

2. Current Ratio

expression is missing

$$\therefore \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{750,000}{250,000} = \boxed{3}$$

3. Quick Ratio

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} = \frac{750,000 - 135,000}{250,000}$$

$$\frac{615,000}{250,000}$$

$$= \boxed{2.46}$$

good

4. Inventory Turnover

$$\frac{\text{Cost of goods sold}}{\text{Avg. Inventory}} = \frac{540,000}{135,000} = \boxed{4}$$

times

5. Account Receivable Turnover

$$\frac{\text{Net credit sales}}{\text{Avg. A receivables}} = \frac{18,25,000}{365,000} = \boxed{5}$$

6. Gross Profit Margin

$$\frac{\text{Sales} - \text{cost of goods sold}}{\text{Sales}} \times 100 = \frac{18,25,000 - 540,000}{18,25,000} \times 100$$

good

$$\frac{12,85,000}{18,25,000} \times 100 = 70.4\%$$

7. Net Profit Percentage

$$\text{Net profit margin} = \frac{\text{net profit}}{\text{Total sales}} \times 100 ; \quad \text{net profit} = \text{Sales} - \text{expense}$$

$$\underline{\text{net profit}} = 18,25,000 - 600,000 \Rightarrow 12,25,000$$

$$\text{Net profit margin} = \frac{12,25,000}{18,25,000} \times 100 = 67.12\%$$

good

8. Operating expenses rate

$$\therefore \text{Operating expense} = \frac{600,000}{12,85,000} \times 100$$

Gross profit

$$= 46.69\%$$

check formula

Working Capital	500,000
current ratio	3
Quick ratio	2.46
Inventory Turnover	4
Account Receivable Turnover	5
Gross profit percentage	70.4%
<u>Operating expenses rate</u>	46.69%
<u>Net profit percentage</u>	67.12%

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## Question - 7 (a)

### "Answer"

A) A banker considering the financing of seasonal inventory.

The inventory turnover ratio is more suitable for seasonal inventory that how much inventory sold at the time of its peak.

ok

The other thing is firms utilising their inventory sales effectively.

B) A wealthy equity investor must consider Return on equity ratio and solvency ratios.

A wealthy equity investor must consider these ratios to evaluate firm's financial health conditions for long term investment.

C) The manager of a pension fund, considering the purchase of a firm's bonds, would consider debt to equity ratio good to evaluate that firm is

is in position to purchase bonds or notes. Another thing  $\Rightarrow$  the manager the manager would also consider liquidity ratio to evaluate that company's current assets has ability to pay off its current liabilities.

d) The president of a consumer products firm must consider Gross profit margin ratio and net profit margin ratio. These ratios indicate the efficiency to utilising its resources and the health of a firm.

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# Question - 8(b)

## "Answer"

### Data

Year	inflows
0	(700,000)
1	1 million
2	250,000
3	300,000
4	350,000
5 to 10	400,000 constant

year 1 is outflow

$$= NPV = PV \text{ inflows} - \text{outflow}$$

$$\sum \frac{PV}{(1+i)^n} = \frac{10,000,000}{(1+0.15)^1} = 869,565.2$$

$$\frac{250,000}{(1.15)^2} + \frac{300,000}{(1.15)^3} + \frac{350,000}{(1.15)^4} + \frac{400,000}{(1.15)^5} + \frac{400,000}{(1.15)^6} + \frac{400,000}{(1.15)^7}$$

$$+ \frac{400,000}{(1.15)^8} + \frac{400,000}{(1.15)^9} + \frac{400,000}{(1.15)^{10}}$$

$$869,565.2 + 109,107.4 + 197,368.4 + 200,114.3 + \\ 198,906 + 172,935.5 + 160,376 + 130,762 + 113,733.2 \\ + 98,887.5$$

$$PV_{\text{inflows}} = 2,321,765.5$$

good

$$NPV_0 = 2,321,765.5 - 100,000$$

$$1,621,765.5$$

IRR :

