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PART– II

# QUESTION 7 – RATE OF RETURN

PART A

Information Given
loan $10,000
Duration 3 years
Future Value $16000
Interest ?

Requirment:-
i) Find interest rate Annully
ii) Find interest rate Semi-annully

i) Interest rate annully

Formula

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

PV = Present Value
FV = Future Value
i = Interest rate
M = Number of compounding per year
n = Number of years

i) $PV = \frac{FV}{(1+\frac{i}{m})^{m \times n}}$

$10{,}000 = \frac{16000}{(1+\frac{i}{1})^{1 \times 3}}$

$10{,}000 = \frac{16000}{(1+i)^3}$

$(1+i)^3 = \frac{16000}{10{,}000}$

very good but

$1+i = \sqrt[3]{\frac{16000}{10000}}$

very good but no need to round off

$i = \sqrt[3]{\frac{16000}{10{,}000}} - 1$

$i = 0.1696$

$i = 16.9\%$

Round off $= 17\%$

Implicit Rate of Interest on annually is 17%.

ii) Computation of rate of interest on Semi-annually

$PV = \frac{FV}{(1+\frac{i}{m})^{m \times n}}$

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$$10{,}000 = \frac{16000}{\left(1+\frac{i}{2}\right)^{3\times 2}}$$

$$10{,}000 = \frac{16000}{\left(1+\frac{i}{2}\right)^{6}}$$

$$\left(1+\frac{i}{2}\right)^{6} = \frac{16000}{10000}$$

$$1+\frac{i}{2} = \sqrt[6]{\frac{16000}{10000}}$$

$$\frac{i}{2} = \sqrt[6]{\frac{16000}{10000}} - 1$$

$$i = 2\times\left(\sqrt[6]{\frac{16000}{10000}} - 1\right)$$

$$i = 2\times 0.0814$$

$$i = 0.1629$$

Round off answer is

16.3% interest

Implicit Rate of interest on ~~an~~ semi-annually is good

16.3%

Part 7B Pecking Order Theory

1 Basic Idea of Pecking Order Theory

Pecking Order Theory says that firms do not choose capital structure

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intro and definition is not clear . please explain theory first

by targeting an ideal ~~debt~~ debt-equity ratio. Rather firm follow a financing order that is called Pecking order theory. following is the financing order:-

1. Internal funds; (Retained earnings, Reserves)
2. Debt; (Bank loans, Bonds, Debenture)
3. New Equity; (Issuing new shares)

Thus, corporation prefers internal financing to external financing. The main reason is that there is asymmetry information. Which states that managers know more about the true health and performance of the business than outside investors and lenders.

2. Why Internal funds are Preferred

A. No Information Problem Inside the firm

When managers uses retained earning and general reserves, managers do not have to convince anyone whether the project is ~~goo~~ financially viable or not.

