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Assignment: business finance

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Ans:1 Acid test ratio:

Current asset – inventor/current liabilities

40000+500000+300000/250000+220000+50000

=840000

540000/620000

=0.87

2) inventory turnover/CGS/inventory

4000000/500000

=1333

Total debt to equity

Total debt /total equity

250000+220000+50000+4000000/200000+600000

1020000/8000000

=1.275

3) Net profit margin

Net profit after taxes/net sales

400000/5000000

=0.08

4) Total asset turnover

Net sale/total asset

5000000/1440000

=3.472

Ans2: Data

Coupon rate = 10%

Maturity = n= 5 years

Par_value=face value=MV-1000

KD is = 15%

Part A:

We have to solve it on its formula

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

$100(PVIA_{15\%}.5) + 1000(PVIF_{15\%}.5)$

100(3.3522) +1000(0.4972)

(335.22) + (49.7.2)

(832.42)

Data:

If coupon rate = 8%

Maturity = n = 5 years

Par-value =face value=MV= 10000

KD is = 12%

Formula:

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

$80(PVIFA_{12\%}.5) + 1000(PVIF_{12\%}.5)$

80(3.6048) +1000(0.5674)

(288.384) + (567.4)

288.384 + 567.4

855.784

Current ratio = current asset/current liabilities

=1000000/700000

=1.4285

ANS:3

<table>
<tr><th>Going-Concern Valuation</th><th>Liquidation Valuation</th></tr>
<tr><td>

If the business interest is valued on a minority-interest basis, the company may be valuated on a going-concern basis.
Runs on assumption to exist for foreseeable future.
Going concern value = entire company sold + intent to keep it running with new owner.

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Liquidation value is the amount of money that could be realized if an asset or a group of assets (e.g., a firm) is sold separately from its operating organization
A company’s liquidation valuation is equal to the cash, less sales expenses, a company receives in exchange for its assets, each of which is priced and sold on an individual basis.
Liquidation value = entire company sold + tangible asset sold off.

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<table>
<tr><th>Market Value</th><th>Intrinsic value</th></tr>
<tr><td>

Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer & a willing seller in arm’s-length transaction after proper marketing where in the parties had each acted knowledgeably prudently & without compulsion.
The market capitalization plus the market value of debt. Sometimes referred to as "total market value".
There are many or at least several ways but one of the most popular is a multiple of earnings per share based on their history of earnings as a percentage of their market price

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The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. This value may or may not be the same as the current market value.
Value investors use a variety of analytical techniques in order to estimate the intrinsic value of securities in hopes of finding investments where the true value of the investment exceeds its current market value.
The intrinsic value for an in-the-money option is calculated as the absolute value of the difference between the current price (S) of the underlying and the strike price

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Bonds with Finite Maturity	Bonds with infinite Maturity
• When the bond must be repaid. • Bonds with a Finite Maturity Typical coupon bonds (limited outstanding period, annually paid interest). • The value of a bond is obtained by discounting the bond's expected cash flows to the present using an appropriate discount rate. • A zero-coupon bond is a bond that pays no interest but sells at a deep discount from its face value; it provides compensation to investors in the form of price appreciation The interest of a zero-coupon bond is the remainder of the face value less issuing price.	• The bond which will never mature. • A perpetual bond, also known as a "consol bond" or "prep," is a fixed income security with no maturity date. This type of bond is often considered a type of equity, rather than debt. • One major drawback to these types of bonds is that they are not redeemable. • Example of a Perpetual Bond Since perpetual bond payments are similar to stock dividend payments, as they both offer some sort of return for an indefinite period of time, it is logical that they would be priced the same way.

ANS:4

Truck is bought on cash bar long term is full so no effect on current liabilities

1000000-300000/700000

=1.1428

2) Borrowing liabilities

1000000+50000/700000+50000

1050000/750000

=1.4

B) Dividend= 10%*100=10

Face value =100

K=10%

V=pp/kp=10/0.12=83.33

Now for k = 12%

V=10/0.14 =71.428

First market price was 83.33 and now 71 428 price is decrease