Business Finance

Chapter 3: Financial Analysis

Question Sheet

1. Ratios that identifies the times per year inventory is sold, the collection of accounts receivable and productivity of capital assets in generating sales
   a. Profitability ratios
   b. Debt utilization ratios
   c. Asset utilization ratios
   d. Liquidity ratios

2. Which of the following reflects the firm's pricing policies and its ability to control costs depending on the competitive strategy
   a. Asset turnover
   b. Profit margin
   c. Current Ratio
   d. Return on equity

3. Which of the following is considered a profitability measure?
   a. Days sales in inventory
   b. Fixed asset turnover
   c. Price-earnings ratio
   d. Cash coverage ratio
   e. Return on Assets

4. John is a holder of 10,000 common shares of ABC Corporation. He has been trying to measure the company's efficiency in using their capital. Which ratio would he should use
   a. ROA
   b. Profit margin
   c. Capital asset turnover
   d. ROE

5. Which of the following are likely to have the reported amounts on the balance sheet being close to their current value?
   a. Current assets
   b. Long term assets
   c. Long term investments
   d. Shareholders’ equity
6. A company's net income after tax was $400,000 for its most recent year. The company's income statement included Income tax expense of $140,000 and Interest expense of $60,000. At the beginning of the year the company's shareholders' equity was $1,900,000 and at the end of the year it was $2,100,000. Use this information to answer the following
   a. Calculate the times interest earned ratio.
   b. What is the after-tax return on shareholder's equity for the year?

7. Free cash flow is the cash provided by operating activities minus the cash used by financing activities (True/False)

8. Current Ratio is a measure of
   a. Solvency
   b. Liquidity
   c. Profitability
   d. Debt

9. Analyzing the performance of the firm through ratios over a number of years is referred to as:
   a. financial analysis
   b. ratio analysis
   c. trend analysis
   d. operations analysis
   e. None of the above

10. ABC Company had sales of $265 million including cash sales of $25 million. If its average collection period was 36 days, calculate its ending accounts receivable (Assume a 365-day year.)
   a. 26.1 million
   b. 23.67 million
   c. 7.4 million
   d. 18.7 million

11. Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. This means that the company
   a. Will not experience any difficulty with its creditors.
   b. Has less liquidity than other firms in the industry.
   c. Will be viewed as having high creditworthiness.
   d. Has greater than average financial risk when compared to other firms in its industry.

12. Debt utilization ratios measure
   a. the speed at which the firm is turning over its assets
   b. the debt position of the firm in light of its assets and earning power
   c. the ability of the firm to earn an adequate return on sales, total assets, and invested capital
   d. the firm's ability to pay off short term obligations as they are due

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13. For its most recent year a company had Sales (all on credit) of $830,000 and Cost of Goods Sold of $525,000. At the beginning of the year its Accounts Receivable was $80,000 and its Inventory was $100,000. At the end of the year its Accounts Receivable was $86,000 and its Inventory was $110,000.
   a. Calculate the inventory turnover ratio for the year
   b. Calculate the accounts receivable turnover ratio for the year

14. Financial ratios are used to
   a. Weigh and evaluate the operating performance of the firm
   b. Provide an absolute benchmark of industry performance
   c. Determine which firm will provide the highest return to investors
   d. None of the above

15. Explain how inflation impacts the firm performance when measured using ratio analysis?
16. According to the DuPont analysis how can a company achieve a satisfactory ROI?
17. What is equity multiplier? Explain how a company would be able to attain a higher equity multiplier and how it would affect the company’s ROE.
18. State two deficiencies of ROE and state two factors that may provide a company with a higher ROE.