**Computron Mini-Case**

The first part of the case, presented in chapter 2, discussed the situation of Computron Industries after an expansion program. A large loss occurred in 2010, rather than the expected profit. As a result, its managers, directors, and investors are concerned about the firm’s survival.

Donna Jamison was brought in as assistant to Fred Campo, Computron's chairman, who had the task of getting the company back into a sound financial position. Computron's 2009 and 2010 balance sheets and income statements, together with projections for 2011, are shown in the tables. The 2009 and 2010 financial ratios are also shown along with industry average data. The 2011 projected financial statement data represent Jamison's and Campo's best guess for 2011 results.

 





Jamison must prepare an analysis of where the company is now, what it must do to regain its financial health, and what actions should be taken. Your assignment is to help here answer the following question. Provide clear explanations, not yes or no answers.

1. Why are ratios useful? What three groups use ratio analysis and for what reasons?
2. Calculate the 2011 current and quick ratios based on the projected balance sheet and income statement data. What can you say about the company's liquidity position in 2009, 2010, and as projected for 2011? We often think of ratios as being useful to (1) to managers to help run the business, (2) to bankers for credit analysis, and (3) to stockholders for stock valuation. Would these different types of analysis have an equal interest in liquidity ratios?
3. Calculate the 2011 inventory turnover, day’s sales outstanding, fixed assets turnover, and total assets turnover. How does Computron's utilization of assets stack up against that of other firms in its industry?
4. Calculate the 2011 debt, times-interest-earned, and EBITDA coverage ratios. How does Computron compare with the industry in respect to financial leverage? What can you conclude from these ratios?
5. Calculate the 2011 profit margin, basic earning power (BEP), return on assets (ROA), and return on equity (ROE). What can you say about these ratios?
6. Calculate the 2011 price/earnings ratio, price/cash flow ratio, and market/book ratio. Do these ratios indicate investors are expected to have a high or low opinion of the company?
7. Perform a common size analysis and percentage change analysis. What do these analyses tell you about Computron?
8. Use the extended Du Pont equation to provide a summary and overview of Computron's financial condition as projected for 2011. What are the firm's major strengths and weaknesses?
9. What are some potential problems and limitations of financial ratios analysis?
10. What are some qualitative factors that analysts should consider when evaluating a company's likely future financial performance?