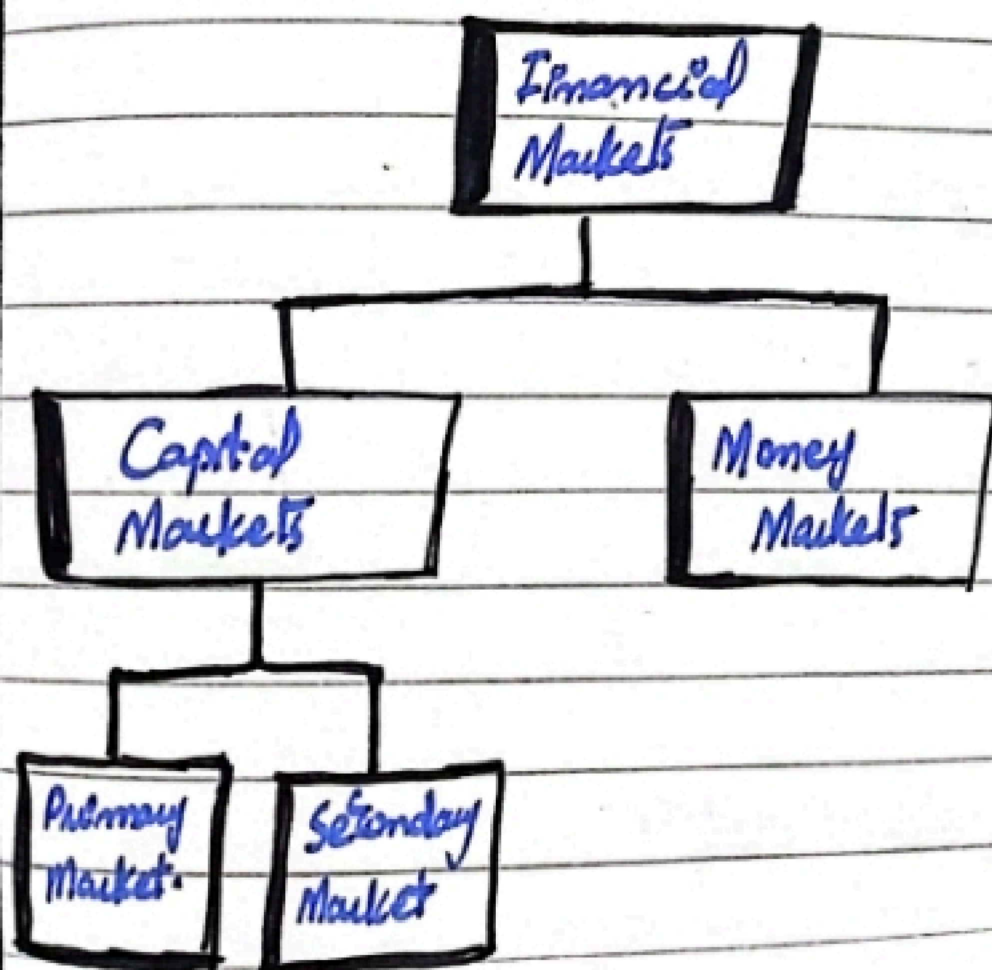
3) **Financial Decision Making:** Financial decisions are taking by top-level management. The decisions involve issuance of new shares (IPO), acquiring more debt, dividend payments, reserves and retained earnings, on the basis of financial reports which shows the financial condition and financial position of the company.

Types of Financial Markets:



Financial Markets: Financial markets are those markets in which financial instruments are traded. It has two types; Money markets and capital markets.

① **Money Markets:** Money markets has shorter time duration. The maturity of these markets are less than one year, less than three months or even one day. Treasury bills and certificate of deposits are few examples of the instruments of money market.

② **Capital Markets:** In these markets investors do long-term investment, usually over 1 year. Equities and bonds are traded in capital markets. It further divides into Primary market and secondary market.

