(Part- II)

(Subjective Part)

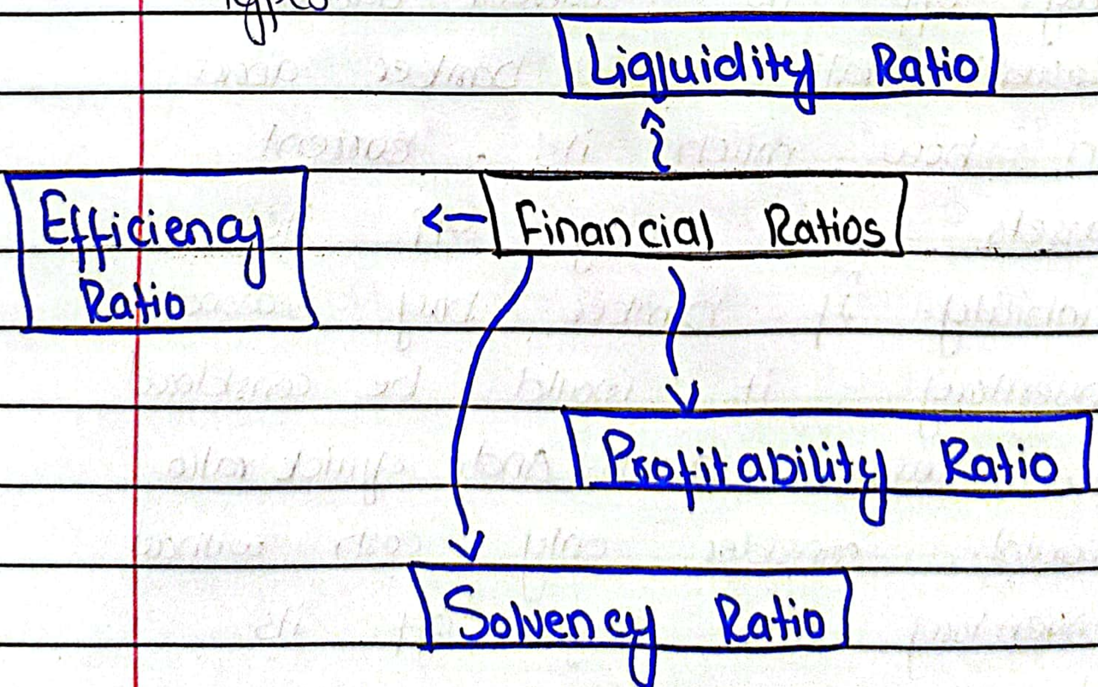
Q:07 a)

Answer

Definition of financial Ratios

financial ratios are those which tells investors about financial position of a company. It tells investors about profitability, assess-turnover, inventory turnover and liquidity.

financial ratios are of four types.



a) A banker considering the financing of seasonal inventory

Answer

I would suggest banker the Current ratio and quick ratio for financing of seasonal inventory.

Reason:

i) Current Ratio and Quick Ratio

I have suggested a banker current ratio because its is company's ability to pay off its current liabilities. Current ratio tells banker about in how much its current assets will pay off its liability. If banker buy seasonal inventory, it would be considered as current assets. And, quick ratio would consider only cash without inventory to pay off its liabilities.

b) A wealthy Equity Investor

Answer

I would suggest the return on equity ratio and debt to equity ratio.

Reason:

Reason for suggesting return on equity ratio measures its profitability. It further tells how much profit company is earning on its equity. And, the reason for debt to equity ratio is that it measures financial leverage of a company. It further tells the position of company to pay off its debt from equity.

c) The manager of a pension fund considering the purchase of a firm's bonds.

Answer

I would suggest the manager of a pension fund to consider debt-to-asset ratio and Interest coverage ratio, for the purchase of a firm's bonds.

Reason:

Reason for suggesting debt-to-asset ratio and interest coverage ratio is that it measure solvency of a company. Furthermore, it measure How much will earn interest over a period of time.

d) The president of a consumer products firm

Answer

I would suggest president the Gross Profit margin ratio and net Profit margin ratio.

Reason

Reason for suggesting gross profit margin ratio and net profit margin ratio is that it measures company's profit-ability and operational efficiency. Because president would usually be interest in gross profit and net profit.

