

Introduction to Finance

Problem Set 1

Question 1

The Robinson Company has the following current assets and current liabilities for these two years:

	2016	2017
Cash and marketable securities	\$50,000	\$50,000
Accounts receivable	\$300,000	\$350,000
Inventories	\$350,000	\$500,000
Total current assets	\$700,000	\$900,000
Accounts payable	\$200,000	\$250,000
Bank loan	\$0	\$150,000
Accruals	\$150,000	\$200,000
Total current liabilities	\$350,000	\$600,000

- a. Compare the current ratios between the two years.
- b. Compare the acid-test ratios between 2016 and 2017. Comment on your findings.

Question 2

The Robinson Company had cost of goods sold of \$1,000,000 in 2016 and \$1,200,000 in 2017.

- a. Calculate the inventory turnover for each year. Comment on your findings.
- b. What would inventories have been in 2017 if the 2016 turnover ratio had been maintained?

Question 3

The Dayco Manufacturing Company had the following financial-statement results for last year. Net sales were \$1.2 million, net income was \$90,000, and total assets at year-end were \$900,000.

- a. Calculate Dayco's asset-turnover ratio and profit margin.
- b. Show how the two ratios in part (a) can be used to determine Dayco's return on assets.
- c. Dayco's industry-average ratios are: return on assets, 11%; asset turnover, 2.5 times; and net profit margin, 3.6%. Compare Dayco's performance with the industry averages.