COVER PAGE AND DECLARATION

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MGT570 FINANCIAL MANAGEMENT

Introduction

Organizations are compelled to offer financial information to collaborators, especially speculators, as part of the collaboration agreement. It is necessary to attain this aim by providing companies with a spending plan for a year that includes all of the company's cash-flow-related information. With these financial blueprints, theoretical predictions of future profitability and rationality of a corporation are made, but the board of directors complicates the predictions. The authors of this article state that a thorough examination of an organization's represented reports may aid in determining the organization's financial status. The corporation GM, which is situated in the United States, has been chosen for review.

There will be a comprehensive introduction to General Motors in this research that covers its profitability, adequacy, temporary dissolvability, long-term dissolvability, and market-based metrics. General Motors' financial reports for the last four years have been taken into account in this explanation. Similarly, suggestions for improving the organization's operations will be made in light of the review. An additional hypothesis assignment will be approved to extend the firm by advancing the company's capital by 40% (Arvey & Murphy, 1998). The adventure evaluation will make utilization of unmistakable hypothesis assessment approaches, such as Net Present Value and Weighted Average Cost of Capital.

About General Motors

Generating workspaces for the setup, planning, advancement, delivery, and sale of automobile components is one of the primary functions of General Motors, an American global business. The headquarters of the firm are in Detroit, Michigan, in the United States. By the end of the day, it operated plants in more than 15 countries under the Cadillac, GMC, Chevrolet, and Buick brand names, among others. General Motors has been in business for over a century and is dedicated to making the world a better place for all people. More than 180,000 individuals are employed by the firm. Furthermore, General Motors seems to have the most unusual perspective of the environment and intends to minimize the company's energy, carbon, water, and waste intensity, among other things.

For 77 consecutive years, General Motors dealt with total conventional car pay more than any other company, and the company is now one of the top vehicle manufacturers in the world in terms of unit sales. General Motors operates in a wide range of nations with the assistance of fully vetted employees. The OnStar assistance from General Motors helps to protect prosperity and provide information organizations for automobiles. Saturn, Hummer, and Pontiac were all discontinued by General Motors in 2009, as part of a reorganization.

Since 2010, the company has paid its employees on an annual basis. Those who have been involved in previous events will have a duty commitment about future payments. As indicated by the Wall Street Journal, the amount of money spent on clinical consideration charges and other expenditure drives will decrease by up to USD 45 billion over the next two decades. General Motors, which distributed 8.5 million automobiles around the world, was ranked second in 2010. In 2011, General Motors began to widen its scope, acquiring 11.9 percent of the general vehicle region's share of the pie, with a total payload of 9.025 million cars in 2011.

GM President Dan Aker son said at the fundamental discussion in May 2013 that the company is on pace to re-appear on the S&P 500's list of most profitable companies. As the economy began to deteriorate in 2009, General Motors was removed from the bargaining table. According to a CNN Money report published on April 24, 2014, General Motors' advantage for the first three months of 2014 fell to 108 million dollars. GM is now reviewing the cost of its 2014 upgrade, which is estimated to be $1.5 billion, due to a lack of starting drives that resulted in a total of 124 deaths. This was General Motors' first indication of an interest in ridesharing, and the company's specific commitment in the round indicates that it is experimenting with a "connected, dependable, and autonomous" transportation future.

Performance Evaluation

This section consolidates the show evaluation of General Motors, by separating the distinctive introduction measures in detail.

Profitability

General Motors has seen an 8% decline in its bit of leeway in the previous four years. To discover a few reasons its degree is should have been seen.

Gross Margin

$$\text{Gross Margin} = \frac{\text{Revenue} - \text{Cost of Goods Sold}}{\text{Revenue}}$$

In 2016, the Gross Margin of General Motors was 12.75 and in 2019 it was 10.18 which means that the Gross Margin decreased by 20.15%. A negative margin reflects the inability of a company to control costs.