Real life Example:- Khaadi Clothing

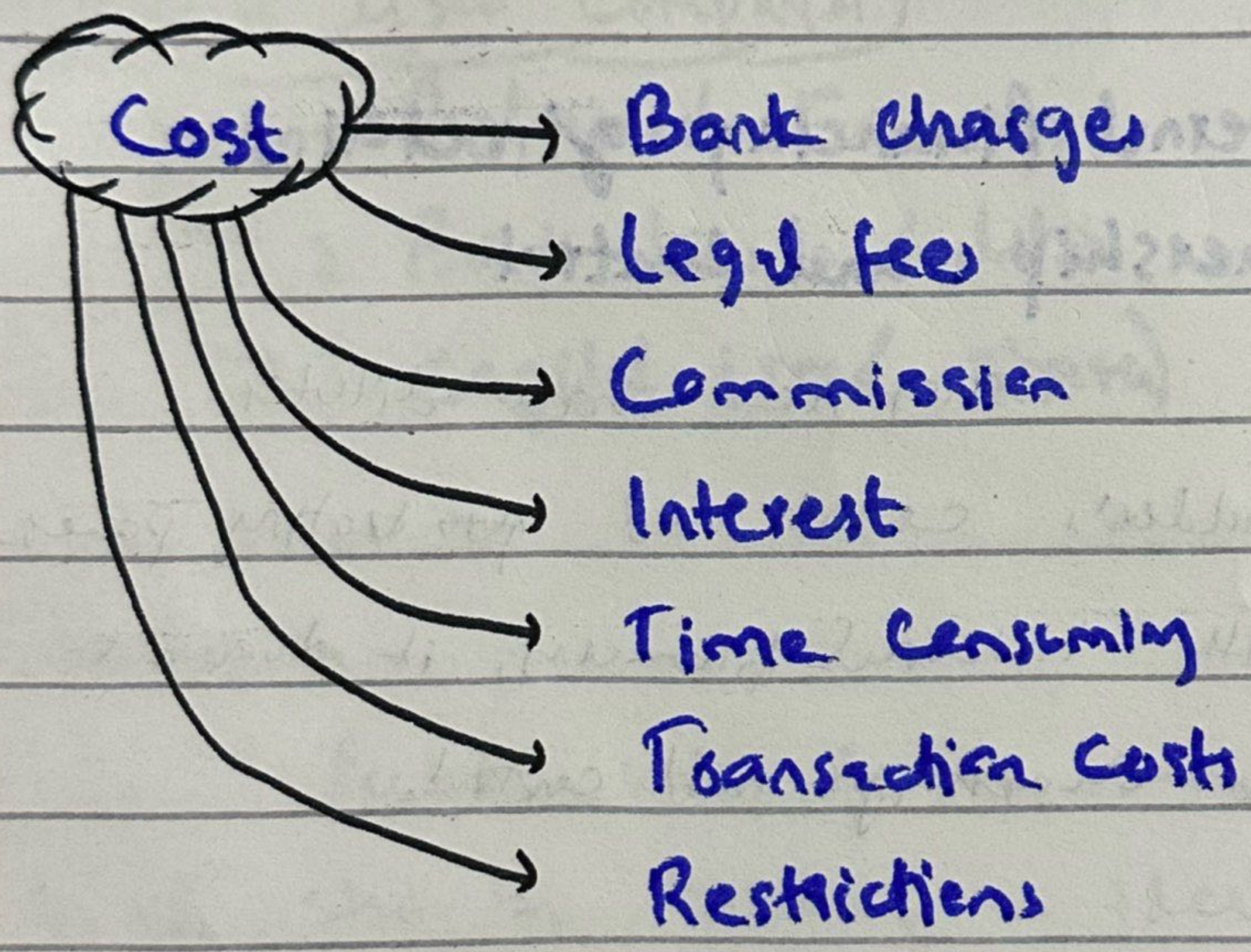
brand opened restaurant called "Kanteen" with their own retained earnings and reserves rather then external financing.

good

## B. External financing is costly

To raise funds from external sources, firms bears costs like mentioned below:

please check again regarding external financing




**Real-life Example:-** Ideas by Gul Ahmed wanted to purchase Ethnic brand for western Attire. for that Ideas uses inter-nal financing. good Instead of External fin-ancing. Else, Ideas had to bear SECP fees, advertising fees, transaction fees,

C. External financing gives Market Reaction and Signalling Problems

When company issues new shares in the market, investors perceive that company is selling shares because they know the company is overvalued. Share price often falls after equity issue thus negative signal.

good

D. Internal financing ~~gt~~ retains Ownership and Control

Issuing new share dilutes shareholder's control and ~~po~~ voting power. But with internal financing, it does not change ownership and control.

very good

E. Internal financing gives financial flexibility and risk

When the firm uses internal funds, it keeps its borrowing capacity safe for bad time. While external debt increases fixed payments of interest

good

that leads to financial risk.

3. How the Pecking order use in real life

**Small-sized Companies**

1. Limited Profit and Retained Earnings
2. Small software house

**Mature sized Companies**

1. Retained Earnings
2. Bank loans and debt
3. Capital issued shares

4. Conclusion

Pecking order theory says firm do not start by choosing an ideal mix of debt and equity. Rather, due to information asymmetry, issue cost, control problems and signalling impacts, Thus, corporation uses retained earning first, followed by borrowing and then new shares issues as a last resort.