Q:07 (Part-D)

Answer

1) Working Capital

Solution

Formula

$$\boxed{\text{Net working capital} = \text{Current Assets} - \text{Current liabilities}}$$

∴ Current Assets =

Cash + Accounts Receivable end + Market able securities + Merchandise Inventory end

= 108,000 + 350,000 + 142000 + 150,000

$$\boxed{\text{Current Assets} = 750,000}$$

Current Liabilities = Accounts Payable + Bills Payable

= 200,000 + 50,000

$\boxed{\text{Current liabilities} = 250,000}$

∴ Put values in formulas of Net working Capital

= 750,000 − 250,000

$\boxed{\text{Net working Capital} = 500,000}$

2) Current Ratio

Formula

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

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

$\boxed{\text{Current Ratio} = 3.0}$

3) Quick Ratio

Solution

$$\boxed{\text{Quick ratio} = \frac{\text{Current Assets} - \text{Inventory and}}{\text{Current Liabilities}}}$$

$$= \frac{750,000 - 150,000}{250,000}$$

$$= \frac{600,000}{250,000}$$

$\boxed{\text{Quick ratio} = 2.4}$

4) Inventory Turnover

Solution

Formula

$$\boxed{\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Average Inventory}}}$$

$$\text{Average Inventory} = \frac{\text{Inventory beg} + \text{Inventory end}}{2}$$

$$= \frac{120,000 + 150,000}{2}$$

$\boxed{\text{Average inventory} = 135,000}$

Put value in formula of Inventory Turnover

$$= \frac{540,000}{135,000}$$

$\boxed{\text{Inventory Turnover} = 4.0 \text{ times}}$

5) Account Receivable Turnover

Solution

Formula

$$\boxed{\text{A/c Receivable Turnover} = \frac{\text{Sales}}{\text{Average A/c receivable}}}$$

$$\text{Average A/c Receivable} = \frac{\text{Receivable beg} + \text{Receivable end}}{2}$$

$$= \frac{380,000 + 350,000}{2}$$

$$\boxed{\text{Average A/c Receivable} = 365,000}$$

Put values in formula of accounts receivable turnover.

$$= \frac{1825,000}{365000}$$

$$\boxed{\text{A/c receivable turnover} = 5.0 \text{ times}}$$

6) Gross Profit Percentage

Solution

Formula

$$\text{Gross Profit percentage} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Gross pross = Sales − COGS
= 1825,000 − 540,000

$\boxed{\text{Gross Profit} = 12,85,000}$

put values

$$= \frac{1285,000}{1825,000} \times 100$$

$\boxed{\text{Gross Profit Percentage} = 70.41\%}$

7) Net Profit Percentage

Solution

Formula

$$\boxed{\text{Net Profit Percentage} = \frac{\text{Net Profit}}{\text{Sales}} \times 100}$$

Net Profit = Gross = Operating Expenses
= 1285,000 − 600,000

$\boxed{\text{Net Profit} = 685,000}$

put values

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

$\boxed{\text{Net Profit Percentage} = 37.53\%}$

8) Operating Expense Rate

Solution

Formula

$$\text{Operating Expense rate} = \frac{\text{Operating expense}}{\text{Sales}} \times 100$$

$$= \frac{6001000}{18{,}25{,}000} \times 100$$

$$\boxed{\text{Operating expense rate} = 32.87\%}$$

Q:08

Answer

Definition of Financial Management

Financial Management is basically management financial resources. Broadly, financial management could be the maximization of the wealth of share holder.

Scope of Financial Management

(1)

Investment Decision

First and foremost scope of financial management is decide where to invest. Investment decision basically evaluates the projects and allocating resources to maximize the wealth of shareholder.

(2)

Financing Decision

Secondly, financial management scope lies in determining the capital structure. It decides how capital should be financed and for how much time period.

(3)

Dividend Decisions

Furthermore, the third scope of financial management is to decision upon dividend. It means balancing profits and share holder returns. Simply, it decides how dividend should be paid to share holders.

Investment Decision

Dividend Decision

Scope of Financial Management

Financing Decision

Types of Financial Markets

(1)

Money Market

Money market can be defined as whose time period is less than one year or 12 months. Money market funds are the short term funds which could be bought for less than a year.

Example

Treasury bills, these are also known as government bills, which are bought for less than a year.

(2)

Capital Market

Capital market could be defined as whose time period is greater than a year. Capital market investments are long-term investments for more than a year.

<u>Example</u>

Stocks and bonds. These are long-term securities for more than a year.

Money Market

Types of Financial Markets

Capital Market

Types of Financial Securities

(1)

Stocks

Stocks are also known as equities. Stocks are those types of equities which represent ownership in company. Stock are of two types.

a) Common Stock

b) Ordinary Stocks

(2)

Bonds

Bonds are also known as debt securities. And, bonds are a type of fixed-income security which are bought for a more than a year time period.