Operating Margin

$$\text{Operating Margin} = \frac{\text{Operating Profit}}{\text{Net Sales}}$$

For General Motors, the Operating Margin was in 2016 was 5.8 and it was 3.99 in 2019 which shows that there was a decreasing of 31.2% inferring that the arrangements are less than the cost of items sold and working expenses.

EBITDA Margin

$$\text{EBITDA Margin} = \frac{\text{EBITDA}}{\text{Total Sales}}$$

In 2016 the EBITDA Margin for General Motors was 12.4042 and it was 14.2811 in 2019 which suggests that there is an improvement of 15% in EBITDA Margin interpreting that the organization has less working use and more significant compensations, showing that General Motors has a reasonable level of pay over which to pay its working costs.

Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Revenue}}$$

For General Motors, the Net Profit Margin was 6.319 in 2016 and it was 4.7954 in 2019 which shows that there was a decrease of 24.11% which indicates that the company is making less money than it is spending.

Return on Equity

$$ROE = \frac{\text{Net Income}}{\text{Shareholder s}'\text{Equity}}$$

In 2016, the Return on Equity of General Motors was 21.0301 and in 2019 it was 14.507 which infer that Return on Equity lessened by 31% which shows that there is a hardship instead of the expansion of huge worth to its speculators (Star, 2020). This is a piece stressed for theorists and managers endeavor as powerfully as possible to keep up a vital good way from a negative return.

Return on Assets

$$Return\ on\ Assets = \frac{Operating\ Income}{Tot\ al\ Assets}$$

For General Motors, the Return on Assets was 4.1811 in 2016 and it was 2.9236 in 2019 which shows that there was a decrease of 30.07% which implies that the firm has tended to have more capital invested or to earn a lower profit.

Return on Investment

$$Return\,on\ Investment = \frac{Profit}{Initial\,Cost}$$

In 2016 the Return on Investment for General Motors was 9.7158 and it was 5.959 in 2019 which means that Return on investment decreased by 38.6% which shows that investment lost money, so General Motors have less than they would have if they had simply done nothing with their assets. The figures show that the profitability of General Motors has lessened, and it will continue reducing if they don't make any move.

Efficiency

To calculate the capability of a company following plans are used:

Asset Turnover Ratio

$$Asset\ Turnover\ Ratio = \frac{Sales}{Total\,Assets}$$

In 2016, the Asset Turnover Ratio for General Motors was 0.6729 and in 2019, it was 0.6018 which suggests that their Asset Turnover Ratio extended by 4.3% in the past four years exhibiting that General Motors is changing over 4.3% worth of a more prominent measure of its assets into bargains.

Inventory Turnover Ratio

$$Inventory\,Tur\frac{n}{Ratio} = \frac{Cost\,of\,Goods\,Sold}{Average\,Inventory}$$

Stock turnover for General Motors increased by 0.5 percent in the past four years, from 11.79 in 2016 to 11.85 in 2019. The Inventory Turnover Ratio for General Motors increased by 0.5 percent in the previous four years, from 11.79 to 11.85 in 2019 (Anahim, 2020). They are, by and large, more prepared to sell their inventory throughout the year than they were in 2016. Despite the fact that it is everything from highly competent at the moment, it is developing with time and will continue to improve in the foreseeable future.

Account Receivable Turnover Ratio

$$Account\ Receivable\ Turnover\ Ratio = \frac{Sales}{Average\ Account\ Receivable}$$

In 2016, the Receivable Turnover Ratio was 6.0089 days and in 2019 it was 4.1091 days which suggests that the Receivable Turnover Ratio has decreased by 31.6%. The organization is perseveringly improving its receivable period as it is decreasing which is helpful for the organization.

