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Paper

Business Maths

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Q1

a Discuss the importance of keeping record through financial statement for any business

Ans

Proper business record keeping provides the business a real advantage over competition in different ways. It help you to manage your accounts, interest, taxes and working costs effectively. Act as resource for new strategies. Tells about the success of your past campaign and improvement in present campaign.

It helps you to mess manage your accounts, interests taxes and working cost effectively.

Tells about cash hand  
Act as resource for new strategies.



- \* Helps in finding solutions for business issues.
- \* Tells about the customer service and employee efficiency.
- \* Help in monitoring company growth rate and profit.
- \* How your business performs against your competitors.
- \* Tell about hidden and unexpected costs.
- \* And most of all it is the most resourceful adviser whenever your business is in serious trouble.



Q1  
b, Prepare the Balance Sheet from the data used in the accounting cycle for Paul's Guitar Shop.

Ans  
Paul's Guitar Shop, Inc.

### Balance Sheets.

Assets	Liabilities.
Current Assets	Current Liabilities:
cash 32,800	Accounts Payable = 49,000
Accounts Receivable 300	Accrued Expenses = 450
Prepaid Rent 1,000	Unearned Revenue = 1,000
Inventory 39,800	Total Current Liabilities = 50,450
Total current Assets 73,900	Long-term Liabilities = 99,500
Long-term Assets.	Total Liabilities = 149,950
Leasehold improvements 100,000	Owner's Equity
Accumulated Depreciation (2,000) 98,000	Owner's Equity Retained Earnings = 11,950
	Common Stock = 10,000



Total Long-term Assets 98,000	Total owner's Equity = 21,950
Total Assets 171,900.	Total Liabilities and owner's Equity = 171,900

Q2

Given this information, construct XYZ  
2003 Income Statement.

Sol

Sales (all on Credit) = 40,0000

Cost of good Sold = 20,00000

Gross Profit = 40,00000

Operating expenses

Selling expenses = 20000

Administrative expenses = 20000  
400000

Operating Income = 1600000

Interest Expense = 200000

Income before taxes = 1400000

Income taxes expense = 560000

Net Income After tax = 420000



Q3: From the balanced sheet constructed in Question 1 Calculate the following Ratios for Paul's Guitar Shop.

(a) Current Ratio.

Sol:→

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

As from Question 1

$$\text{Current Assets} = 73900$$

$$\text{Current liabilities} = 50450$$

$$\text{Current Ratio} = \frac{73900}{50450}$$

$$\text{Current Ratio} = 1.4648$$

$$= \boxed{1.46}$$



Q3  
(b) Liquidity Ratio

$$\text{Liquidity Ratio} = \frac{\text{Current Asset} - \text{Inventory}}{\text{Current liability}}$$

$$= \frac{73900 - 39800}{50450}$$

$$\text{Liquidity Ratio} = 0.67\%$$

From the data given in Question 2  
Calculate the following ratios for  
XYZ Inc.

- a, Gross Profit Ratio.  
b, Operating Profit Ratio.

Sol

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit} \times 100}{\text{Net Sales}}$$



$$\begin{aligned} \text{Gross Profit} &= \text{Sales} - \text{Cost of Good Sold} \\ &= 400000 - 200000 \\ &= 200,000 \end{aligned}$$

$$\text{Net Sales} = \text{Gross Sales} - \text{Sales return (or) return inward}$$

$$= 400000 - 0$$

$$= 400,000$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit} \times 100}{\text{Net Sales}}$$

$$= \frac{200,000 \times 100}{400,000}$$

$$= 0.5 \times 100$$

$$= 50. \text{ Ans}$$

$$\text{b, Operating Profit Ratio} = \frac{\text{Operating Profit} \times 100}{\text{Net Sales}}$$

$$= \frac{450000 \times 100}{580000}$$

$$= 77.58 \%$$



Q4

A What is Capital budgeting discuss its importance.

Ans Capital Budgeting:

Capital budgeting refers to the process we used to make decisions concerning investments in the long-term assets of the firm. The general idea is that the capital, or long-term funds, raised by the firms are used to invest in assets that will enable the firm to generate revenues several year into the future.