ⓘ **Primary Market:** Sale of IPOs (initial public offerings) are through primary market. Securities

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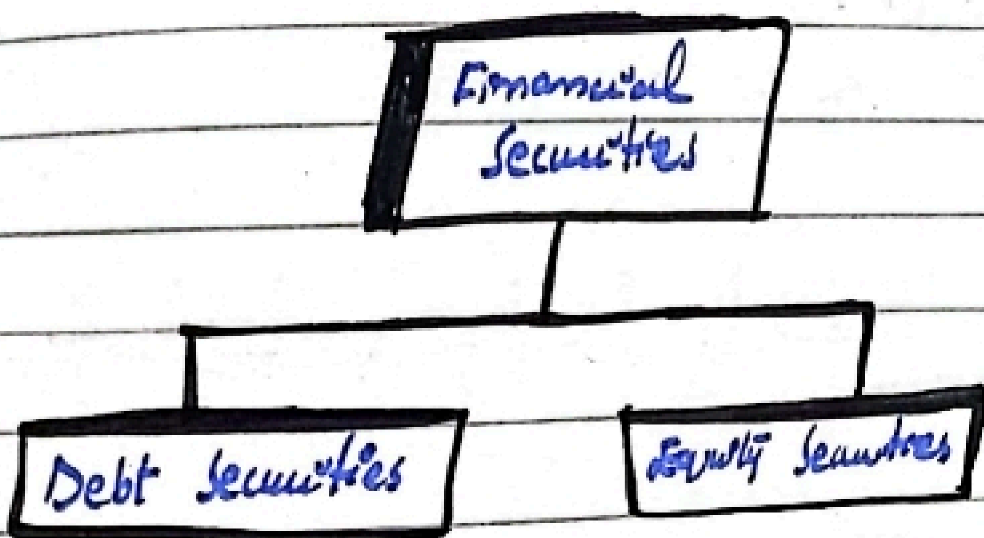
are directly purchased from the issuer. It scope is narrow than secondary market.

(ii) **Secondary Market:** The actual trading of bonds and equity happen here. The brokers also involve in secondary market. The investor will gain on security instead of company. stock ~~mat~~ exchange market can be taken as a example of secondary capital market.

Types of Financial Securities:



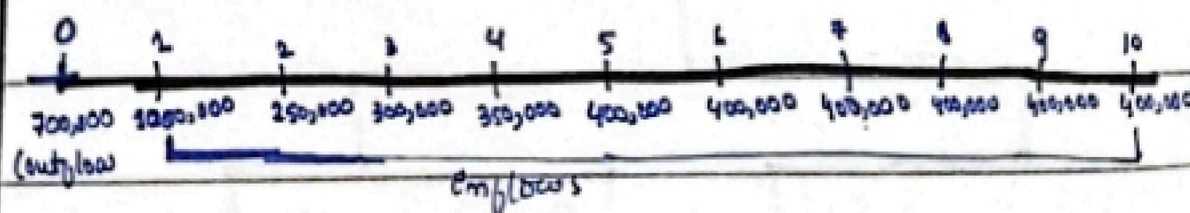
① **Debt Securities:** It represents a loan from an investor to an issuer and

offer regular ~~investors~~ interest payments. Bonds, Certificates of deposits, and Treasury bills are some of the examples of debt securities.

② **Equity Securities:** It represents ownership in a company and give voting rights to the shareholders. The shareholder gains ~~voting~~ on capital and enjoy dividends on these securities. Common stocks and preferred stocks are some of the examples of equity securities.

Q.No.8 (b):

ABC Company



rate = 15%

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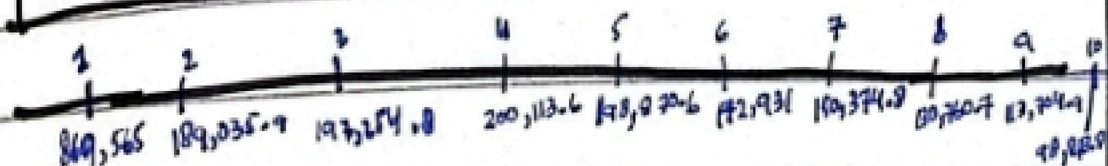
Present values of Future cash flows

$\therefore PV = \left(\frac{FV}{(1+i)^n}\right)$

Year	Calculation	Present Value
1	$\frac{1000,000}{(1+0.15)^1} \Rightarrow 869,565$	869,565
2	$\frac{250,000}{(1+0.15)^2} \Rightarrow 189,035.9$	189,035.9
3	$\frac{300,000}{(1+0.15)^3} \Rightarrow 197,254.8$	197,254.8
4	$\frac{350,000}{(1+0.15)^4} \Rightarrow 200,113.6$	200,113.6
5	$\frac{400,000}{(1+0.15)^5} \Rightarrow 198,870.6$	198,870.6
6	$\frac{400,000}{(1+0.15)^6} \Rightarrow 172,931$	172,931
7	$\frac{400,000}{(1+0.15)^7} \Rightarrow 150,374.8$	150,374.8
8	$\frac{400,000}{(1+0.15)^8} \Rightarrow 130,760.7$	130,760.7
9	$\frac{400,000}{(1+0.15)^9} \Rightarrow 113,704.9$	113,704.9
10	$\frac{400,000}{(1+0.15)^{10}} \Rightarrow 98,873.8$	98,873.8
		Σ 2,321,485



NPV = Present value of expected cash inflows − Present value of cash outflow

NPV = 2,321,485 − 700,000 = 1,621,485

The NPV is positive. So the project will be accepted.

