Date: / /20

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Subject : Business Finance

•) Problem : 1

Q1 : Solution: Company(A)

•) Total Asset Turnover :-

$$= \frac{\text{Net sales}}{\text{Total assets}}$$

$$= \frac{10}{8} = 1.25$$

•) Net Profit Margin :-

$$= \frac{\text{Net Profit}}{\text{Net Sales}}$$

$$= \frac{0.7}{10} = 0.07$$

•) Earning Power :-

$$= \text{Total assets turnover} \times \text{net profit margin}$$

$$= 1.25 \times 0.07$$

$$= \cancel{0.056}\ 0.0875$$

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•) Company (B):-

•) Total asset turnover:-

$$= \frac{20}{10} = 2$$

•) Net Profit Margin:-

$$= \frac{2}{20} = 0.1$$

•) Earning Power:-

$$\cancel{= 2 \times 0.0}$$

$$= 2 \times 0.1 = 0.2$$

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•) Company (C):-

•) Total assets turnover:-

$$\Rightarrow \frac{8}{6} = 1.333$$

•) Net Profit Margin:-

$$= \frac{0.8}{8} = 0.1$$

•) Earning Power:-

$$= 1.33 \times 0.1 = 0.1333$$

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Pg(3)

•) Company (D):-

•) Total asset turnover:-

$= \frac{5}{2.5} = 2$

•) Net Profit Margin:-

$= \frac{0.5}{5} = 0.1$

•) Earning Power:-

$= 2 \times 0.1 = 0.2$

x — x — x — x — x

•) Company (E):-

•) Total asset turnover:-

$= \frac{12}{4} = 3$

•) Net Profit Margin:-

$= \frac{1.5}{12} = 0.125$

•) Earning Power:-

$= 3 \times 0.125 = 0.375$

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•) Company (F):-

•) Total asset turnover:-

$= \frac{17}{8} = 2.125$

•) Net Profit Margin:-

$= \frac{1}{17} = 0.05$

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•) Earning Power:-

$$=2.125 \times 0.05 = 0.10625$$

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•) Problem : 2

a) Current Ratio:-

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3800}{1680} = 2.261$$

b) Acid-test Ratio:-

$$= \frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$$

$$= \frac{3800-2100}{1680} = \frac{1700}{1680} = 1.01$$

c) The average Collection Period:-

$$= \frac{\text{Net credit Sales}}{\text{Recievables}}$$

$$= \frac{12680}{1300} = 0.969 = 0.97$$

$$= \frac{\text{Total days in Year}}{\text{recievables turnover}}$$

$$= \frac{365}{0.97} = 376.28$$



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Pg(5)

d) The inventory turnover ratio:-

$$= \frac{\text{Cost of goods sold}}{\text{Average inventories}}$$

[Avg inventories = inventory + endind averge inventory]

$$= \frac{8930}{\frac{2100+1800}{2}}$$

$$= \frac{8930}{1950} = 4.57$$

e) The debt to net worth ratio:-

$$= \frac{\text{Total liabilities}}{\text{Total Net Worth}}$$

$$= \frac{3600}{3440} = 1.06$$

f) Long-term debt to total Capitilzation ratio:-

$$= \frac{\text{Long term debt}}{\text{Total Capitalization}} \left(\text{long term debt} + \text{Share holder equity}\right)$$

$$= \frac{2000}{2000+3440}$$

$$= \frac{2000}{5440} = 0.36$$

## G) Gross Profit Margin :-

$$= \frac{\text{Net Sales} - \text{Gross Profit Margin}}{\text{Net Sales}}$$

$$= \frac{12680 - 8930}{}$$

$$= \frac{3750}{12680} = 0 \cdot 29$$

## H) Net Profit Margin :-

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \text{ Or } \frac{\text{Net income}}{\text{Revenue}}$$

$$= \frac{670 \times 100}{12680} \; 5 \cdot 2839$$

## (I) Return on Equity :-

$$= \frac{\text{Net income}}{\text{Equity}}$$

$$= \frac{670}{8440} = 0 \cdot 079$$

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