

Name - Ayush Mondal

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Enrollment no - 2011200001017

Regino - 200010170980

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Financial management Assignment

Question :-

What are the objectives of a firm?

A firm is an organization that combines and organizes resources for the purpose of producing goods and services for sale at profits.

Firms can be divided on the basis of their legality, nature of work, or numbers of owners, size and need for its resources.

The main objectives of firms are :-

- (1) profit maximization
- (2) sales maximization
- (3) increase market share / market dominance
- (4) social / environmental concerns
- (5) Profit satisficing
- (6) Co-operatives.

• Profit maximization :-

Higher profit means that higher dividends for share holders, more profit can be used to fund financial research and development.



• Sales maximization :-

Firms often seek to increase their market share even if it means less profit.

• Profit satisficing :-

managers may create a minimum level of profit to keep the share holders happy, but then they maximize other objectives such as enjoying work, getting on with other workers. This is the problem between owners and managers.

The principal-agent can be overcome to some extent by giving managers share options and performance related pay although in some industries it is difficult to measure the performance.

• Growth maximization :-

This is similar to sales maximization and may involve, the firm may be willing to make lower levels of profit in order to increase in size and gain more market shares.

• Social/Environmental :-

Concerns :- A firm may incur expense to choose products which don't harm the environment or products not tested on animals, alternatively firm may be concerned about local communities/charitable concerns.

• Co-operatives :-

Co-operatives may have completely different objectives to a typical PLC. A cooperative is run to maximize the welfare of all share holders - specifically workers any profit the co-operative makes will be shared ~~equally~~ among all members.



Question:-

Describe the decisions to maximize shareholders wealth.

Given from the various purpose for a business concern, share holders wealth maximization is considered the appropriate and sustainable objective for a business concern share holders wealth maximization criterion propose that a business concern should only consider the decision that maximizes the market value of the share or the share holders wealth. The market value of the share is related as an indication of efficiency and effectiveness of the firm.

Finance theory asserts that shareholders wealth maximization is the single substitute for shareholders utility. When the firm maximizes the share holders wealth; the individual share holders can use the wealth to maximize their individual utility. It means that by maximizing share holders wealth the firm is constantly operating towards maximizing shareholders utility.

Although this criterion has proved superior to objectives proposed earlier, yet it does not find any significant use in the industry primarily due to its complexity in understanding, calculation, and application.



Question : Following is the balance sheet of Rohit and co.  
as on march 31, 2021 calculate current and Quick ratios

Liabilities	Amount	Assets	Amount
Share capital	190,000	Fixed Assets	1,53,000
Reserves	12,500	Stock	55,800
Profit and loss	22,500	Debtors	28,800
Bills payable	18,000	Cash and bank	59,400
Creditors	54,000		
	2,47,000		2,47,000

Ans

$$\begin{aligned}\text{current Assets} &= \text{stock} + \text{Debtors} + \text{Cash} + \text{Bank} \\ &= 55,800 + 28,800 + 59,400 \\ &= 1,44,000\end{aligned}$$

$$\begin{aligned}\text{current Liabilities} &= \text{creditors} + \text{Bills payables} \\ &= 54,000 + 18,000 \\ &= 72,000\end{aligned}$$

$$\begin{aligned}\text{current Ratio} &= \frac{\text{current Assets}}{\text{current Liabilities}} \\ &= \frac{1,44,000}{72,000} = \frac{2}{1} = 2:1\end{aligned}$$

$$\begin{aligned}\text{Quick Assets} &= \text{current assets} - \text{Stocks} \\ &= 1,44,000 - 55,800 \\ &= 88,200\end{aligned}$$

$$\begin{aligned}\text{Quick Ratio} &= \frac{\text{Quick Assets}}{\text{current Liabilities}} \\ &= \frac{88,200}{72,000} = 1.225:1\end{aligned}$$