business finance

Chapter 6

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**assignment: problem (1 and 2)**

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Problem#1

**1. Total Assets Turnover =** $\frac{Net sales}{Total assets}$

A = $\frac{10,000,000}{8,000,000}$ = 1.25

B = $\frac{20,000,000}{10,000,000}$ = 2

C = $\frac{8,000,000}{6,000,000}$ = 1.33

D = $\frac{5,000,000}{2.5,000,000}$ = 2

E = $\frac{12.000,000}{4.000,000}$ = 3

F = $\frac{17.000,000}{8.000,000}$ = 2.125

**2. Net profit margin =** $\frac{Net profit after taxes}{Net sales}$

A = $\frac{700,000}{10,000,000}$ = 0.07

B = $\frac{2,000,000}{20,000,000}$ = 0.1

C = $\frac{8,00,000}{8,000,000}$ = 0.1

D = $\frac{500,000}{5,000,000}$ = 0.1

E = $\frac{1,500,000}{12,000,000}$ = 0.125

F = $\frac{1,000,000}{17,000,000}$ = 0.0588

**3. Earning Power = sales profitable** $×$ **Assets efficiency**

 **= Net profit margin** $×$ **Total assets turnover**

A = 0.07 $×$ 1.25 = 0.09

B = 0.1$ ×$ 2 = 0.2

C = 0.1 $×$ 1.33 = 0.13

D = 0.1 $×$ 2 = 0.2

E = 0.125 $×$ 3 = 0.375

F = 0.0588 $×$ 2.125 = 0.125

Problem#2

1. Current Ratio = $\frac{Current Assets}{Current Liability}$ = $\frac{3,800,000}{1,680,000}$ = 2.26

2. Add test ratio = $\frac{Cureent Assets-I}{Current Liability}$ = $\frac{3,800,000-2100,00}{1,680,000}$ = 1.01

3. Average Collection Period = $\frac{Reachables × Days in years}{Annual Credit Sale}$ = $\frac{1300,000 ×365}{12680,000}$ = 37.9

4. Inventory turnover ratio = $\frac{Cost of goods sold}{inventory}$ = $\frac{8930,000}{2100,000}$ = 4.25

5. Debt to Net worth ratio = $\frac{Total debt}{Shareholders or Equity}$ = $\frac{3,680,00}{3,440,000}$ = 1.07

6. Long term debt to total capitalization ratio = $\frac{Long term debt}{Total capitalization}$ = $\frac{2,000,000}{2,000,000 + 3440,000}$= 0.37

7. Gross profit margin = $\frac{Net sales-C.G.S}{Net sales}$ = $\frac{12,680,000-8930,000}{12,680,000}$ = $\frac{3750,000}{12,680,000}$ = 0.3

8. Net profit margin = $\frac{Net profit after taxes}{Net sales}$ = $\frac{670,000}{12,680,000}$ = 0.053

9. Return on equity = $\frac{Net profit after taxes}{Shareholders equity}$ = $\frac{670,000}{3,440,000}$ = 0.2