# The vermont company

Finance

The Vermont Company s affiliation The Vermont Company a. Calculation of financial ratios Current Ratio = Current Assets/Current Liabilities

= (240000/140000)

= 1. 71

2. Quick Ratio = (Current Assets – inventory) / Current Liabilities

= (240000-100000) / 140000

= 1

3. Debt Ratio = Total debt / Total assets

= (640000 / 1360000)

= 47. 1%

4. Return on equity = adjusted net income / equity

= 37. 5%

5. Asset turnover = Sales / Total assets

= 5700000 / 1360000

= 4. 19 times

6. Inventory turnover = Sales / Inventory

= 5700000 / 100000

= 57 times

7. Receivables turnover = (Sales on Credit / Accounts receivables)

= 25 times

b. Does the analysis indicate that the position of the Vermont Company has been deteriorating?

From the analysis of the financial ratios, it is evident that the position of the Vermont Company has not been deteriorating. With a current ratio of 1. 71 it is evident that claims of short term creditors are adequately covered by the company’s assets. Additionally, the acid test ratio of 1% indicates that the

Vermont Company can pay its short-term obligations without relying on the sale of inventories.

c. Is the accountant justifiably concerned?

The industry had a current ratio of 1. 75 time, quick ratio of 1. 00 times, a debt ratio of 45%, a return on equity of 12 percent, an asset turnover of 5. 0 times, an inventory turnover of 50. 0 times and receivables turnover of 20. 0 times. Comparing the industry’s financial ratios with the ratios of Vermont Company reveal similarities hence an implication that the company is doing fairly with respect to the industry’s current situation. The accountant is therefore not justifiably concerned.

d. The available options should the bank call (demand immediate repayment of) the loan

Should the bank call or demand immediate repayment of the loan, then the Vermont Company has the option of taking a short borrowing from another bank or selling more shares in the market to increase the share capital of the company.

e. Should either or both of the capital projects be accepted

Inventory Management Project

Initial cost $520, 000

Annual cash inflows $136, 500

Period 6 years

NPV = 136, 500 *4. 6229

= 136, 495 – 520, 000

= (383504)

Reject Project

A product Line Expansion Project

NPV = 110000*4. 6229

= 508, 519 – 460, 000

= $48, 519

Accept Project.

f. How the Company should obtain the necessary financing

The Company should obtain the necessary financing for the project either from the retained earnings or through borrowing loan from the bank (Beth, 2001).

g. Assuming that instead of disposable paper and plastic products that the business sells automobiles to individuals, this change in the industry would alter my recommendations. This is because different industries are affected by different factors and economic situations. Therefore, considering the fact that the disposable paper and plastic products industry is very different from the automobiles industry, the recommendations would definitely change.

References

Beth, B. K. (2001). Structuring financial statement analysis projects to enhance critical thinking

Skills development, Journal of Accounting Education, 18 (4), 2001, 341-353.