Account Payable Turnover Ratio

$$Account\ Payable\ Turnover\ Ratio = \frac{Purchase}{Average\ Account\ Payable}$$

In 2016, the Payable Period was 60.74 days and in 2019 it was 88.82 days so the advancement for typical Payable Turnover is 46.22% suggesting that the affiliation is creating is a payable period for commitment and this figure will continue improving.

These figures show that the company is working successfully which is helpful for the organization.

Short-term Solvency

To find the short-term solvency, the following with some condition is used:

Current Ratio

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

In 2016, for General Motors it was 0.8946 and in 2019 its current extent was 0.8832 which infers that its current extent has decreased by 1.27% in the past four years which suggests that there is a higher of hopelessness or default of General Motors. The transient solvency of General Motors is appalling at whatever point looked through an examiners' perspective.

Long-term Solvency

Following plans will be used to find the long-term solvency of General Motors:

Debt to Capital Ratio

$$Debt\ ¿Capital\ Ratio = \frac{Longterm\ De\ bt}{Capital}$$

For General Motors, the Debt to Capital Ratio in 2016 was 0.538 and in 2019 it was 0.5892 which means that it has increased by 9.55% indicating the company's financial vulnerability and its impact are likely going to quickly boost the organization's risk.

Debt to Equity Ratio

$$Debt\ ¿Equity\ Ratio = \frac{Total\ Liabilities}{Shareholder\ s^{'}Equity}$$

In 2019, the D/E Ratio was 2.25 and in 2016 it was 1.74 meaning that the D/E ratio increased by 29.3% indicating that the firm is increasing its funding through getting money, which places the relationship at serious risk if its cost of procuring ends up being unreasonably moderate.

The long-term solvency of the company shows that the organization has a threat of default.

Market-based Ratios

The below ratios are used to analyze the market value of General Motors:

Book Value per Share

$$Book\ Value\ per\ Share = \frac{Book\ Value}{No.\ of\ Outstanding\ Shares}$$

In 2016, the Book Value per Share was 29.38 for General Motors and in 2019 it was 32.8264 inferring that Book Value per Share extended by 11.7% showing that the bits of General Motors have more liquidation regard then it had in the past four years.

Operating Cash Flow per Share

$$Operating\ Cash\ Flow\ per\ Share = \frac{Operating\ Cash\ Flow}{No.of\ Shares\ Outstanding}$$

For General Motors, the Operating Cash Flow per Share was 10.57 in 2016 and it was 10.43 in 2019 which shows that there was a diminishing of 1.32% that exhibits that the organization couldn't continue covering the tab without contributing resources or utilizing resources.

Free Cash Flow per Share

$$Free\ Cash\ Flow\ per\ Share = \frac{Free\ CashFlow}{No.of\ Outstanding\ Shares}$$

For General Motors the Free Cash stream per Share was -5.55, while in 2019, the Free Cash stream per share was 3.00 and expansion of 45.95%, indicating that the organization is considered to improve possibilities and to upgrade vital and non-money related influence.

Recommendations for Improvements

Gross Margin

Following are the recommendations to improve the gross profit margin:

- Profit Margins should be Analysed
- Prices should be Increased
- Discounts should be Given
- Price should not be a Matter of Competition
- Try to Take as much Discount from the Vendors
- Use Inventory Systems

Operating Margin

Following are some recommendations to improve the operating margin:

- Prevent Discounting by Improving Inventory Transparency
- Brand should be Elevated, and the Perceived Value should also Increase
- Cost-Effective Operation and Streamlined Production
- Increase the Average Order Value as well.
- Prices should also be Increased
- Enhance the Relationship with Suppliers
- Inspire the Staff to Do More
- Identify and Eliminate Waste

Net Profit Margin

Every company aims to improve its net margin. If the net margin of a business is greater than the average for its industry, it has a strategic edge that is stronger than other firms with comparable activities (Chakravarty, 1999). While the average net margin varies widely in different industries, how companies can gain a competitive advantage continues, whether sales are increased, or expenses are reduced.

