**Questions for Chapter 2 and 3**

1. A company’s ability to pay its suppliers on time is best measured by its

a. Current ratio

b. Operating margin

c. Asset turnover ratio

2. A company’s profitability on shareholders’ investment is measured by its

a. Quick ratio

b. Return on equity

c. Debt/equity ratio

d. Asset turnover ratio

3. For the year 2002, a corporation earns $20,000 in revenues, incurs $8,000 in operating costs excluding depreciation, has $3,000 in depreciation, and invests $5,000 in a new factory. The corporate income tax rate is 35%. What is after-tax income for 2002?

4. Monsters and Mazes Comic Books, Inc. had net income after taxes of $256,000. The company had $32,000 in depreciation expenses and $35,000 in interest expenses. Assuming a tax rate of 37%, what was the operating cash flow for Monsters and Mazes?

5. Food Inc. had an outstanding year. Their year-end total capital was $60,000,000; they earned a net income of $5,100,000, paid $2,400,000 in taxes, and $900,000 in interest expense. Assuming an after-tax cost of capital of 8%, calculate Food Inc.’s EVA.

6. Help Rutgers Pride Corporation find their cash flow from assets using the data below:

OCF= $230,000

|  |  |  |
| --- | --- | --- |
| Depreciation expense= $20,000 Assets: | 1/1/2004 | 12/31/2004 |
| Quick Assets | $80,000 | $95,000 |
| Inventory | $120,000 | $145,000 |
| Fixed Assets | $200,000 | $250,000 |
| Total Assets | $400,000 | $490,000 |
| Current Liabilities | $180,000 | $210,000 |

(Question 7-8) In 2004, Sundance Inc. had 2,000,000 in sales, 600,000 cost of goods sold, and the following current assets information.(to get a denominator of financial ratios please use average of two ending balance)

|  |  |  |
| --- | --- | --- |
| **Current Assets** | **December 31, 2004** | **December 31, 2003** |
| Cash | 800000 | 600000 |
| Accounts Receivables | 180000 | 160000 |
| Inventory | 100000 | 80000 |
| Total Current Assets | 1,080,000 | 840,000 |

7. Find the accounts receivables turnover and average collection period for 2004. What do these ratios tell us about Sundance Inc?

8. Find the inventory turnover and days in inventory for 2004. What do these ratios tell us about Sundance Inc?

(Question 9-12) Given below is financial information for Rutgers Ice Cream

Rutgers Ice Cream

2008 Income Statement

Sales $11,000

Cost of goods sold 5,800

Depreciation 900

EBIT 4,300

Interest paid 800

Taxable income 3,500

Taxes (34%) 1,190

Net income $ 2,310

Addition to retained earnings $ 1,700

Dividends 610

Rutgers Ice Cream

Balance Sheets ending December 31, 2007 and 2008

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2007 | | 2008 | |  | | 2007 | | 2008 |
| Asset | | | | | Liabilities and Owners Equity | | | | |
| **Current Assets** | | | | | **Current Liabilities** | | | | |
| Cash | | $500 | | $315 | Accounts payable | $800 | | $710 | |
| Receivables | | 905 | | 1,827 | Notes payable | 250 | | 410 | |
| Inventory | | 3,015 | | 4,718 | Other | 310 | | 318 | |
|  | | | | Total | | 1,360 | | 1,438 | |
| **Fixed Assets** |  | | | | **Long-term debt** | 4,325 | | 4,000 | |
| Net Plant & Equip. | 9318 | | 8998 | | Owner’s equity |  | |  | |
| **TOTAL** | 13738 | | 15858 | | Common Stock  Capital Surplus  Retained Earnings  **TOTAL** | 800  1100  6153  13738 | | 1467  1100  7853  15858 | |

9. What is the ROE for 2008 (to get a denominator please do not use average but use the number at the end of year)?

10. What is the average collection period for 2008 (to get a denominator please do not use average but use the number at the end of year)?

11. What is the debt ratio for 2007 (to get a denominator please do not use average but use the number at the end of year)?

12. What was the cash flow to creditors for 2008?

(Question 13-16) Given below is financial information for Sullivan’s Slushie Incorporated.

Sullivan’s Slushy Incorporated

Income Statement For the Years Ended December 31, 2005 and 2004

|  |  |  |
| --- | --- | --- |
| . | 2005 | 2004 |
| Sales | $3,550,000 | $3,340,000 |
| Cost of Goods Sold | 1,750,000 | 1,662,000 |
| Other Expenses | 276,500 | 220,000 |
| Depreciation | 80,000 | 66,000 |
| EBIT | $1,443,500 | $1,392,000 |
| Interest Expense | 243,000 | 306,500 |
| EBT | $1,200,500 | $1,085,500 |
| Taxes (35%) | 420,175 | 379,925 |
| Net Income | $780,325 | $705,575 |
| Dividends | $108,000 | $74,000 |

Calculate the following using the information given in Sullivan’s Slushies Incorporated’s financial statements. Also, give a brief 1 to 2-sentence explanation of what each value tells us about the company. Remember to show all work.

13. Operating Cash flow for the year 2005:

14. Net Capital Spending (Change in Fixed Assets) for the year 2005:

15. Change in NWC for the year 2005:

16. Cash flow from assets for the year 2005:

(Question 17-18) Joe Scavone’s brewery had operating revenue of $150,000,000 this year. Their total expenses were 73% of sales, and they are in the 35% tax-bracket. Scavone brewery had $342,000,000 in total assets at year-end last year but increased this amount 14% throughout this current year. To finance the purchase of these assets, Scavone brewery issued $50,000,000 in debt and pays 10% interest on that debt each year. They expect to maintain a debt-to-equity ratio of .32.

17. Construct an income statement for Scavone breweries.

18. What is Joe Scavone’s ROE?