Importance:

Capital budgeting decision impact the firm for several year, they must be carefully planned. A bad



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decision can have a significant effect on the firm's future operations. In addition the timing of the decisions is important. Many capital budgeting projects take years to implement. If firms do not plan accordingly they might find that the timing of the capital budgeting decision is too late thus costly with respect to competition.

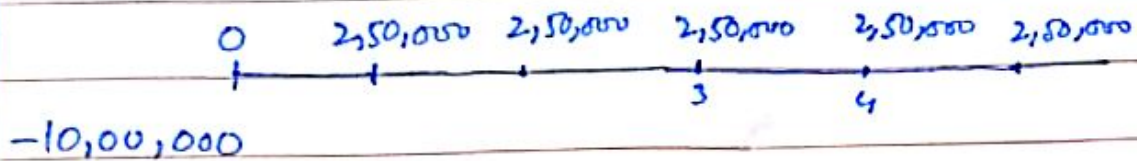
Q4: (b)

Years	Cash flow (Rs)
0	100000
1	150000
2	200000
3	250000
4	300000
5	350000



Sol:→

Let the buy a car at Rs 1000000

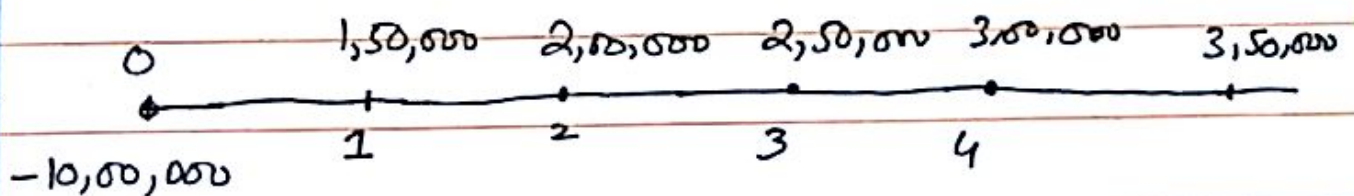


- In this case the cash flows are Uniform so we can simplify the PBP

$$\text{Payback} = \frac{10,00,000}{2,50,000}$$

$$= 4 \text{ years}$$

- In case cash flows are not Uniform

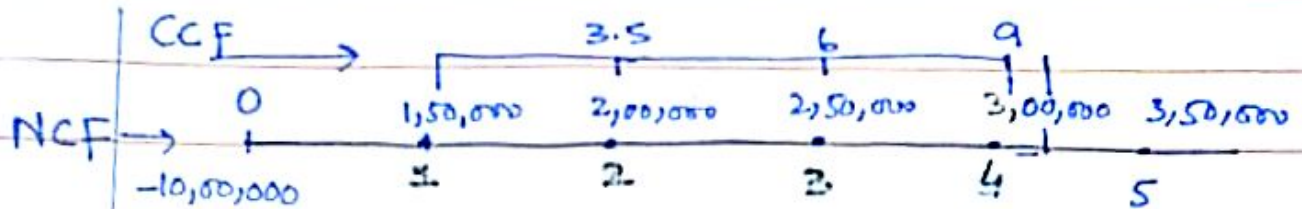




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$$3.5l = 1$$

$$1l = \frac{1}{3.5} \text{ years}$$

$$= 0.29 \text{ years}$$

$$\text{Payback} = 4 + 0.29 \text{ years}$$

$$= \boxed{4.29 \text{ years}}$$

Q5.: With the help of data given in Question 4 find out the Next present Value of project additional required data.

Given:

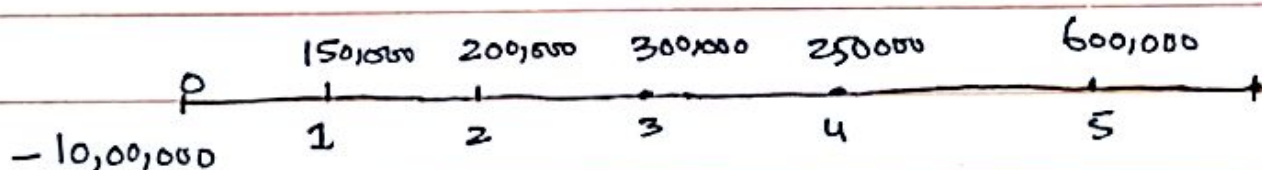
Terminal Cash flow is Rs 600,000

Discounted rate is 12%

Sol:

