***Final Term***

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**Subject: Business Finance**

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***Question 1:***

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

1. **Acid-test ratio**
2. **Inventory turnover**
3. **Total debt/equity**
4. **Net profit margin**
5. **Total asset turnover**

***Solution:***

***Part (A)***

**Acid-Test Ratio:**

Current Assets − Inventory

Current Liabilities

***Part (b)***

**The Inventory Turnover Ratio:**

Cost of Goods sold

Average Inventories

***Part (c)***

**Total Debt to Equity Ratio:**

Total Debt

Total Equity

***Part (d)***

**Long Term Debt to Total Capitalization Ratio:**

Long Term Debt

Total Capitalization

***Part* *(e)***

**Net Profit Margin:**

Net Profit

Net Sales

***Part (f)***

**Total Assets Turnover:**

Net Sales

Total Assets

***Question 2:***

**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?**
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 ?**

***Solution:***

Coupon Rate = 10%

n = 5

MV = 1000

kd = 15%

I = 100

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

= 100 (3.3522) + 1000 (0.4972)

= 335.22 + 497.2

= 832.42

I = 80

kd = 12%

n = 5

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

= 80 (3.6048) + 1000(0.5674)

= 288.384 + 567.4

= 855.784

***Q3:-***

**A: Liquidation Value versus Going-Concern Value**

***Liquidation value***

. is the measure of cash that could be acknowledged whether an advantage or a gathering of

resources (e.g., a firm) is sold independently from its working association

***going-concern value***

of a firm, which is the amount the firm could be sold for

as a continuing operating business.

**B: Book Value versus Market Value**

***The book value***

of an *asset* is the accounting value of the asset – the asset’s cost minus its

accumulated depreciation.

***the market value***

of an asset is simply the market price at which the asset trades and 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.

**C: Market Value versus Intrinsic Value**

Based on our general definition for market value, the market value of a security is the market

price of the security.

***intrinsic value***

of a security, on the other hand, is what the price of a security should

be if properly priced based on all factors bearing on valuation.

***Question 4:***

(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)

1. Two new trucks are purchased for a total of $2, 00,000 in cash.
2. The company borrows $50,000 short term to carry an increase in receivables of the same amount.

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?

***Solution:***



**Current Ratio:**

Current Assets

Current Liabilities

1. Truck ia bong term asset, cash will decrease by 200000, no effect on current liabilities because paid full cash
2. Borrowing means increasing liabilities;
3. ***Solution:***

dp = 10%

kp = 12% = 0.12

v =

= 83.33

kp = 14%

= 0.14

=

= 71.42