Internal rate of return :

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

NPV_a at the rate of 15%

$\Rightarrow NPV_a = 1,621,485$

Calculation of NPV_b at 80%

$\left(\frac{1000,000}{(1.8)^1}\right)$ =	555,555.5
$\frac{250,000}{(1.8)^2}$ =	77,160.4
$\frac{300,000}{(1.8)^3}$ =	51,440.3
$\frac{350,000}{(1.8)^4}$ =	33,340.95
$\frac{400,000}{(1.8)^5}$ =	21,168.8
$\frac{400,000}{(1.8)^6}$ =	11,760.4
$\frac{400,000}{(1.8)^7}$ =	6,533.5
$\frac{400,000}{(1.8)^8}$ =	3,629.7
$\frac{400,000}{(1.8)^9}$ =	2,016.5
$\frac{400,000}{(1.8)^{10}}$ =	420.3
Total =	£ 763,726.35

$\Rightarrow 763,726.35 - 700,000 = 63,726.35$

$$IRR = 0.15 + \frac{1621,485}{(1,621,485 - 63,726.35)} \times (0.8 - 0.15)$$

$\Rightarrow$ **IRR = 10.93%**

The investment is not aligned with the high expectations of the company. Project would not be acceptable.

Q.No.7

A) A banker considering the financing of Seasonal inventory:

A banker will focus on the liquidity ratios such as; Current ratio and Quick ratio. Because, with these ratios, it is easy to assess the short-term risk, which is essential for seasonal inventory.

B) A Wealthy Equity Investor:

A Wealthy Equity Investor will focus on Solvency ratios and Profitability ratios. In which Debt-to-Equity ratio, Interest coverage ratio, Return on Equity, and Net Profit ratio are most important to look over.

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(C) The Manager of a Pension Fund Considering the Purchase of a Firm's Bond:

The Manager of a pension fund considering the purchase of a firm's bond will focus on analyze the solvency ratios. Because it tells the company's ability to service its debts and company's ability to pay interest payments to its investors.

D) The President of a Consumer Products firm:

The president of a Consumer products firm will analyze the Profitability and Efficiency ratios. To determine the company's ability to manage its operations which is essential for the president to make decisions about new investments in products or in initiatives.

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Q.7 (b)

1) **Working Capital:**

Current Assets - current liabilities = working capital

current assets = cash + average account receivables + marketable securities + avg. inventory

current liabilities = Bills payable + Accounts payable

current assets = 108,000 + 365,000 + 135,000 + 142,000

=> 750,000

current liabilities = 50,000 + 200,000

=> 250,000

750,000 - 250,000 = 500,000

Working capital is 500,000

The company has positive working capital that indicates company's financial sustainability and liquidity, means company can invest in growth initiatives.

2) **Current Ratio:**

$$\frac{\text{Current Assets}}{\text{current liabilities}}$$

$$\Rightarrow \frac{750,000}{250,000} = \boxed{3:1}$$

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The current ratio is positive. Company has 3/- to pay 1/- liability. It lower downs the liquidity risk and gain investor's trust. It also indicates that company has large of stock of inventory and less efficiency in cash and accounts receivable management.

3) **Quick Ratio:**

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\Rightarrow \frac{750{,}000 - 135{,}000}{250{,}000} = \boxed{2.46 : 1}$$

Quick ratio is positive. It reduced the the liquidity risk. But it shows the recovery department is not efficiently working to collect accounts receivables.

4) **Inventory Turnover:**

$$\frac{\text{Cost of Goods Sold}}{\text{Average inventory}}$$

$$\Rightarrow \frac{540{,}000}{135{,}000} = \boxed{4 \text{ times}}$$

It shows that 4 times inventory restock in a year. High inventory turnover indicates that selling department is working efficiently

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5) ~~Account~~ ~~Receivable~~ Receivable ~~Inventory~~ Turnover

$$\frac{\text{Net Credit sales}}{\text{Average accounts receivable}}$$

$\Rightarrow 18,25,000 / \left(\frac{380,000 + 350,000}{2}\right) = \boxed{5 \text{ times}}$

It is high that indicates that there is a problem with company's recovery department and with the customers purchase on credits.