Let assume the Company wants buy a Car at Rs 10 lakh

the expected Net Cash flows are :



400,000 → Terminal C.F

200,000 → operation C.F

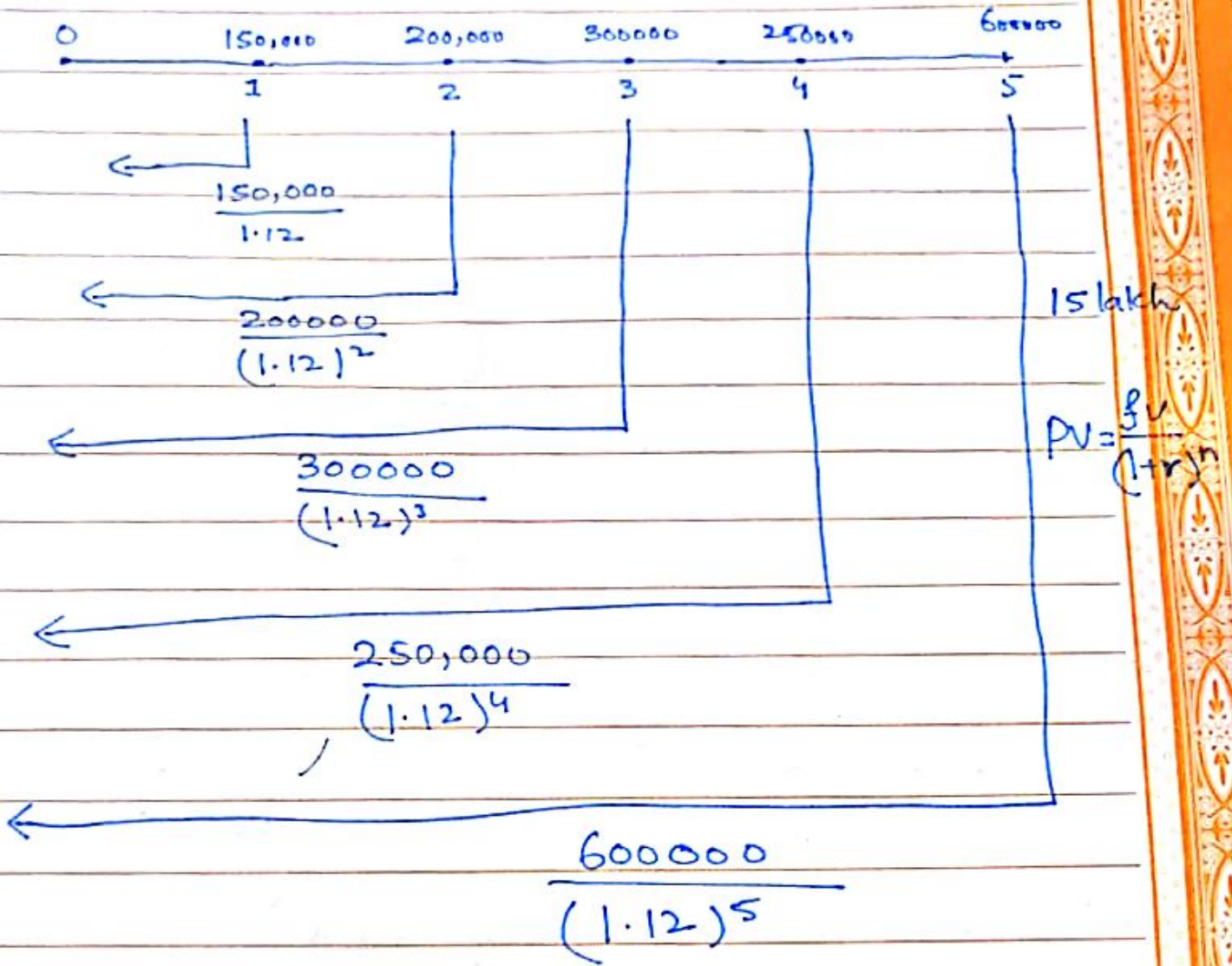
Let the discounted rate or expected rate of return is 12%

