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**SUBJECT:** BUSINESS FINANCE **SUBMITTED TO:** MA’AM MARYAM SALEEM.

**CHAPTER 6:**

**ASSIGNMENT:**

**Q.1: The data for various companies in the same industries are as follows:**

 **COMPANY**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (in million) |  **A** |  **B** |  **C** |  **D** |  **E** |  **F** |
| Sales  | $10 | $20 | $8 | $5 | $12 | $17 |
| Total assets  | 8 | 10 | 6 | 2.5 | 4 | 8 |
| Net income | 0.7 | 2 | 0.8 | 0.5 | 1.5 | 1 |

**Determine the asset turnover, net profit margin and earning power for each of the companies.**

**Answer:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | **A** | **B** | **C** | **D** | **E** | **F** |
| **Total asset turnover.****Formula:** Net sales/average total assets. | 10/8 = $1.25 | 20/10 = $2 | 8/6 = $1.33 | 5/2.5 = $2 | 12/4 = $3 | 17/8 = $2.13 |
| **Net profit margin.****Formula:** Net income/net sales | 0.7/ 10 = $0.07 | 2/10 = $0.1 | 0.8/8 =$0.1 | 0.5/5= $0.1 | 1.5/12 =$0.13 | 1/17 = $0.06 |
| **Earning power.****Formula:** Profit margin x asset turnover.  | 0.07x1.25=$0.09 | 0.1x2=$0.2 | 0.1x1.33=$0.13 | 0.1x2=$0.2 | 0.13x3=$0.39 | 0.06x2.13=$0.13 |

**Q.2: Cordillera Carson Company has the following balance sheet and income statement for 20X2 (in thousands):**

**On the basis of this information, compute (a) the current ratio, (b) the acid-test ratio,(c) the average collection period, (d) the inventory turnover ratio, (e) the debt-to-net-worth ratio, (f ) the long-term debt-to-total-capitalization ratio, (g) the gross profit margin, (h) the net profit margin, and (i) the return on equity.**

1. **Current Ratio = Current Assets / Current Liabilities**

Current Ratio = 3800 / 1680

Current Ratio = $2.26

1. **Acid test ratio = current assets - inventories / Current Liabilities**

Acid test ratio = 1,700/1,680

Acid test ratio = $1.01

1. **Average Collection period= Average Accounts Receivables / Annual Sales \*365 days**

Average Collection period= 1300/12680 \*365

Average Collection period= 37.42 days

1. **Inventory turnover ratio= Cost of Goods Sold / Inventory**

 Inventory turnover ratio= 8,930 / 2,100

Inventory turnover ratio= 4.25 times

1. **Debt to net worth ratio = Debt / Net worth**

Debt to net worth ratio = 3,680/3,440

 Debt to net worth ratio = $1.069

1. **Long term debt to total capitalization ratio = Long term liabilities/ long term liabilities + shareholder’s equity.**

Long term debt-to-capitalization ratio = 2000/2000 +3440

Long term debt-to-capitalization ratio = $0.367

1. **Gross profit margin = Net sales – CGS / Net sales**

Gross profit margin = 12680 – 8930 / 12680

Gross profit margin = $0.295

1. **Net profit margin = Net income / sales**

Net profit margin = 670/12680

Net profit margin = $0.0528

1. **Return on equity = Net income/shareholder’s equity.**

Return on equity = 670/3440

Return on equity = $0.1947