6) **Gross Profit Percentage:**

$$\frac{\text{Gross Profit}}{\text{Net sales}} \times 100$$

Gross Profit = Net sales - COGS

Gross Profit = 1,285,000 $\Rightarrow \frac{1,285,000}{18,25,000} = 0.704$

$\boxed{0.704 \times 100 = 70.4\%}$

Gross profit is 70% that means the incurred cost is too less and company is making enough profit.

7) **Net Profit Percentage:**

$$\frac{\text{Operating Profit}}{\text{Net sales}} \times 100$$

Operating Profit = Gross profit - Total operating expenses

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Gross profit = 1,285,000
less: Total operating expenses (600,000)

= 685,000 : Operating Profit

$$\Rightarrow \frac{685,000}{18,25,000} \times 100$$

$\Rightarrow$ **0.375 or 37.5%**

Company is earning only 37.5% net profit while 70% gross profit. Company need to reduce its operating expenses to maximize its profits. or sell more units as COGS is less.

8) Operating Expenses Rate:

$$\frac{\text{Total operating expenses}}{\text{Net sales}} \times 100$$

$$\Rightarrow \frac{600,000}{18,25,000} \times 100 \Rightarrow 32.87\%$$

The operating expense rate is 32.87% it is not too bad. Company is maintaing the balance between sales and operating profit.

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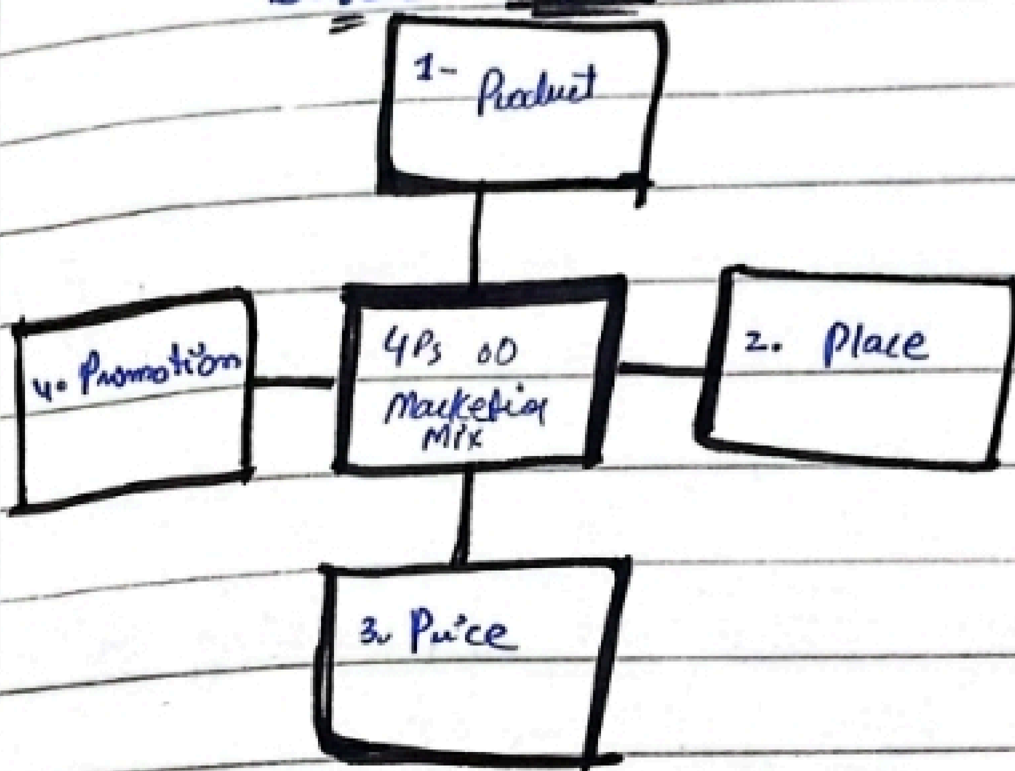
Q.NO.3

Marketing Mix: Marketing mix is the framework used by marketers to develop and impelement effective marketing strategies.

Marketing Mix (4Ps) for Goods Based Business:



For example company sales a Formal luxury attire. And their target market is age group 21 to 50 in the geographical region of Pakistan.