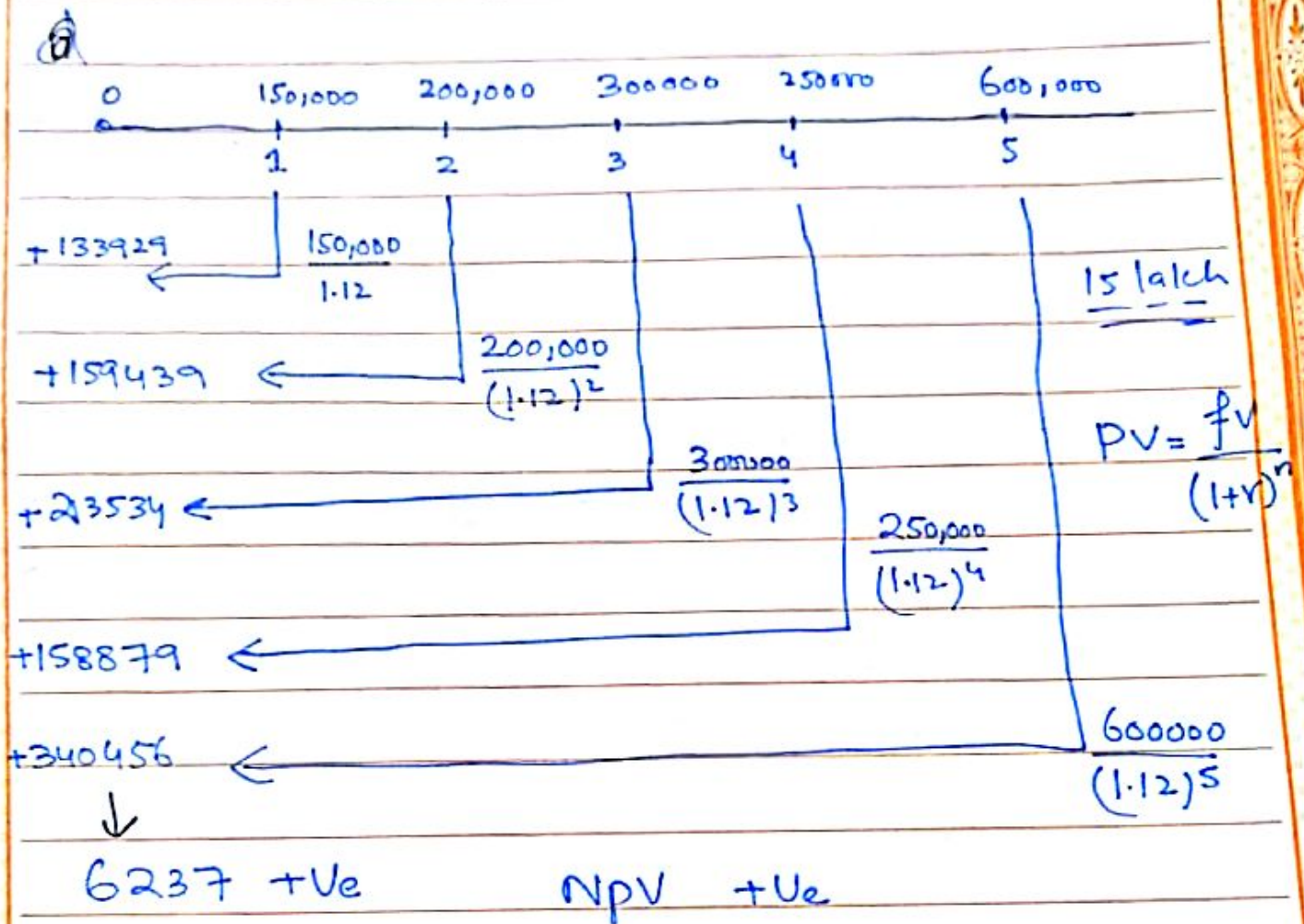


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$$NPV = C_{F0} + \frac{C_{F1}}{(1+r)^1} + \frac{C_{F2}}{(1+r)^2} + \dots + \frac{C_{Fn}}{(1+r)^n}$$

By putting values in above formula we get

$$NPV = 6237$$