

Spring Semester 2011

“Business Finance (ACC501)”

Assignment No. 01

Total Marks: 15

Question # 01

JJ Corporation's last year Return on Equity (ROE) was only 2.5 percent. Management wants to improve Return on Equity (ROE), for this purpose they has developed a new plan and made following amendments:

For new plan total debt ratio is of 55 percent, it will result in interest expense of Rs. 300,000 per year. Projected EBIT of Rs. 1,000,000 on sales of Rs. 15,000,000 and it expects to have a total assets turnover ratio of 2. Under these conditions, the tax rate will be 30 percent.

Required:

1. What will be the effect of new plan on company's ROE?
2. Either management should consider new plan or not?

***NOTE:** Show complete working for this in proper format*

Question # 02

A textile company has Rs. 650,000 of debt outstanding and pays interest 65,000 annually on debt. Its annual sales are Rs. 3 million its tax rate is 35 percent and its net profit margin on sales is 6 percent. Textile Company has applied for loan from bank. There is a condition from bank for loan sanction, company has to maintain TIE ratio at least 4 times, and otherwise bank will reject loan request.

Required:

1. Calculate Time Interest Earned Ratio (TIE).
2. By keeping in view your result, what do you think that bank will sanction loan on the basis of given condition of Time Interest Earned Ratio (TIE)?

Important Tips

1. This Assignment can be best attempted from the knowledge acquired after watching video lecture no. 1 to lecture no 12 and reading handouts as well as recommended text book).
2. Video lectures can be downloaded for free from www.youtube.com/vu.

Assignment Schedule

Opening Date and Time	18 th April , 2011 At 12:01 A.M. (Mid-Night)
Due Date and Time	21 st April , 2011 At 11:59 P.M. (Mid-Night)

Note: Only in the case of Assignment, *24 Hrs extra / grace period* after the above mentioned due date is usually available to overcome uploading difficulties which may be faced by the students on last date. This extra time should only be used to meet the emergencies and above mentioned due dates should always be treated as final to avoid any inconvenience.

Important Instructions:

Please read the following instructions carefully before attempting the assignment solution.

Deadline:

- Make sure that you upload the solution file before the due date. No assignment will be accepted through e-mail once the solution has been uploaded by the instructor.

Formatting guidelines:

- Use the font style "Times New Roman" and font size "12".
- It is advised to compose your document in MS-Word 2003.
- Use black and blue font colors only.

Solution guidelines:

- For acquiring the relevant knowledge don't rely only on handouts but watch the video lectures and use other reference books also.

Rules for Marking

Please note that your assignment will not be graded or graded as Zero (0) if:

- It has been submitted after due date
- The file you uploaded does not open or is corrupt
- It is in any format other than .doc (MS. Word)
- It is cheated or copied from other students, internet, books, journals etc...