

Questions for financial quiz

[Finance](#)



Take Home Quiz _____ See the following information for the Questions through 8. The company's CEO Joe Lawrence was unhappy with the firm's performance. You have just obtained financial information for the past 2 years for Powell Panther Corporation. The current stock price is \$15 per share. In 1999, the company held 45 million total shares. In January 2000, the company issued additional 5 million common stocks, resulting in 50 million total shares outstanding as of fiscal year end 2000. This firm is producing drugs for the cancer treatment. The average P/E ratio for the industry (pharmaceutical) is 20.

Powell Panther Corporation: Income Statement for Year Ending December 31

(Millions of Dollars)

2000 1999

Sales \$1,200.0 \$1,000.0

COGS (Costs of Good Sold) 620.0 550.0

Operating costs excluding depreciation 400.0 300.0

Depreciation 30.0 25.0

Earning before interest and taxes \$ 150.0 \$ 125.0

Less interest 21.7 20.2

Earning before taxes \$ 128.3 \$ 104.8

Taxes (40%) 51.3 41.9

Net income \$ 77.0 \$ 62.9

Powell Panther Corporation: Balance Sheets as of December 31 (Million of Dollars)

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2000 1999

ASSET

Cash and marketable Securities\$ 12. 0\$ 10. 0

Accounts receivable 180. 0 150. 0

Inventories 180. 0 200. 0

Net plant and equipment 300. 0 250. 0

Total assets\$ 672. 0\$ 610. 0

LIBILITIES AND EQUITY

Accounts payable\$ 108. 0\$ 90. 0

Notes payable 67. 0 51. 0

Accruals 72. 0 60. 0

Long-term bonds 150. 0 150. 0

Common stock (50 million shares) 50. 0 50. 0

Retained earnings 225. 0 208. 5

Total liabilities and equity\$ 672. 0\$ 610. 0

1. Calculate firm's ROA, ROE, Net Profit Margin, and TIE (Times Interest Earned) ratio for both 1999 and 2000.

2000

1999

ROA

77/672

11. 46%

62. 9/610

10. 31%

ROE

77/275

28. 00%

62. 9/258. 5

24. 33%

Net Profit Margin

77/1200

6. 42%

62. 9/1000

6. 29%

Times Interest Earned

150/21. 7

6. 91

125/20. 2

6. 19

2. Some executives, including CEO, are not quite happy with firm's performance on profitability, especially when they look back last year (1999). However, you believe that the company has improved its profitability during the period. Can you explain why you believe so?

The profitability indicators of Powell Panther Corporation showed improvement in 2000. It could be noted from the ratios values calculated above that the company generated higher returns on its total assets and equity. It implied that the company generated higher profit per \$1 invested in the company's assets. Furthermore, the company's ability to generate higher return on sales was noted in 2000. Furthermore, the company had higher operating profits in 2000 to cover the interest payments on its long-term loan.

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3. Calculate firm's Current and Quick ratio for both 1999 and 2000.

2000

1999

Current Ratio

372/247

1. 51

360/201

1. 79

Quick Ratio

192/247

0. 78

160/201

0. 80

4. Why do investors want to find out firm's current and quick ratio before they purchase its stocks?

Investors are interested in both ratios as they evaluated the company's ability to meet its operational and debt obligations. A weak liquidity position would imply that the company would have to borrow more and it would reduce the return on investment to shareholders.

5. Calculate firm's Debt ratio for both 1999 and 2000. Use firm's long-term debt for the calculation.

2000

1999

Debt Ratio

150/275

0. 55

150/258. 5

0. 58

6. Explain how a firm can save its taxes through depreciation.

The depreciation is a non-cash item, which is charged to the company's profits. The higher is the depreciation charge the low is the company's profits subjected to tax. Therefore, depreciation can reduce the tax amount payable on profits.

7. Calculate firm's EPS and P/E ratio?

2000

1999

EPS

77/50

1. 54

62. 9/45

1. 40

P/E

15/1. 54

9. 74

8. Some financial analysts argue that Panther Corporation is now highly overvalued in the stock market. They, therefore, recommend selling all the shares if you have any. However, you have totally different opinion. You believe the stock is greatly undervalued and thus, it may be good time to buy. Please explain why you believe so? You can assume that Panther Corporation is financially and operationally as good as most of its competitors in the industry.

The company's P/E ratio value is 9. 74, which is below the industry average

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of 20 but the price is still at higher multiple of the company's EPS. It suggests that the market has the confidence in the company's future growth.

The following information is for Question 9 and 10.

Balance Sheet for 1993

Cash\$400, 000Account Payable\$800, 000

Account Receivable\$900, 000Notes Payable\$500, 000

Long-term Debt\$1, 000, 000

Inventory\$1, 200, 000Common Stock\$1, 800, 000

Net Fixed Assets\$2, 500, 000Retained Earnings\$900, 000

Total Assets\$5, 000, 000Total Liab. & Equity\$5, 000, 000

Additional Information

Projected Sales for 1994 = \$9, 200, 000, Sales for 1993 = \$8, 000, 000

Dividend payout ratio and Net Profit Margin will be 20 % and 5%, respectively.

9. Compute Total Financing Needed. Assume that the plant is operated at full capacity.

Total Financing Needed

$$(5000000/8000000)*(9200000-8000000)-(2300000/8000000)*(9200000-8000000)-(0.05)*(9200000)*(1-.2)$$

Total Financing Needed

37, 000

10. Compute the expected additional common stock needed by Sharkton in 1994 to support this increase in sales assuming that the firm's current ratio for 1994 should be equal to or higher than 2.0. Also, firm's debt ratio (long-

term debt divided by total assets) should be less than 0. 2. Assume that the plant is operated at full capacity.