Q:08 (b)

Solution

Years	Cash flow	Discount rate	PV of Cashflow
0	(7001000)	(1)	(7001000)
1	(1,000,000)	0.869	(869,000)
2	250,000	0.756	189100
3	300,000	0.657	197,100
4	350,000	0.571	199850
5-10	4100,000	2.163	865,200
			(117950)

$$\text{Discount rate} = \frac{1}{(1+i)^n}$$

$$= \frac{1}{(1+15\%)^0}$$

$$\boxed{= 1}$$

$$\text{Discount rate} = \frac{1}{(1+15\%)^1}$$

$$\boxed{= 0.869}$$

a) Net Present Value

Formula

$\boxed{\text{NPV} = \text{PV of outflows} - \text{PV of inflows}}$

NPV = -700000 - 869000 + 189000 +
197000 + 199850 + 865200

$\boxed{NPV = -117950}$

No, this Project is not acceptable.

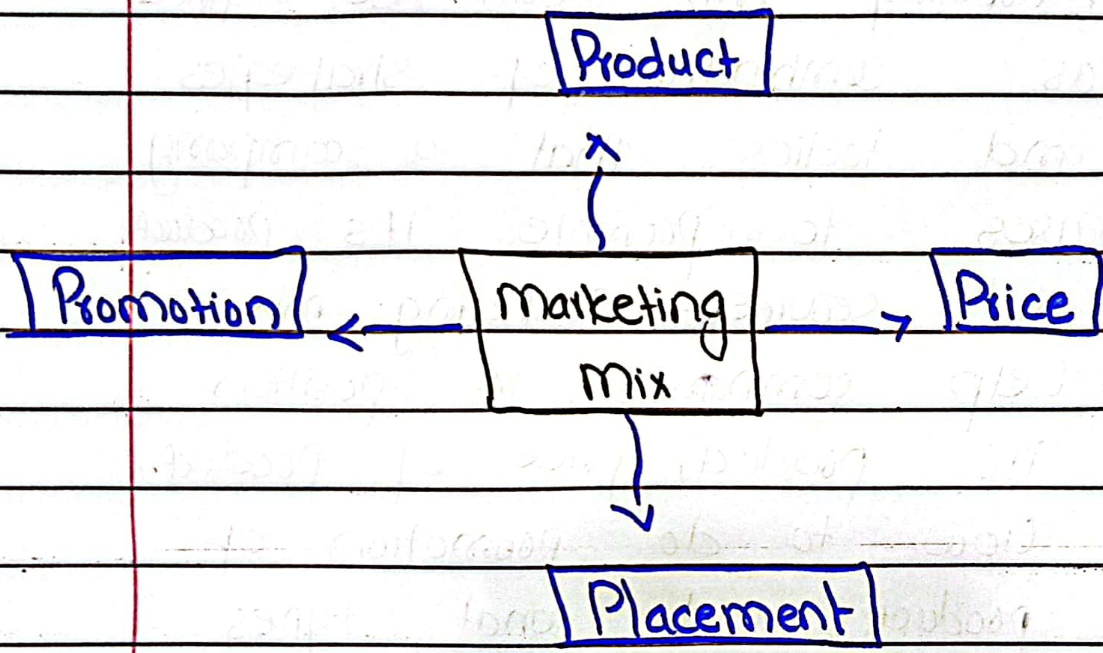
Q:03

Answer

Definition — Marketing mix

Marketing mix can be defined as combination of strategies and tactics that a company uses to promote its product and services. Marketing mix help companies to position its product, price of product, how to do promotion of product and what types product for audience for any segment within market. Marketing mix is a helpful tool for companies for promotion of products and services. Marketing mix is a utmost and key part of company's marketing plan.

Components of Marketing Mix



Following are detailed explanation of components of marketing mix.

(1)

Product

First component of marketing mix is product. It is product that company offer to its audience. Product should be highly innovative high quality that attract customers.

(2)

Price

Second component of marketing mix is Price. It is the price that company offers for the product. Competitive pricing can drive good sales.

(3)

Placement

Placement is another component of marketing mix. It refers as at which target audience company is placing its product. Efficient distribution ensures product availability within target audience market.

(4)

Promotion

Promotion is another component of marketing mix. Promotion plays a key role to drive sales of product. Promotion involves Advertising, Sales Promotion, and public relation boost availability and visibility of product.

Efficiency of Marketing Mix to increase Sales Volume of Company

(1)

Increases Sales

By effective use of marketing mix which alings products to customers needs increases purchases and drive highly sales of product.

(2)

Competitive Pricing ~ Market Share

By effective use of marketing mix through companies, it enables competitive pricing strategies and ensure market share.

