Q.1 Elmec Corporation's financial statements are given below:

Elmec Corporation
Balance Sheet
December 31, 2011

ASSETS	
Cash	Rs. 100,000/-
Marketable securities	Rs. 200,000/-
Inventory	Rs. 300,000/-
Plant assets	Rs. 500,000/-

Total assets	Rs.1,100,000/-
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LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	Rs. 200,000/-
Long-term liabilities	Rs. 100,000/-
Common stock, Rs 1 par value, 100,000 shares	Rs. 100,000/-
Premium on common stock	Rs. 500,000/-
Retained earnings	Rs. 200,000/-

Total liabilities and stockholders' equity	Rs 1,100,000/-
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Elmec Corporation
Income Statement
For the Year Ended Dec 31, 2011

Net sales	Rs.10,000,000/-
Cost of goods sold	Rs. 6,000,000/-
Gross profit	Rs. 4,000,000/-
Operating expenses	Rs. 1,000,000/-
Income before taxes	Rs. 3,000,000/-
Income taxes (50% rate)	Rs. 1,500,000/-
Net income	Rs. 1,500,000/-

Additional information includes a market price of Rs.150/- per share of stock, total dividends of Rs.600,000/- for 2011 and Rs.250,000/- of inventory as of December 31, 2010.

Compute the following ratios. Show workings.

A. Current ratio (2-marks)
B. Quick ratio (2-marks)
C. Inventory turnover (2-marks)
D. Average age of inventory (2-marks)
E. Debt/equity ratio (2-marks)
F. Book value per share (2-marks)
G. Earnings per share (2-marks)
H. Price/earning ratio (2-marks)
I. Dividend per share (2-marks)
J. Dividend payout (2-marks)

Q.2 QZ Limited is trying to set the selling price of its product. Following opti being considered:

Price per unit	Rs.5	Rs.5.5	Rs.5.8
Expected sales (volume) Best possible	18,000	16,000	14,500
Most likely	16.000	14,500	14,000
Worst possible	12,000	10,000	8,000

Fixed costs are Rs.20,000 and variable cost is Rs 2 per unit.
Which price is most suitable to the company?
Show all calculations. (5-marks)

Q.3 Mod Company is considering three investments whose initial costs and internal rates of return are given below:

Project	Initial Cost (Rs)	Internal Rate of Return (%)
A	100,000	19
B	125,000	15
C	225,000	12

The company finances all expansion with 40 percent debt and 60 percent equity capital. The after-tax cost is 8 percent for the first Rs.100,000/-, after which the cost will be 10 percent. Retained earnings of Rs.150,000/- are available and the common stockholders' required rate of return is 18 percent. If new stock is issued, the cost will be 22 percent.

A. Calculate the Rupee amount at which breakeven occur. (3-marks)

B. Calculate the weighted cost of capital of each of the projects. (3-marks)

C. Decide which project should be selected and calculate the optimal capital budget. (4-marks)

Q.4 A. What is the opportunity cost of not taking a discount when the terms are 4/10, n /60? Show your computations. (5-marks)

B. SBS Corporation takes a Rs.80,000/- loan having a nominal rate of 18 percent. Interest is payable in advance and there is a required compensating balance of 10 percent. What is the effective rate of interest? Show your computations. (5-marks)

Q.5 A. What policies and payments does a firm's 'dividend policy' consis
(5-ma

B. What do you think is the typical stock market reaction to the announcement that a firm will increase its dividend payment? Why?
(5-marks)

Q.6 Janoobi Bank has the following deposit and cost data made available to you:

Local currency total deposits cost for January	Rs.600 million
Foreign currency deposit cost for January	Rs.4 million
Local currency average deposits	Rs.80 billion
Foreign Currency average deposits	Rs.20 billion
Forward cover fee on FCY deposits for January	Rs.30 million

Calculate the cost of deposits for January 2013.
Show all your calculations. (5-marks)