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# Question 8A - Uses of Ratio

## 1. Introduction

There are countless benefits of ~~us~~ ratio analysis for different ~~Fe~~ stakeholders of the company.

## 2. Ratio Analysis User 1: Management

Management of the company is the internal stakeholders of the company. They use to identify profitability, liquidity and solvency ~~ratios~~ of problems of the company. It helps manager to identify weak areas and also helps to identify ~~the~~ how well resources are being used. Management's focus ratios are as below

not sufficient explanation and logics

- ↳ Inventory Turnover
- ↳ Return on Equity
- ↳ Current Ratio

3. Ratio Analysis User 2: Shareholders

Shareholders look at the profitability of the ~~share~~ company and market-based ratio. That helps to decide whether to buy, sell or hold the companies shares. Shareholders mostly used ratios like:

↳ Earning Per share
↳ Gearing Ratio
↳ Dividend Yield
↳ Profit Earning Ratio

very general answer

4. Ratio Analysis User 3: Lenders

Lenders uses ratio to check the liquidity and solvency concerns in the company. Lender says company's ability to pay interest and principal amount. Then decide, the loan term, amount and interest.

how it is linked with concerned

↳ Current Ratio
↳ Acid Test Ratio

↳ Quick Ratio

↳ Interest-coverage ratio

↳ Debt-to-Equity ratio

5 Ratio Analysis User 4: Suppliers or Accounts payables

Suppliers of Accounts Payables focus on the short term liquidity position of the company. This also tells the working capital management by the company. Suppliers evaluate whether to sell on credit or not.

6. Ratio Analysis User 5: Government

Government ~~state~~ and state institutions use ratios to assess the tax capacity, ~~of~~ financial health, and industry ~~instability~~ ~~of~~ instability.

be specific plzzzz

7. Conclusion

Other than these stakeholders, employees and remaining stakeholders also uses ratio for company's performance.

# Question 8B - Ratios Calculations

A) LongTerm Debt to Equity

$$LT\ D\text{-}E = \frac{Debt}{Equity}$$

$$0.5 = \frac{Debt}{100{,}000 + 100{,}000}$$

$$0.5 = \frac{Debt}{200{,}000}$$

$$Debt = 0.5 \times 200{,}000$$

$$\boxed{Debt = \$100{,}000}$$

B) Total Asset Turnover

$$TAT = \frac{Sales}{Assets}$$

$$2.5 = \frac{Sales}{(Assets)\ \text{or}\ (equity + liability)}$$

$$2.5 = \frac{Sales}{400{,}000}$$

$$\boxed{Sales = \$1000{,}000}$$

c) Average Collection Period

$$ACP = \frac{\text{Acc. Receivable}}{\text{Credit Sales}} \times 360$$

good

$$18 = \frac{A/R}{1000{,}000} \times 360$$

$$A/R = \frac{18 \times 1000{,}000}{360}$$

$$\boxed{A/R = \$\,50{,}000}$$

d) Inventory Turnover

$$IT = \frac{\text{Sales}}{\text{Inventory}}$$

$$9 = \frac{1000{,}000}{\text{Inventory}}$$

$$\text{Inventory} = \frac{1000{,}000}{9}$$

$$\boxed{\text{Inventory Turnover} = \$\,111111}$$

e) Gross Profit Margin

$$GP = \frac{GP}{\text{Sales}}$$

$$\frac{10}{100} = \frac{CIP}{Sales}$$

$$\frac{CIP}{100} = \frac{CIP}{1000,000}$$

$$CIP = \frac{10 \times 1000,000}{100}$$

$$\boxed{CIP = \$100.000}$$

F/ **Acid Test Ratio**

$$ATR = \frac{Cash + A/R}{CL}$$

$$1 = \frac{Cash + 50,000}{100,000}$$

$$100,000 = Cash + 50,000$$

$$Cash = 100,000 - 50,000$$

$$\boxed{Cash = \$50,000}$$

| Balance sheet | \$ |
|---|---|
| Cash (working F) | 50,000 |
| Account Receivables (working C) | 50,000 |
| Inventory (working D) | ~~[illegible]~~ 111111 |

| | |
|---|---|
| Plant and Equipment bal. fig | 188,881 |
| Total Assets | 400,000 |

