**ADM2415 – 1B and 2B (Winter 2016)**
**Principles of Finance**
**Assignment 2**

**Assignment is due on 16th March 2016 at the beginning of class.**

**Make Stuff Inc.**
**Statement of Financial Position**
**As at December 31, 20XX**

| | | | |
|---|---|---|---|
| | | **Liabilities and Shareholder's Equity** | |
| **Assets** | | **Liabilities** | |
| Cash | $1,250,000 | Accounts Payable | $1,000,000 |
| Account Relievable (net) | $750,000 | Current Portion of Long-term Debt | $150,000 |
| Inventory | $2,000,000 | Long-term Debt | $4,500,000 |
| Property, Plant and Equipment | $12,000,000 | Total Liabilities | $5,050,000 |
| | | **Shareholder's Equity** | |
| | | Common Shares | $7,000,000 |
| | | Retained Earnings | $3,350,000 |
| | | **Total Shareholder's Equity** | $10,350,000 |
| **Total Assets** | $16,000,000 | **Total Liabilities and Shareholder's Equity** | $16,000,000 |

**Make Stuff Inc.**
**Statement of Financial Position**
**For the period ending December 31, 2X15**

| | | |
|---|---|---|
| Sales | $10,000,000 | |
| Cost of Goods Sold | $6,000,000 | |
| Gross Profit | | $4,000,000 |
| Expenses | | |
| Interest Expense | $250,000 | |
| Other Expenses | $2,250,000 | |
| Total Expenses | | $2,500,000 |
| Income before tax | | $1,500,000 |
| Income Tax Expense | | $500,000 |
| Net Income | | $1,000,000 |

Question 1

a. Using Make Stuff Inc's financial statements, calculate the following ratios:
   i. Current ratio
   ii. Quick ratio
   iii. Times Interest Earned
   iv. ROA
   v. ROE

b. What is the difference between Book Value and Market Value?

c. Why is EBIT a better measure of a company than is Net Income?

d. What does a higher Inventory Turnover rate say about a company's inventory?

Question 2

Project 'Mars' creates the following cash flows. You will need to invest $25,000 and starting at the end of Year 1 you will receive a cash flow of $5,000 until the end of Year 10. The cost of capital is 5%.
Find the following based on the project cash flow:

a. Payback Period
b. Discounted Payback Period
c. NPV
d. Approximate IRR
e. Profitability Index

Question 3

Five years ago, you bought a brand new bond with a maturity equal to 20 years. It pays an 8% coupon. When you bought it five years ago it was at a discount because at the time, the market rate on a similar bond was 9%. The market rate is now 7% and you have decided to sell this bond. Based on this information,

a. What is your yield on the bond based only on capital appreciation?
b. What is your yield on the bond based only on the coupon payments?
c. What is your total yield on the bond when you sell it?