Business Finance

Chapter 3 – Financial Analysis

Question Sheet

1. ABC Ltd. had total assets of $1,200,000 and $650,000 in overall debt. ABC Ltd. recorded total net income of $200,000 for the year
   a. Calculate return on shareholders’ equity
   b. Calculate the company’s profit margin assuming the asset turnover ratio is 2.1 times

2. ABC Ltd. has been planning to introduce their new product in the market place this year. Managers estimated that the new product will be able to generate annual sales of $720,000 with a profit margin of 5%. What would be the company’s return on assets if the total assets were $290,000?

3. Calculate Janes Ltd. returns on shareholders’ equity if the company has a gross profit rate of 6% with total assets of $1,800,000 (40% current assets) with a total debt of $450,000. The company has an capital asset turnover of 3.5 times per year

4. Calculate the company’s ROE if return on assets is 15% assuming that the company had a debt to total assets ratio of 37%.
   a. Assume that the company has no debt what would be its ROE?
   b. Referring to option (a) calculate the company’s asset turnover assuming profit margin is 7%

5. The following information was provided by GIG’s Ltd. for the year 2015

<table>
<thead>
<tr>
<th></th>
<th>$200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>350,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>680,000</td>
</tr>
<tr>
<td>Machinery</td>
<td>220,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>300,000</td>
</tr>
<tr>
<td>Sales</td>
<td>1,900,000</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>90,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>100,000</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>150,000</td>
</tr>
</tbody>
</table>

Calculate the following:

   a. Capital Asset turnover
   b. Account Receivable turnover
   c. Inventory turnover
   d. Current Ratio
   e. Quick Ratio
   f. Average collection period (assume 70% sales are on credit)

Prepared by: Charanjit Singh
6. It identifies the effective use of trade credit as opposed to bank credit. A decrease in this ratio will indicate a significant decrease in short term borrowing
   a. Capital asset turnover
   b. Inventory turnover
   c. Accounts payable turnover
   d. Debt to equity ratio

7. The firm’s ability to control costs, varying among firms based on the competitive strategy and product mix is known as
   a. Return on equity
   b. Quick ratio
   c. Current ratio
   d. Profit margin

8. The demonstration of debt management of the firm and its ability to meet financial obligations from income before interest and taxes.
   a. Receivable turnover
   b. Return on Investments
   c. Fixed charge coverage
   d. Equity multiplier