Fundamentals of Financial Management
Revision 1

1- Define :

- Financial Management
- Financial Decisions
- Investment Decisions
- Asset Management Decisions
- Maximize Shareholder Wealth
- Earnings per share
- Agent
- Corporate Governance
- Common-size Analysis
- Index Analysis

2- Why maximizing profits is not a good goal for firm?

3- Differentiate between the roles of controller and treasurer.

4- Mention the external and internal usage of statement analysis.

5- What are the primary types of Financial Statements.

6- The Followings are financial statements of Sindbad LTD.

Sindbad Balance Sheet (thousands) 31/12/ 2007

Cash	**$ 180**	**Notes Payable**	**$580**
Acct. Rec.	**788**	**Acct. Payable**	**188**
Inventories	**1392**	**Accrued Taxes**	**32**
Prepaid Exp	**10**	**Other Accrued Liab.**	**200**
Accum Tax Prepay	**20**	**Current Liab.**	**$1000**
Current Assets	**$ 2890**	**Long-Term Debt**	**1060**
Fixed Assets (@Cost)	**2060**	**Shareholders' Equity**	
Less: Acc. Depr.	**(658)**	**Com. Stock ($1 par)**	**400**
Net Fix. Assets	**$1402**	**Add Pd in Capital**	**1458**
Investment, LT	**100**	**Retained Earnings**	**420**
Other Assets, LT	**446**	**Total Equity**	**$2,278**
Total Assets [b]	**$ 4,338**	**Total Liab/Equity**	**$4,338**

Sinbad Statement of Earnings (in thousands) for Year Ending December 31, 2007

Net Sales	**$ 4,422**
Cost of Goods Sold	**3,198**
Gross Profit	**$ 1224**
SG&A Expenses	**804**
EBIT	**$ 420**
Interest Expense [e]	**118**
EBT	**$ 302**
Income Taxes	**120**
EAT	**$ 182**
Cash Dividends	**76**
Increase in RE	**$ 106**

Calculate :
- **a- Liquidity ratios**
- **b- Debt(Leverage and coverage) ratios**
- **c- Activity ratios**
- **d- Profitability ratios**

Revision 2

7- Determine the sources and uses of fund for the following balance sheet :

Assets

		2010		2009
Cash and C.E.	**$**	**90**	**$**	**100**
Acct. Rec.		**394**		**410**
Inventories		**696**		**616**
Prepaid Exp		**5**		**5**
Accum Tax Prepay		**10**		**9**
Current Assets	**$**	**1,195**	**$**	**1,140**
Fixed Assets (@Cost)		**1030**		**930**
Less: Acc. Depr.		**(329)**		**(299)**
Net Fix. Assets	**$**	**701**	**$**	**631**
Investment, LT		**50**		**50**
Other Assets, LT		**223**		**223**
Total Assets	**$**	**2,169**	**$**	**2,044**
Liabilities				
Notes Payable	**$**	**290**	**$**	**295**
Acct. Payable		**94**		**94**
Accrued Taxes		**16**		**16**
Other Accrued Liab.		**100**		**100**
Current Liab.	**$**	**500**	**$**	**505**
Long-Term Debt		**530**		**453**
Shareholders' Equity				
Com. Stock ($1 par)		**200**		**200**
Add Pd in Capital		**729**		**729**
Retained Earnings		**210**		**157**
Total Equity	**$**	**1,139**	**$**	**1086**
Total Liab/Equity	**$**	**2,169**	**$**	**2,044**

8- Mickey Ltd is a wholesale supplier of stationary. In recent months, the business has experienced liquidity problems. The business has an overdraft at the end of November 2009 and the bank has been pressing for a reduction in this overdraft over the next six months. The business is owned by the Mickey family who are unwilling to raise finance through long-term borrowing. The balance sheet of the business as at 30 November 2009 is as follows:

	$000	$000	$000
Non current assets			
Freehold land and premises at cost			250
Less accumulated depreciation		24	226
Fixtures and fittings at cost			130
Less accumulated depreciation		38	92
			318
Current assets			
Stock at cost		142	
Debtors		120	
		262	
Less current liabilities			
Trade creditors		145	
Bank overdraft	126	271	(9)
			309
Equity			
Ordinary Shares		200	
Profit and loss account		109	
			309

The following projections for the six months ended 31 may 2010 are available concerning the business:

A-Sales and purchases for the six months ended 31 May 2010 will be as follows:

	Sales	Purchases
	$000	$000
December	160	150
January	220	140
February	240	170
March	150	110
April	160	120
May	200	160

B-Seventy per cent of sales are on credit and 30% are cash sales. Credit sales are received in the following month. All purchases are on one month's credit.

C-Wages are $40000 for each of the first three months. However, this will increase by 10 per cent as from march 2010.

D-Administration expenses are expected to be $12000 in each of the first four months and $14000 in subsequent months, including $4000 for non current assets depreciation.

E-Selling expenses are expected to be $8000 per month.

F-Dividend of $20000 will be proposed and paid in December 2010.

Required:

Prepare cash flow projections for Mickey Ltd. For each of the six months to 31 May 2010.

9- **Assume that the following list represents the continuous distribution of population returns for a particular investment (even though there are only 10 returns).**
9.6%, -15.4%, 26.7%, -0.2%, 20.9%, 28.3%, -5.9%, 3.3%, 12.2%, 10.5%
Calculate the <u>Expected Return</u> and <u>Standard Deviation</u> for the *population* assuming a continuous distribution.

10- Illustrate how the level of current assets affect liquidity , profit and risk.

11- Define the following ;

- Return
- Risk
- Internal sales forecast
- External sales forecast
- Standard deviation
- Coefficient of variation
- Net capital working management
- Gross capital working management
- Working capital management

12-What are the benefits and risks of long-term financing for current assets?

13-Bakar has a 60-day average collection period (cash collection = 1/2 of sales + Beginning receivables) and wishes to maintain a $5 million minimum cash balance. Based on this and the information below , complete the following cash budget.

Bakar cash flow budget
in millions of dollars

	Q1	Q2	Q3	Q4
Beginning receivables	120			
Sales	90	120	150	120
Cash Collections				
Ending receivables				
Total cash collections				
Total cash disbursements	80	160	180	160
Net cash inflow				
Beginning cash balance	5			
Net cash inflow				

Ending cash balance
Minimum cash balance
Cumulative surplus (deficit)