- Boosting Revenues
- Reducing Costs

Return on Equity

A business can develop its ROE in several ways. Some of the ways are recommended below:

- Contract more Financial Leverage

- Profit Margin should be increased
- Improve Sales of Asset
- Idle Cash should be Distributed
- The Ability to Pay Tax should be Low

Return on Assets

Increased or maintained asset appreciation is one of the most important tasks for a large corporation that is responsible for the majority of its operations. Due to the fact that the majority of owners, potential investors, boards of directors, management teams themselves, and employees are all engaged in this percentage. But it is shareholders who are the most essential actors, since they are the ones who are concerned with the return on assets (Alsyouf, 2007). These folks are interested in learning how well corporate senior management handles the company's assets. The greater ratio basically suggests that the funds are properly managed and that the expenses are low in terms of productivity when compared to the firm and competitors in the market.

The key points that management should fix for high returns or increase in assets to target points are as follows:

- Decrease Total Assets to Improve Return on Asset
- Improve Current Assets
- Improve Fixed Assets

Return on Investment

As a company owner, the ability to manage finances and manage the company's assets is very important to increase return on investment. To improve the return on investment following recommendations are given:

- Investigating the Expense of Business
- Cleaning the Departments
- Compound Interest Investment
- The focus should be on Innovation
- Terms and Requirements for Business Proposals should be Planned

Inventory Turnover Ratio

When the inventory is efficiently managed, it leads to better cash flow, as it meets its customers ' needs and simplifies the sales process. The sales process is more resourceful and more flexible when profits are maximized (Lee et al., 2015). Below are several ways of changing the inventory sales ratio to improve the sales strategy:

- Save Energy Manage Time
- Automate
- Cut Expenditure
- Building Material Market
- Business Pricing Strategy Revisions
- Towards Adequate Service Product Disposal
- Supply Chain Optimization

Short-term Solvency

The management has to focus on different strategies for improving the current ratio, including their current obligations and assets that are not one-time activities. It needs to be monitored all year round. Following are the ways through which short-term solvency can be improved:

- Faster Conversion of Lenders or Receivables
- Current Liabilities for Pay-Off
- Sell the Assets that are Not Productive
- Currently Improved Assets through the Rise of Shareholder Funds
- Continuing to Clean Bank Accounts

Long-term Solvency

Businesses can take steps to reduce their debt to capital ratios and increase them. Improved competitiveness, improved asset handling, and debt consolidation provide approaches that can be implemented (Doff, 2008). If the pricing plan is right, they are combined along with the increase in the price of their products or services. The approach used to minimize this combination will better be done for each other.

- Increased Revenue
- Inventory Management
- Debt Restructuring

Operating Cash Flow per Share

The negative cash flow is due to many factors. It can happen that customers do not pay or budget correctly for their purchases (Farshadfar & Monem, 2012). It is recommended that negative operating cash flow per share be recovered from:

- Analyze Financial Statements
- Modify terms and conditions of payment
- Reduce Expenditure
- Generate More Sales
- Work with Manufacturers, Lenders and Creditors

New Project Investment Analysis

For the organization, a new project investment analysis is given in which the initial investment is $500,000 and WACC is taken as 10% which will lead to the calculation of net present value (Marshall, 2020).

	Initial Investment=	$500,000	
Year	**CF**	**PVIF (10%)**	**PV of CF**
1	$50,000	0.909090909	45454.5
2	$50,000	0.826446281	41322.3
3	$400,000	0.751314801	300526
4	$100,000	0.683013455	68301.3
5	$100,000	0.620921323	62092.1
			517696
	NPV =	**$17,696**	

As the NPV is positive $17,696 with a WACC of 10% so the company should invest in the project.