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

$$NPV_a = 16,21,755.5$$

$$r_a = 0.15$$

$$r_b = 4\% \text{ or } 0.04$$

$$NPV = \text{inflows} - \text{outflow}$$

$$NPV_b = \frac{\sum PV}{(1+i)^n}$$

$$240,304.6 + 277,366.8 + 311,387.9 + \\ 342,172.7 + 328,947.3 + 316,205.5 + \\ 304,102.5 + 292,397.6 + 281,096.2 + \\ 270,270.2$$

$$PV \text{ inflows} = 2,964,411.3$$

$$NPV_b = 2,964,411.3 - 700,000$$

$$\boxed{2,264,411.3}$$



$$\text{IRR} = r_a + \frac{\text{NPV}_a}{\text{NPV}_a - \text{NPV}_b} - (r_b - r_a)$$

$$0.15 + \frac{1,621,755.5}{1,621,755.5 - 2,264,411} - (0.04 - 0.15)$$

$$\text{IRR} : \text{just } \frac{1,621,755.5}{-642,655.5} \times (-0.11)$$

$$0.15 + (-2.52) \times 0.11 \Rightarrow 0.15 + 0.2772$$

~~2.26~~

0.4272 or 42.72%

plz check calculation  
method is correct

Question - 8 (a)

Answer

## Financial Management

Financial Management is the most important function for business which plans to generate cash from adequate returns. It has three major process of planning, controlling, and decision making of finance (funds) to regulate effectively.

9900

It is a permanent and continuous process which is practiced by financial managers.

## Scope of Financial Management

It effectively and efficiently manages requirements of funds, stabilizes the capital structure (Debt and equity percentages), cash or funds management, and also structures the investment allocation and controls the budget and sells the least profitable assets.

## Financial Markets

In financial management, financial market is the place where numbers of buyers and sellers trade their assets, equities, bonds, derivatives.

v good

## Structure of Financial Market

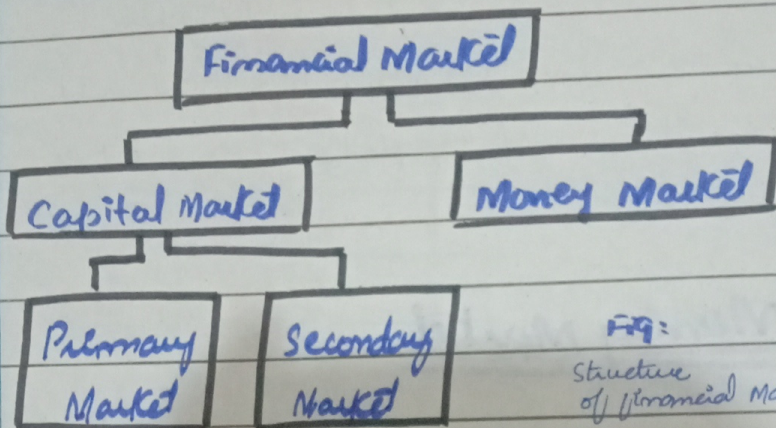


Fig:  
Structure of Financial Market

### Capital Market

It is governed by the security exchange commission of Pakistan.

It consists over <sup>a</sup> year (long term investments) market. It has two main subgroups; Primary and secondary.

v good

#### 1) Primary Market

It is the market where Initial Public Offering (IPO) introduced (shares, stocks, securities etc). It is directly issued by the issuer.

## 1) Secondary Market

It is the market where the securities or shares already exist and sell second time. It managed through the broker and price fluctuates.

## Money Market

Money market is regulated by the state bank of Pakistan (central bank). It consists or trades for a short time period. Money market instruments are Treasury bills, certificate of deposits, stocks, bonds, and letter of credit.

## Financial Securities

Debt Securities: loans made by investors to companies or government that are promised to be repaid for instance, bonds, debentures, notes

Equity securities : It is also called derivatives.

It is the security whose value is derived from an underlying asset. For instance, marketable securities, bonds, stocks ~~it~~ also consist call and put options.

Money market securities : It **ok** an specific

time period to withdraw monetary, for instance,

T bills, CDs etc.. The other thing are currencies which is easily convertible.

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