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**IQRA NATIONAL UNIVERSITY**

**Q1:**

**(A): Acid Test Ratio:**

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**=0.87**

**(B): The Inventory Turnover Ratio:**

**=**

=

**=13.33**

**(C): Total Debt to Equity Ratio:**

=

=

=

**=1.275**

**(D): Net Profit Margin:**

**=**

**=**

**=0.08**

**(E): Total Assets Turnover:**

=

**=**

**=**

**= 3.472**

**Q2:**

**(A)**

Coupon Rate = 10%

Years (n) = 5

MV = 1000

Kd = 15%

I = 1000×0.10 = 100

= I (PVIFAkd,n) + MV(PVIFkd,n)

Putting the values:

= 100 (3.3522) + 1000 (0.4972)

= 335.22 + 497.2

**= 832.42**

**(B)**

I = 1000×0.08 = 80

kd = 12%

n = 5

= I (PVIFAkd,n) + MV(PVIFkd,n)

Putting the values:

= 80 (3.6048) + 1000(0.5674)

= 288.384 + 567.4

**= 855.784**

**Q3:**

1. **LIQUIDATION VALUE VS GOING ON CONCERN VALUE:**

Liquidation value can be defined as the value or amount of money that a company's physical assets if it were to go out of business and the assets sold. Assets are sold at a loss during liquidation because the seller must gather as much cash as possible within a short period. Liquidation value is usually lower than book value, but greater than salvage value. The going on concern value is different from liquidation value, going on concern value is the amount the company or firm could be sold for as continuing operating business. Also it represents the potential future profits a business can generate. To analyze the future of a company an investor must go through the going on concern value of that company.

1. **MARKET VALUE VERSUS INTRINSIC VALUE:**

Market value is the current price of a company's stock. Simply it means what other people are willing to pay you for the asset at any given moment. Market value is determined by supply and demand. The price of a stock reflects the current demand for it. If there is a strong demand from investors for a particular stock, its market price will rise above its book value. In contrast intrinsic value, or book value, is a company's total assets minus its total liabilities. Intrinsic value is a measure of what an asset is worth. This measure is arrived at by means of an objective calculation or complex financial model, rather than using the currently trading market price of that asset.

1. **BONDS WITH FINITE VERSUS INFINITE MATURITY:**

If a bond has a finite maturity, then we must consider not only the interest stream but also the terminal or maturity level (face value) in valuing the bond. For the finite maturity bonds there are fixed ending date. In contrast the Infinite maturity bonds the terminal or maturity level (face value) is not considered.

**Q4: (A)**

**(i)**

Ali Foods Company had Current assets after purchase of two trucks = 1000,000-200,000

= 800,000

Purchase of trucks will decrease the value of current assets by 200,000 as cash is converted into fixed assets (Trucks). As a result the current ratio will decrease.

Current ratio before purchase= **= 1.428**

Current ratio after purchase= **= 1.142**

**(ii)**

Borrowing 50,000 short term for carrying an increase in receivables of same amount will increase value of current assets to 1050,000 and that of current liabilities to 750,000.

So, the new current ratio becomes= **= 1.4**

It decreases the current ratio because the same change affects the current assets and current liabilities non proportionally.

**(B)**

Data:

Stock issue = 10%

Face value = $100

I = Face value × i

= 100×0.10 = 10

Yield (ke) = 12% = 0.12

Solution:

At the time of issuance the return of stock was set at 10 whose price face value was 100. Now the yield has increased which means the stock price has decreased so the new price is

Vp =

**vp= 83.33**

ke = 14%

I = Face value × i

= 100×0.10 = 10

= 0.14

Solution:

Vp =

=

**vp = 71.42**

As seeing the results we concluded that if interest rate rises, the market price per share will also rises.