

FIN 303
Professor Dow
Financial Ratio Problem Set

Income Statement (in millions)

Revenue	100
Costs of Goods Sold	70
Other Costs	10
EBIT	20
Taxes	4
Interest Expense	5
Earnings	11

of shares = 2 million

Price per share =32

Balance Sheet (annual average in millions)

Current Assets	
Cash	2
Marketable Securities	1
Receivables	3
Inventory	9
Total Current Assets	15
Total Long-Term Assets	175
Total Assets	190
Current Liabilities	5
Long-Term Debt	95
Total Debt	100
Owner's Equity	90

Note: To keep things simple, use total debt and total assets for leverage ratios (would it matter?).

Find the following financial ratios:

Current Ratio

Quick Ratio

Cash Ratio

Asset Turnover Ratio

Inventory Turnover Ratio

Debt-to-Asset Ratio

Equity Multiplier

Times-Interest-Earned Ratio

Net Profit Margin

ROE

Earnings Yield

P/E Ratio

Answers:

Current Ratio = Current Assets/Current Liabilities = 15/5 = 3

Quick Ratio = (Cash + Marketable Securities + Receivables)/Current Liabilities = 6/5 = 1.2

Cash Ratio = (Cash + Marketable Securities) / Current Liabilities = 3/5 = 0.6

Asset Turnover Ratio = Revenue/Assets = 100/190 = 0.53

Inventory Turnover Ratio = (Cost of Goods Sold)/Inventory = 70/9 = 7.78

Debt-to-Asset Ratio = Debt/Assets = 100/190 = 0.53

Equity Multiplier = Assets/Equity = 190/90 = 2.11

Times-Interest-Earned Ratio = EBIT / (Interest Expense) = 20/5 = 4

Net Profit Margin = Earnings / Revenue = 11/100 = 0.11

ROE = Earnings / Equity = 11/90 = 0.12

Earnings Yield = Earnings per Share / Price per Share = (11/2)/32 = 0.17

P/E Ratio = Price per Share/Earnings per Share = 32/(11/2) = 5.82