SMN224 - Tutorial assignment for topic 2

Topic 2: Financial ratios and analysis

1. The financial ratio measured as earnings before interest and taxes, divided by interest expense is the:
A. cash coverage ratio.
B. debt-equity ratio.
C. times interest earned ratio.
D. gross margin.
E. total debt ratio.

2. The financial ratio measured as earnings before interest and taxes, plus depreciation, divided by interest expense, is the:
A. cash coverage ratio.
B. debt-equity ratio.
C. times interest earned ratio.
D. gross margin.
E. total debt ratio.

3. The market-to-book ratio is measured as:
A. total equity divided by total assets.
B. net income times market price per share of stock.
C. net income divided by market price per share of stock.
D. market price per share of stock divided by earnings per share.
E. market value of equity per share divided by book value of equity per share.

4. Which of the following will increase sustainable growth?
A. Buy back existing stock
B. Decrease debt
C. Increase profit margin
D. Increase asset requirement ratio
E. Increase dividend payout ratio

5. Which of the following are liquidity ratios?
(I) cash coverage ratio
(II) current ratio
(III) quick ratio
(IV) inventory turnover

A. II and III only
B. I and II only
C. II, III, and IV only
D. I, III, and IV only
E. I, II, III, and IV

6. A supplier, who requires payment within ten days, is most concerned with which one of the following ratios when granting credit?
A. current
B. cash
C. debt-equity
D. quick
E. total debt

7. A firm has a total debt ratio of .47. This means that that firm has 47 pence in debt for every:
A. £1 in equity.
B. £1 in total sales.
C. £1 in current assets.
D. £.53 in equity.
E. £.53 in total assets.

8. A banker considering loaning a firm money for ten years would most likely prefer the firm have a debt ratio of _____ and a times interest earned ratio of_____ .
A. .75; .75
B. .50; 1.00
C. .45; 1.75
D. .40; 2.50
E. .35; 3.00

9. Marlowe Pastries generates five pence of net income for every £1 in sales. Thus, Marlowe has a _____ of 5%.
A. return on assets
B. return on equity
C. profit margin
D. Du Pont measure
E. total asset turnover

10. If a firm produces a 10% return on assets and also a 10% return on equity, then the firm:
A. has no debt of any kind.
B. is using its assets as efficiently as possible.
C. has no net working capital.
D. also has a current ratio of 10.
E. has an equity multiplier of 2.

11. If shareholders want to know how much profit a firm is making on their entire investment in the firm, the shareholders should look at the:
A. profit margin.
B. return on assets.
C. return on equity.
D. equity multiplier.
E. earnings per share.

12. Spade Inc. has a price-earnings ratio of 16. Continental Op Ltd. has a price-earnings ratio of 19. Thus, you can state with certainty that one share of stock in Continental Op:
A. has a higher market price than one share of stock in Spade.
B. has a higher market price per dollar of earnings than does one share of Spade.
C. sells at a lower price per share than one share of Spade.
D. represents a larger percentage of firm ownership than does one share of Spade stock.
E. earns a greater profit per share than does one share of Spade stock.

13. Which two of the following are most apt to cause a firm to have a higher price-earnings ratio?
(I) slow industry outlook
(II) high prospect of firm growth
(III) very low current earnings
(IV) investors with a low opinion of the firm

A. I and II only
B. II and III only
C. II and IV only
D. I and III only
E. III and IV only

14. The three parts of the Du Pont identity can be generally described as:
(I) operating efficiency, asset use efficiency and firm profitability.
(II) financial leverage, operating efficiency and asset use efficiency.
(III) the equity multiplier, the profit margin and the total asset turnover.
(IV) the debt-equity ratio, the capital intensity ratio and the profit margin.

A. I and II only
B. II and III only
C. I and IV only
D. I and III only
E. III and IV only

15. A firm has a debt-equity ratio of .40. What is the total debt ratio?
A. .29
B. .33
C. .67
D. 1.40
E. 1.50

16. A firm has sales of £3,600, costs of £2,800, interest paid of £100, and depreciation of £400. The tax rate is 34%. What is the value of the cash coverage ratio?
A. 2
B. 4
C. 6
D. 8
E. 10

17. Alice's Restaurant has sales of £4,500, total debt of £1,300, total equity of £2,400, and a profit margin of 5%. What is the return on assets?
A. 5.00%
B. 6.08%
C. 7.39%
D. 9.38%
E. 17.31%

18. Bogarde and sons Ltd. has sales of £3,000, total assets of £2,500, and a profit margin of 5%. The firm has a total debt ratio of 40%. What is the return on equity?
A. 6%
B. 8%
C. 10%
D. 12%
E. 15%

19. Losey & Pinter has £6,400 in sales. The profit margin is 4%. There are 6,400 shares of stock outstanding. The market price per share is £1.20. What is the price-earnings ratio?
A. 13
B. 14
C. 21
D. 30
E. 48

20. A firm has 5,000 shares of stock outstanding, sales of £6,000, net income of £800, a price-earnings ratio of 10, and a book value per share of £0.50. What is the market-to-book ratio?
A. 1.6
B. 2.4
C. 3.0
D. 3.2
E. 3.6

21. Baskerville's has a profit margin of 6%, a return on assets of 8%, and an equity multiplier of 1.4. What is the return on equity?
A. 6.7%
B. 8.4%
C. 11.2%
D. 14.6%
E. 19.6%

22. Red Harvest, Ltd. has 90 million shares of stock outstanding. Its price-earnings ratio for 2006 is 12. Net income for 2006 is £481 million. What is the market price per share of stock?
A. £57.12
B. £59.94
C. £62.82
D. £64.13
E. £65.03

23. Ophelia's Nails has an 11% return on assets and a 30% dividend payout ratio. What is the internal growth rate?
A. 7.11%
B. 7.70%
C. 8.34%
D. 8.46%
E. 11.9

As a financial analyst you are given the following information about Tamburlaine Ltd.:

Tamburlaine Ltd **Income Statement**		
Sales		€1,000
Costs		850
Taxable income		€ 150
Taxes(34%)		51
Net income		€ 99
Dividends	€49	
Addition to retained earnings	50	

Tamburlaine Ltd Balance sheet

Assets	**€**	**%Sales**	**Liabilities and Owners' Equity**	**€**	**%Sales**
Current assets			Current liabilities		
Cash	€180	18%	Trade payables	€ 200	20%
Trade receivables	€500	50%	Notes payable	250	n/a
Inventory	€550	55%	Total	€ 450	n/a
Total	€1,230	123%	Non-current Liabilities	€ 850	n/a
Non-current assets			Owners' equity		
Plant and equipment	€2,000	200%	Ordinary shares	€830	n/a
			Retained earnings	1,100	n/a
			Total	€1,930	n/a
Total assets	€3,230	323%	Total liabilities and owners' equity	€3,230	n/a

You know that there is a constant profit margin (i.e. costs are a fixed percentage of sales) and that the dividend payout ratio is constant.

24. Use the financial statement information above to calculate the external financial needed for a projected 20% increase in sales. Assume that the new funds will be raised on the debt market. What will be the new debt-to-equity ratio?