Liabilities and Shareholders equity

| | |
|---|---|
| Notes and Notes Payables | 100,000 |
| Long Term Debt (W A) | 100,000 |
| Common stock | 100,000 |
| Retained Earnings | 100,000 |
| Total Liabilities and Equity | 400,000 |

plz follow proper format 12/20

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# Question 6 - Strategic Fit

## 1 A. Introduction

Strategic fit means supply chain decisions support the company's promise to customers. By providing goods and services at low cost and with efficiency.

good

## 2 B Understanding Strategic fit

Strategic fit includes the competitive strategy of how the company want to win in the market. ~~~~ Whereas, supply chain strategy means how the company buys, makes, stores and delivers products. Supply chain decisions support the company's promise to customers. If company competes on low cost, supply chain must be efficient. If it competes on speed, variety or customization, supply chain must be very responsive.

plz improve presentation

**Examples:- Walmart:-** "Every day low prices"

**Zara:-** "latest fashion, very fast to market"

3. **Step 1: Understanding customer needs**

The company must know what its target customers really care about:

Do they want:
- low Price?
- fast Delivery?
- High / premium Quality?

plz be specific

Example:- Amazon Price care about fast and reliable delivery

4. Step 2: Understanding the nature of your products

Company must see how predictable or unpredictable the demand is:

| Stable Product | Trendy Products |
| --- | --- |
| - cooking oil | - Gadgets |
| - Pens | - Seasonal items |
| - Salt | - clothes. |
| - Soap | |
| ↓ Need an efficient, low cost supply chain | ↓ Need a responsive, flexible supply chain |

5. Step 3: Deciding the right position on the "efficiency - responsiveness" spectrum

No supply chain can be 100% efficient and 100% responsive. Therefore company needs to decide the right balance, based on its strategy.

good

Efficient supply chain → Cost leadership
Responsive supply chain → speed and Variety

6. Step 4: Align key supply chain drivers with the competitive strategy

✓ Facilities (Factories and warehouse)
✓ Inventory
✓ Transportation
✓ Information
✓ Sourcing
✓ Pricing

good

7. Step 5: Ensure all functions in the firm support the same strategy

* Marketing:- ensuring 24 hour delivery
* Production:- enhancing production size
* Finance:- arranging finance
* Human Resource:- Training to employees.

8. Step 6: Coordinate and share information along the supply chain

## Step 7: Segmeting products and design more than one supply chain

Companies have more than one type of product. When companies have basic predictable items, for that there should be efficient chain. Whereas, for seasonal items, there should be responsive chain. In order to acheive strategic fit, companies need to segment their products and design different supply chain policies for each segment.

good

## Step 8: Build flexibility and manage risk

Strategic fit also means being ready for shocks, supply risk, that includes strikes, floods. Demand risk that includes recession, COVID. A company can rely on multiple suppliers to counter this issue.

## Step 9: Continuously measure performance and adjustments

Strategic fit is not one-time, market and technology change, so must the supply chain. Companies should regularly monitor following:

good

- ✓ Delivery lead time
- ✓ Order fill rate
- ✓ Inventory Turnover
- ✓ Cost per unit

## Conclusion

To cap it all, to achieve strategic fit, a company must understand its customers and product. Choose the right between efficiency and responsiveness. Align all supply chain drivers with competitive strategy. Moreover, it also need to ensure all departments and external partners support the same goal. Lastly, continuously measure, coordinate and adjust its inventory.

overal paper needs improvement in terms of focus , presentation and plz add more data

12/20