(3)

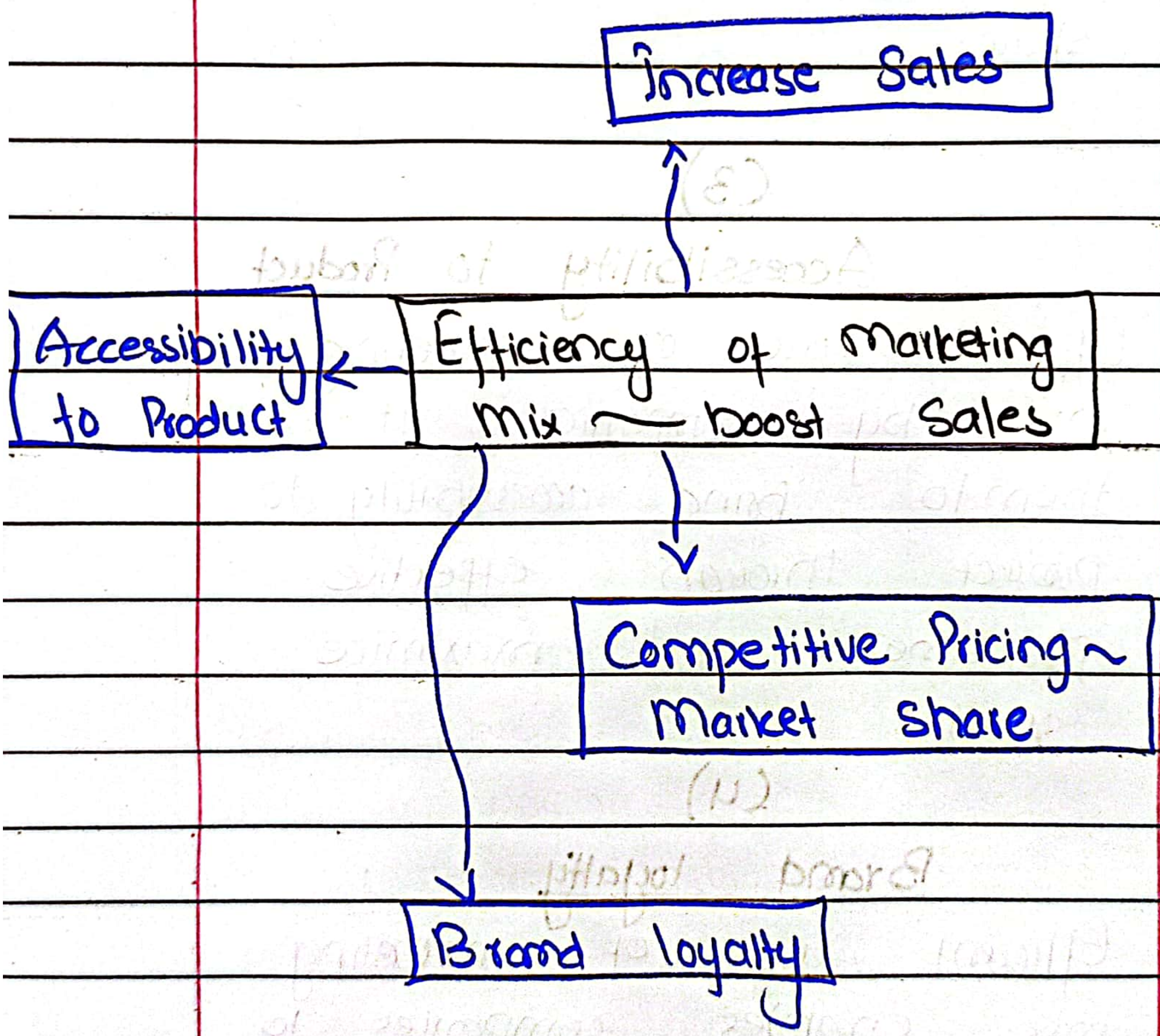
Accessibility to Product

Efficient use of marketing mix by companies, it enables them to bring accessibility to product through effective placement and maximize reach.

(4)

Brand loyalty

Efficient use of marketing mix enables companies to put promotional efforts to to build brand loyalty and attract new customers. It eventually boost company's sales and maximize product reach.

