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**QUESTION 1**

Calculate the following ratios for Altas Construction Company for 20X1 (15 marks)

1. Acid test Ratio = Current assets - Inventory

Current Liabilities

Acid test ratio = 840,000 – 300,000

620,000

Acid test ratio = 540,000

620,000

Acid test ratio **=** 0.870

2) Inventory turnover ratio = Cost of goods sold

Average inventory

Inventory turnover ratio = 40, 00,000

300,000

Inventory turnover ratio = 13.333

1. Net profit margin = Net profit

Net sales

Net Profit margin = 400,000

50,000,000

Net Profit margin = 0.08 **×** 100

**= 8%**

1. Total asset turnover ratio = Net Sales

Total Assets

Total asset turnover ratio = 5,000,000

14,40,000

Total asset turnover ratio = 3.472

1. Total debt to equity ratio= Total Debt

Total Equity

Total debt to equity ratio = 10, 20,000

800,000

Total debt to equity ratio = 1.275

**Q2) ABC Company has outstanding a 10 percent, five-year, $1000-par-value bond on which interest is paid annually.**

1. **If the market required rate of return is 15 percent, what is the market value of the bond? (5 marks)**
2. **If the coupon rate were 8 percent instead of 10 percent, and market required rate of return was 12 percent, what would be the market value of the bond (5 marks)**

Given Data:-

**CR** = 10 percent

**n** = 5 years

**MV** = 1000

**I** = 1000(10%) = 100

**Solution:-**

Using formula

V= I(PVIFA kd , n) + MV (PVIF kd,n)

V = 100 PVIFA 15%5) + 1000 ( PVIF 15%5)

V= 100 (3.3522) + 1000 (0.4972)

V= 335.22 + 497.2

V= **832.42 Answer**

**b)** **CR** = 8percent

**n** = 5

**MV** = 1000

**I** = 1000 (8%) = 80

Using formula

V =I(PVIFA kd,n) + MV ( PVIF kd,n)

V = 80 (PVIFA 12%5) + 1000 (PVIF 12%5)

V = 80 (3.6048) + 1000 (0.5674)

V = 288.384 + 567.4

V = 855.784 **Answer**

**Q3) Differentiate between the following concepts with an example: (3+3+4=10 marks)**

1. **Liquidation value versus going-concern value**

Liquidation value is the total worth of a company’s assets if the company is going to sell its assets and want to shut down the business.

Going concern value is a value that considers that the company will remain in business for indefinite period of time and will remain profitable. Going concern value represents the potential future profits a business can generate.

For example:-

Suppose ABC company has an annual sale of rupees 5M, and it has total assets of rupees 8M per month This 5M sale of ABC company is actually its going concern value and the total worth of its assets , which is rupees 8M in case , is its liquidation value.

1. **Market value versus intrinsic value**

Market value is the current value of a company as reflected by the company’s stock price. Market value may be significantly higher or lower then intrinsic value.

Intrinsic value is an estimate of the actual value of a company regardless of market value. Intrinsic value is a core metric used by value investors to analyze a company.

For example:-

We have two stocks in market Stock A and Stock B. Stock A has $500 intrinsic value in our mind and its market value is $550

Stock B has an intrinsic value of $550 and its market value is $500 So, if you want purchase a stock you will go for stock B because it is trading at discount. Similarly Stock A is selling at a premium , so you will sell stock A , if you have.

1. **Bonds with finite versus infinite maturity**

Bonds which pays you interest payment for specific periods are considered as bonds with finite maturity such bonds are redeemed after a specific time. On the other hand bonds with pay coupon payments forever come under the category of bonds with infinite maturity.

For example

Suppose you have a perpetual bond. This bond will pay you coupon payment each period forever. If you have bond issued by a company, then you will get coupon payment for specific period of time.

Q4 (a) Ali Foods Company has current assets of $10, 00,000 and current liabilities of $700,000. What effect would the following transactions have on the firm’s current ratio? Also state the resulting figures. (6 marks)

Current Ratio = Current Asset

Current liability

= 10, 00,000

700,000

Current Ratio = 1. 4285

1. Two new trucks are purchased for a total of $2, 00,000 in cash.

Current Ratio = 10, 00,000 – 2, 00,000

700,000

= 1.14285

Because the current assets have declined and there is no change in current liability

1. The company borrows $ 50,000 short term to carry an increase in receivables of the same amount.

Current Ratio = 10, 00,000 + 50,000

700,000 + 50,000

= 1.4

50,000 amount has increased from current assets and current liabilities.

1. **Johnson Cement Company has a 10 percent preferred stock issue outstanding, with each share having a $100 face value. Currently, the yield is 12 percent. What is the market price per share? If interest rates in general should rise so that the required return becomes 14 percent, what will happen to the market price per share? (9 marks**)

Given Data:-

Dividend Rate = 10%

Share Face value = $100

Yield = 12%

Solution:-

V = Dp **/** Kp

tofind dividend each period,

100 × 10% = $10

V = $10

0.12

= 83.333

If RRR increased to 14% , then

V = $10

0.14

V =71.4285