

Financial management rnoa



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Powell Panther Corporation Cash flow ment For the year ended 31st

December 2001 I. Cash Flow Operating Activities \$ \$ Cash receipt from operations 200

Cash paid to suppliers and employees 170

Cash generated from operation 30

Income taxes paid (41. 9)

Interest paid (15)

Net cash from operating activities (13. 4)

II. Cash flow from investing activities

Divided received 54. 1

Account received 30

Purchase of inventory 20

Cash flow investing activities 104. 1

III. Cash flow from financing activities

Proceeds from retained earnings 26. 5

Proceeds from long term bonds 150. 0

280. 6

Net increase in cash and cash equivalent 294. 0

Add cash and cash equivalents at the beginning of the period 10

Cash and equivalent at the end of the period 304

Du Pont analysis model usually provide a look that is unique into an operations financial structure and operating efficiency. With specific focus on ROA and ROE, the model is used to troubleshoot structural or operational problems from a financial perspective.

Du Pont analysis decomposes return-on-net-operating assets (RNOA) into two multiplicative components: profit margin and asset turnover, both of

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which are largely driven by industry membership. The analysis is a useful tool in predicting future changes in RNOA. We can use the model to predict future changes in RNOA in both in-sample and out-of-sample forecasting tests.

For the case of return-on-net-operating assets (RNOA) for the period 2001-2002 it shows that since:-

NOA = Total assets - current assets

For year 2001 = $672 - (108+67+72) = 425$

RNOA = net profit after tax/net operating assets x 100%

= $77/425 \times 100\% = 18\%$

For year 2000

RNOA = net profit after tax/net operating assets x 100%

$62.9/408.5 \times 100 = 15.4\%$

RNOA indicate the efficiency with which the firm is utilizing its operating net assets to generate profits. In the year 2000, Powell Panther Corporation generated \$15.4 as profit after tax for every \$100. In the year 2001, RNOA increased to \$18, this being an upward trend at the rate of 16.8% as shown below.

$(18-15.4/15.4 \times 100) = 16.8\%$

Using the above rate of increase in RNOA, the 2002 RNOA can be predicted as:

$(16.8/100 \times 18) + 18\% = 21.024\%$