

# Finance homework chapter 04



EMBA 503, Financial Management Homework Assignment: Chapter Four

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Problem 9: M/B and share price – You are given the following information:

Stockholder's equity = \$3.75B; price/earnings ratio = 3.5; common shares outstanding = 50MM; and market/book ratio = 1.9. Calculate the price of a share of the company's common stock.

Book Value per Share = Common Equity/Shares Outstanding = \$3.

$75B/50MM = \$ 75.00$

Market/Book Ratio = 1.9

Market Price =  $BV * M/B = \$142.50$

Problem 10: Ratio Calculations – Assume you are given the following

relationships for the Brauer Corp.: Sales/total assets = 1.5X; ROA = 3%; ROE = 5%. Calculate Brauer's profit margin and debt ratio.

Profit Margin:

$ROA = \text{Profit Margin} * (\text{Sales/total assets}) = [.03 = x * (1.5)] = \text{Profit Margin}$   
 $= .03/1.5 = .02 = 2\%$

Debt Ratio:

$ROE = ROA * \text{Equity Multiplier} = [.05 = .03 * x] = \text{Equity Multiplier} = .05/.03$   
 $= 1.66$

Debt Ratio =  $1 - (1/\text{Equity Multiplier}) = 1 - (1/1.66) = .40 = 40\%$

Problem 19: Current Ratio – The Petry Company has \$1,312,500 in current assets and \$525,000 in current liabilities. Its initial inventory level is \$375,000, and it will raise funds as additional notes payable and use them to increase inventory. How much can its short-term debt (notes payable) increase without pushing its current ratio below 2.0?

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Current ratio before debt:  $CR = \text{Current assets} / \text{Current liabilities} = \$1,312,500 / \$525,000 = 2.5$

Short-term debt cap for CR of