Advantages of the Net Present Value Method

The assessment of net present value (NPV) is a standard method used by business managers to evaluate the profitability of various organizations. It is based on the idea that the money generated in the future are now worth less than the ones currently held in savings or investments. The cash flows from future years are confined to current values, which is the most important element of the net present value. The net present value (NPV) method generates a monetary number that represents the value of the company's endeavor. Stockholders can observe how a project contributes to the overall worth of the company (Schwab & Lusztig, 1969). The discount rate of a company's capital expenditure is included into the net present value calculation. For contributions made to the firm by shareholders, this is the typical return rate that they get. When evaluating the financial position of a project or making a new investment, it is worthwhile to consider the benefits of Net Present Value (NPV).

1. It takes into consideration that tomorrow's dollar is worth more than a dollar.
2. The net present value will be included in the analysis of risk factors.
3. Capital costs and risk factors are taken into account.
4. Net present value can determine the results of value.
5. It takes into consideration all cash flows from a project.
6. It identifies the programs and pool money.

7. If expenditure will produce interest, the net present value indicates it.
8. For the average investor, the net present value ratio is simple.
9. It's not the reinvestment presumption.

Capital

Capital of Company =	137,237
40% of Capital =	54894.8
Retained Earnings =	26,860

As the capital available to the company is more than the retained earnings I-e, $137,237, and it is 40% is $54,895 which is still more than retained earning i.e., $26,860, so the company should use its capital instead of retained earnings.

Decision on Return Earnings

Dividends are a portion of corporate profits that is distributed to shareholders by firms. They might be in the form of cash, stock shares, or other types of property payments. Dividends may be paid on a variety of timetables and at varying levels of payment. Conventional wisdom holds that corporations should refrain from paying dividends since it is more economically prudent to spend capital in new projects during important development times. Even well-established businesses often reinvest their profits to fund new projects, buy other businesses, or pay down their debts. All of this activity has the effect of raising the share price.

General Motors Statistics

By looking at the statistics, the dividends paid in 2019 are $2,350 so the company should not return the dividends to shareholders instead they should invest in projects to increase its potential to work efficiently (Helper & Henderson, 2014). As seen through the ratios, there is a lot of room for improvement so the company should invest in those activates so that they could cope up with the problems to enhance their performance which will increase the company’s shares value and old as well as new investors will invest in the organization and the firm will generate more profits and as a result, the shareholders' dividend will also increase.

Conclusion

The financial ratios study of General Motors reveals that the firm has a great deal of potential to grow and enhance its performance. Due to the fact that its income is declining and its capacity to service its debt is also diminishing, the analysis does not seem promising. Furthermore, there is a significant possibility of the corporation going out of business. These considerations should be taken into account by the organization since they are of concern to investors, and the firm will suffer liquidity concerns if it receives little or no further investment. General Motors should also consider reinvesting its dividends in order to maintain the corporation in good operating condition; otherwise, the company would suffer a rapid decline.

As part of the cooperation agreement, organizations are obligated to provide financial information to collaborators, particularly speculators, who may be interested in the information. To achieve this goal, it is required to provide corporations with a spending plan for the year that contains all of the company's cash-flow-related information in order to achieve it. It is possible to make theoretical predictions about the future profitability and rationality of a firm using these financial blueprints, but the board of directors makes these forecasts more difficult to make. According to the writers of this page, a comprehensive review of an organization's represented reports may be beneficial in identifying the financial situation of the institution in question. The company General Motors, which is based in the United States, has been selected for examination by the government.

This study will provide a thorough introduction to General Motors, including information on the company's profitability, adequacy, temporary dissolvability, long-term dissolvability, and market-based indicators, among other things. The financial statements of General Motors for the last four years have been taken into consideration in this explanation. A similar set of recommendations for enhancing the operations of the organization will be produced in light of the findings of the evaluation. Additional hypothesis assignments will be allowed in order to expand the business by increasing the company's capital by 40 percent over the next year. The adventure evaluation will make use of obvious hypothesis assessment procedures, including as Net Present Value and Weighted Average Cost of Capital, to determine the viability of the venture proposal.

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