

FRCN6(13.4.2020)

This class will be completely revisionary. All types of problems had done already. If you have anything which is not clear may ask at this point of time. From the next class we shall go by assignments only.

Problem 1

A & Co.'s Equity Share are being traded in the market at Rs. 54 per share with a price earning ratio of 9. The company's dividend pay out is 72%. It has 1,00,000 equity share of Rs.10 each and no preference shares. Book value per share is Rs. 42. Calculate

- (i) Earnings per share
- (ii) Net Income
- (iii) Dividend Yield and
- (iv) Return on Equity

Solution 1

- (i) Earnings per share

Price earning ratio = Price per share / Earning per share

9 EPS = Rs.54, EPS = Rs.6

- (ii) Net Income = EPS x No of shares = Rs. 6 x 100000 = Rs. 6,00,000

(iii) Dividend yield = DPS/Market Price per share = $4.32/54 = 0.08$ or 8%

iv) Return on Common Equity = Net Income / owners equity = $Rs.6,00,000/(54 \times 100000) = 11.11\%$
or $600000/42 \times 100000 = 14.285\%$

Problem 2

From the following information, complete the balance sheet given below

Total Debt to Net Worth	0.5 : 1
Turnover to Total Assets (based on year end figure)	2
Gross Profit	30%
Average Collection period (Based on 360 days a year)	40 days
Inventory Turnover(based on cost of goods sold)	3 times

Acid Test Ratio

.75 to 1

Common stock	2,00,000	Plant and Equipments	?
Retained Earnings	3,00,000	Inventory	?
Accounts Pyable	?	BR	?
	_____	Cash	_____?
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Solution 2

i) Total debt to Net Worth is 0.5

$0.5 = \text{Total Debt} / \text{Rs.}500000$, Total Debt = Rs.250000

ii) Sales = Rs.750000 x 2 = Rs. 15,00,000 [As total debt = 250000, total liabilities = 750000 = total assets]

iii Cost of Goods Sold = 70% of Rs. 1500000 = Rs.10,50,000

iv) Accounts Receivable = $1500000 \times 40/360 = \text{Rs. } 1,66,667$

v) Closing Inventory = $\text{Rs.}1050000/3 = \text{Rs. } 3,50,000$

vi) Liquid Assets = 75% of Rs.2,50,000 = Rs.1,87,500

vii) Cash = $\text{Rs.}187500 - \text{Rs.}166667 = \text{Rs.}20,833$

Common stock	2,00,000	Plant and Equipments	2,12,500
Retained Earnings	3,00,000	Inventory	3,50,000
Accounts Pyable	2,50,000	BR	1,66,667
	_____	Cash	_____ <u>20,833</u>
	7,50,000		7,50,000
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