Product: The business offers Formal luxury attire. The traditional wear.

Place: Pakistan (Online website and retail outlet in Malls of Karachi, Lahore, and Islamabad).

Price: Price as the monetary exchange of offering. It would high as the brand captures the market of elite and upper middle class women.

Promotion: The tools will include, Influencers promotions through social media, celebrity endorsement, Magazine (ex: The mag), Social media campaigns.

Its Effects on Increasing the Sales Volume of a Company:

Through this marketing mix company can reach to the maximum targeted audience and influence their buying

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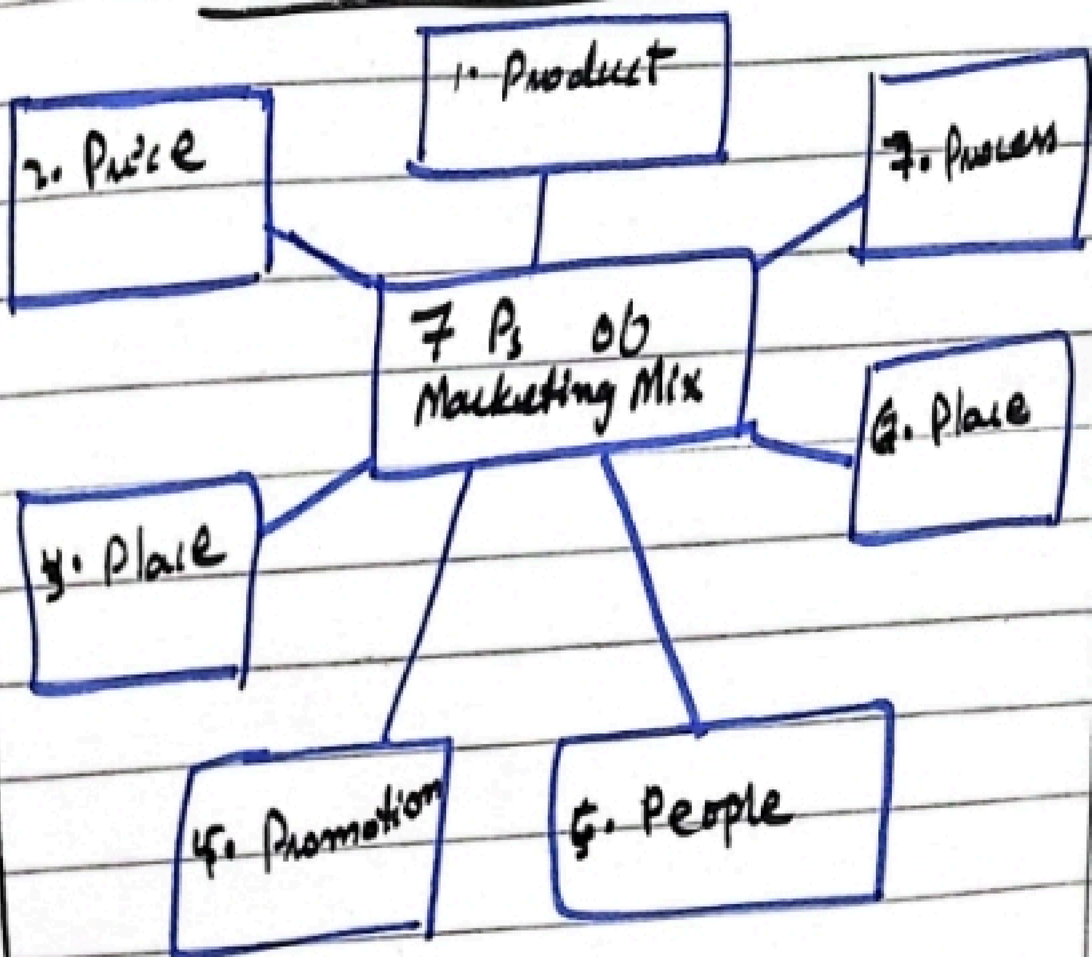
decisions through Promotion, and effective pricing, and the branding. Also, after sales promotion through word of mouth and social media will be last the good effect on company that can ultimately increase the company's sales.

Marketing Mix for Service Based Business (7Ps):



Ex: A Business is service based that is Event Planner in Pakistan.

The initial 4 Ps would be similar to plan marketing strategy. The physical evidence, People who work there (their expertise to do the task), and the process would be essential in service based business.

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