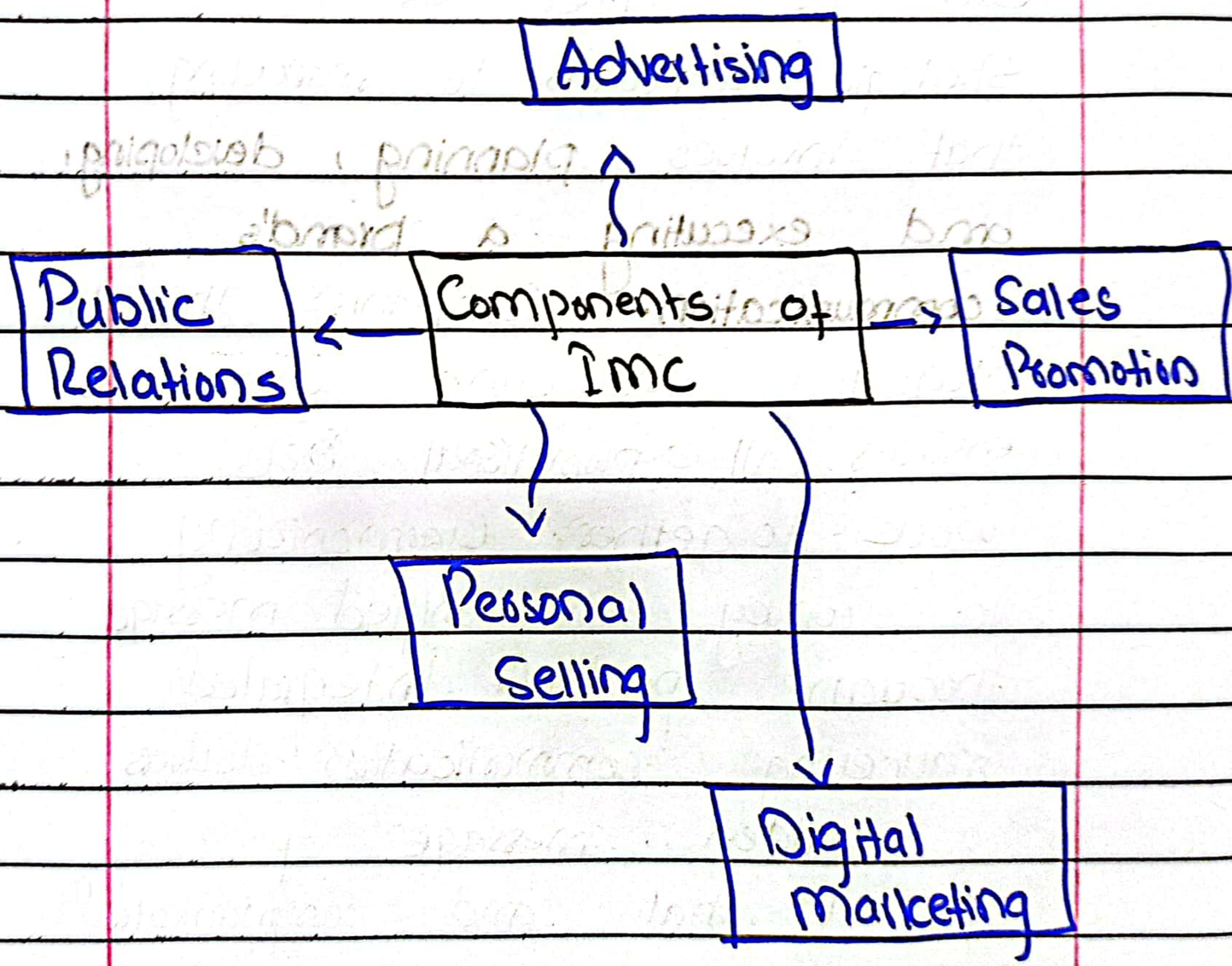


Q:05
Answer

Definition of Integrated Marketing Communication

Integrated marketing communication can be defined as a strategic approach to marketing that involves planning, developing, and executing a brand's communication. Companies through integrated marketing communication ensures all promotional tools work together harmoniously to convey a unified message through product. Integrated marketing communication delivers a hidden message of product that and communicated through proper advertising and sales promotion and many more.

Components of Integrated Marketing Communication



(1)

Advertising

Advertising is foremost component of integrated marketing communication. Through advertising, companies broad out reach to create brand awareness among target audience. It not only increases reach but advertising also increases sales.

(2)

Sales Promotion

Sales Promotion is another component of integrated marketing communication. Through Sales Promotion companies provides short-term incentives like discounts and coupon cards to boost sales.

(3)

Public Relation

Public relation is another component of IMC, through which companies build trust and maintain a positive image among target audience and market.

(4)

Personal Selling

Personnel selling is another component of integrated marketing communication through which companies, direct interaction with to persuade customer sales.

(5)

Digital Marketing

Digital marketing through integrated marketing communication enables companies to leverage social media and online channels for target audience and increases reach and sales.