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Subject: **Business Finance**
Semester: **4th**
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Exam: **Final Term**

Question:1ˢᵗ) Altas Construction Company sells construction material on terms of 2/10, net 30. Its financial statements over the last two years are as follows:

BALANCE SHEET	20X1
Cash	$ 40,000
Account receivable	5,00,000
Inventories	3,00,000
Net fixed assets	6,00,000
	$14,40,000
Accounts payable	2,50,000
Accruals	2,20,000
Bank loan, Short-term	1,50,000
Long-term debt	4,00,000
Common stock	2,00,000
Retained earnings	6,00,000
Sales	50,00,000
Cost of goods sold	40,00,000
Net profit	4,00,000

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

(a) Acid-test ratio:

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\frac{40,000+500,000+300,000-300,000}{250,000+220,000+150,000} =$$

$$\frac{840,000-300,000}{620,000} =$$

$$\frac{540000}{620000} = 0.87$$

(b) Inventory turnover:

$$\frac{\text{Cost of Goods sold}}{\text{Average Inventories}}$$

$$\frac{4,000,000}{300,000} = 13.33$$

(c) Total debt/equity:

$$\frac{\text{Total Debt}}{\text{Total Equity}}$$

$$\frac{250000 + 22000 + 150000 + 400000}{200000 + 600000} =$$

$$\frac{1020000}{800000} = 1.275$$

(d) Long Term Debt to Total Capitalization Ratio:

$$\frac{\text{Long Term Debt}}{\text{Total Capitalization}}$$

$$\frac{2000}{2000+3440} = \frac{2000}{5440} = 0.36$$

(e) Net profit margin:

$$\frac{\text{Net Profit}}{\text{Net Sales}}$$

$$\frac{400000}{5000000} = 0.08$$

(f) Total asset turnover:

$$\frac{\text{Net Sales}}{\text{Total Assets}}$$

$$\frac{5000000}{40000 + 500000 + 300000 + 600000} =$$

$$\frac{5000000}{1440000} = 3.472$$

Question: 2nd) ABC Company has outstanding a 10 percent, five-year, $1000-par-value bond on which interest is paid annually.

(a) If the market required rate of return is 15 percent, what is the market value of the bond? **(5 marks)**

Solution:

    A. Coupon Rate = 10%

            n = 5

            MV = 1000

            kd = 15%

            I = 100

$$= I\,(PVIFA_{kd,n}) + MV(PVIF_{kd,n})$$

$$= 100\,(3.3522) + 1000\,(0.4972)$$

$$= 335.22 + 497.2$$

$$= 832.42$$

(b) 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)**

Solution:

    I = 80

    kd = 12%

    n = 5

$$= I\,(PVIFA_{kd,n}) + MV(PVIF_{kd,n})$$
$$= 80\,(3.6048) + 1000(0.5674)$$
$$= 288.384 + 567.4$$
$$= 855.784$$

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

i. **Liquidation value versus going-concern value**
Going-concern value represents the monetary value that can reasonably be expected to be received from continuing business operations, and liquidation value represents the total sales value of all company-owned assets.

ii. **Market value versus intrinsic value**
    a) **Market value:**
It is the current price of an assets at which it is traded.
For Example: a person selling is House at 50 lakhs.
    b) **Intrinsic value:**
It is the internal value of assets, it is the measure of an asset worth based on the facts, the return it will gave its lifespan, future, earning.

iii. Bonds with finite versus infinite maturity
  a) **Bond with finite maturity:**
     It is bond which as ending date, it as maturity date.
     For Example: Ali issue bond for two years. After two years Ali get interest with principle amount.
  b) **Bond with infinite Maturity:**
     It is the bond that never matures, those are bond that have no maturity date, and they are issue infinite time and has no ending.
     For Example: Perpetual bonds have infinite maturity those bonds provide a fixed amount of interest forever, those are very rare.

Question: 4th)

(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:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{1000000}{700000} = 1.4285$$

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

   Solution:

$$\frac{1000000 - 200000}{700000} =$$

$$\frac{800000}{700000} = 1.1428$$

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

$$= \frac{1000000 + 50000}{700000 + 50000}$$

$$= \frac{1050000}{750000}$$

$$= 1.4$$

(b) 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)**

Solution "b":

dp = 10%
kp = 12% = 0.12

$$v = \frac{dp}{kp}$$

$$= \frac{10}{0.12}$$

$$= 83.33$$

kp = 14% = 0.14

$$kp = \frac{10}{0.14} = 71.42$$