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Solution to Question # 01**Marks 8**

ROE= Net Income /Shareholder's Equity

ROE= 490,000 (w-1) /3,375,000 (w-3)

ROE= 0.145 or 14.52%

Working**W-1****Net Profit =?**

EBIT	Rs.1,000,000
-Interest Exp	300,000
Earning before Tax	700,000
-Tax (700,000 * 30%)	210,000
Net Profit	490,000

W-2**Asset Turnover Ratio= Sales / Total Asset**

2 = 15,000,000 /Total Asset

Total Asset =15,000,000 /2

Total Asset = 7,500,000

W-3**Debt Ratio = Total Debt / Total Assets**

55 % = Total Debt / 7,500,000

Total Debt =55% * 7,500,000**Total Debt** = Rs. 41, 25000**Total Equity** = 45% * 7,500,000**Total Equity** = Rs. 3,375,000**Result:**

ROE is improved. Management should consider these changes.

Solution to Question # 02**Marks 7****Time Interest Earned Ratio** = (EBIT) (w-2)/ interest expense**Time Interest Earned Ratio** = Rs. 341,923 / Rs. 65,000 given in data**Time Interest Earned Ratio** = 5.26 times**Decision**

Bank will sanction .loan because TIE is 5.26 that is more than 4 times

Working**W-1**

Net Profit Margin = Net Profit / Sales
 6% = Net Profit / Rs.3, 000,000
 6% *3,000,000 = Net Profit
 Rs.180, 000 = Net Profit

W-2

EBIT	Rs. 341,923
-Interest Expense	65,000
Earning before Tax	276,923
-Tax (35% of EAT)	96,923
Net Profit	180,000

W-3

EAT 100
 Tax 35
 Net Profit 65

If NP is 65 then Tax = 35
 180,000 = 35/65* 180,000=Rs. 96,923

If NP is 65 then EAT = 100
 180,000 = 100/65* 180,000=Rs. 276,923