

PRE-ASSESSMENT. Choose the letter of the best answer. Write the chosen letter on a separate sheet of paper.

1. In which line of business would you expect the Inventory Turnover ratio to be higher?
 - a. Supermarket
 - b. Construction supplies
 - c. Appliances
 - d. Clothes and Accessories

2. What consequence will you expect if the inventory days are reduced from 78 to 64?
 - i. profitability of the business will improve
 - ii. Liquidity of the business will improve
 - iii. Operational efficiency of the business will improve
 - a. i
 - b. i, ii
 - c. i, ii, iii
 - d. no consequence

3. Sales in the year ending 31st March 2022 were \$43,200. Identify the gross profit ratio, as a percentage, if gross profit for the year was \$5,400
 - a. 7%
 - b. 12.5%
 - c. 20%
 - d. 25.7%

4. Which formula is defined by Current assets DIVIDED BY current liabilities?
 - a. Current Ratio
 - b. Debt Ratio
 - c. Net Worth Ratio
 - d. Working Capital

5. Which inventory turnover ratio is favorable to a company?
 - a. 2.4
 - b. 2.75
 - c. 3.24
 - d. 3.79

6. It narrates the connection between the numbers presented in the financial statement.
 - a. Financial Ratio Analysis
 - b. Horizontal analysis
 - c. Trend Analysis
 - d. Vertical Analysis

7. Which is a Profitability Ratio?
 - a. Inventory Turnover
 - b. Debt to Equity Ratio
 - c. Average Sales Period
 - d. Return on Assets

8. Which is a Liquidity Ratio?
 - a. Inventory Turnover
 - b. Debt to Equity Ratio
 - c. Profit Margin
 - d. Return on Assets

9. Looking at the items below:

Details	Amount
Cash	\$410,000
Accounts Receivables	120,000
Merchandise Inventory	235,000
Property, Plant and Equipment	455,000
Accounts Payables	265,000

* Compute the Current Ratio

- a. 1.5 c. 9.4 b. 2 d. 2.9

10. Which of the following is unfavorable to the company's Debt ratio?

- a. 64% b. 53% c. 24% d. 15%

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Assessment 1: Ratio Formulas. Match the following ratios with their correct formulas.

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|----------------------------------|--|
| _____ 1. Debt Ratio | a. CURRENT ASSETS / CURRENT LIABILITES |
| _____ 2. Operating Profit Margin | b. QUICK ASSETS / CURRENT LIABILITIES |
| _____ 3. Current Ratio | c. TOTAL LIABILITIES / TOAL EQUITY |
| _____ 4. Receivable Turnover | d. OPERATING INCOME / NET SALES |
| _____ 5. Return on Asset | e. GROSS PROFIT / NET SALES |
| _____ 6. Quick Ratio | f. TOTAL LIABILITES / TOTAL ASSETS |
| _____ 7. Net Profit Margin | g. NET CREDIT SALES / AVERAGE ACCOUNTS RECEIVABLES |
| _____ 8. Debt to Equity Ratio | h. NET INCOME / AVERAGE TOTAL ASSET |
| _____ 9. Gross Profit Ratio | i. TOTAL EQUITY / TOTAL ASSETS |
| _____ 10. Equity Ratio | j. NET INCOME / NET SALES |

Practice Activity 2. SOLVENCY & LIQUIDITY

Cash	\$510,000
Accounts Receivable	320,000
Merchandise Inventory	435,000
Property, Plant and Equipment	650,000
Accounts Payable	260,000
Total Liabilities	760,000
Total Equity	1,155,000
Interest Expense	9,000
Net Sales	420,000
Gross Profit	154,000

The following are taken from the books of Cihan company for the year ended December 31, 2018.

Required: Write the formula and compute the following ratios. The first item is done for you.

RATIO	FORMULA	SOLUTION
1. Debt Ratio	$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$	$\frac{\$760,000}{\$1,915,000} = 39.7\%$
2. Equity Ratio		
3. Debt-to-Equity Ratio		
4. Times Interest Earned		
5. Current Ratio		
6. Quick Ratio		

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Assessment 2: Choose the letter of the best answer. Write the chosen letter on a separate sheet of paper.

- Which formula is defined by annual sales DIVIDED BY 360 days?
 - Average collection period
 - Average sales period
 - Current Ratio
 - Average daily sales
- Which business would possibly have a higher Inventory Turnover ratio?
 - Supermarket
 - Construction supplies
 - Appliances
 - Clothes and Accessories
- Which is NOT a Solvency Ratio?
 - Current Ratio
 - Debt Ratio
 - Gross Profit Ratio
 - Debt to Equity Ratio

Financial Analysis: Assessments, Dr. Kawa Wali, October 30,2023

4. Sales in the year ending 31st March 2012 were \$43,200.
Compute for the gross profit, if the gross profit ratio is 12.5%?
- a. P3,200 b. P5,400 c. 7,800 d. P12,300
5. Current Ratio is computed by dividing Current assets by which account?
- a. Cost of goods sold c. Current liabilities
b. Quick Assets d. Net income
6. Which inventory turnover ratio is unfavorable to a company?
- a. 2.1 b. 2.47 c. 3.24 d. 3.79
7. The debt-to equity ratio of a company is 28% in 2017, and
went upto 42% in 2018.
- a. This is good for the company
b. This is bad for the company
c. This has no effect to the company
d. None of the above
8. If the Net Income after tax of a company is \$900,000, with a starting asset
balance of P250,000 and ending asset balance of \$480,000, what is the
return on asset?
- a. 2.1 b. 2.47 c. 3.24 d. 3.79
9. If the company's Inventory turnover is 4 and uses a 360day/year,
what is the average sales period?
- a. 1440 days c. 180 days
b. 960 days d. 90days
10. If total asset is \$1,000,000 and the total equity is \$350,000, how much
is the debt ratio?
- a. .35 b. .65 c. .724 d. .793



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Additional Activity: You want to invest your savings of \$200,000 in a business, which of the two businesses will you invest in?

Required: Calculate the following ratios to determine the financial health of each business.

	MacDonald Restaurant	British Pizza
Cash	\$400,000	\$320,000
Accounts Receivable	20,000	25,000
Property, Plant and Equipment	650,000	\$ 540,000
Accounts Payable	60,000	150,000
Total Liabilities	245,000	270,000
Total Equity	825,000	615,000
Interest Expense	9,000	12,000
Net Sales	420,000	640,000
Gross Profit	154,000	170,000
Net Profit	52,600	56,000
Average inventory	435,000	300,000

- I. Compute the following ratios to determine the financial health and condition of each business

	 MacDonald Restaurant	 British Pizza
1. Current Ratio		
2. Inventory Turnover		
3. Debt Ratio		
4. Gross Profit Ratio		
5. Net Profit Ratio		

- II. Tell which of the two business is your choice and why?

- a. By comparing profitability margins, I can tell that _____
- b. By comparing solvency ratios, I can tell that _____
- c. By looking into the turnover ratio, I can tell that _____