

Tutorial 1

#1:

Evaluate the following statement: Managers should not focus on the current stock value because doing so will lead to an overemphasis on short-term profits at the expense of long-term profits.

#2:

Suppose you own stock in a company. The current price per share is \$25. Another company has just announced that it wants to buy your company and will pay \$35 per share to acquire all the outstanding stock. Your company's management immediately begins fighting off this hostile bid. Is the management acting in the shareholders' best interest? Why or why not?

#3:

Dahlia Industries had the following operating results for 2009: sales = \$22,800; cost of goods sold = \$16,050; depreciation expense = \$4,050; interest expense = \$1,830; dividends paid = \$1,300. At the beginning of the year, net fixed assets were \$13,650, current assets were \$4,800, and current liabilities were \$2,700. At the end of the year, net fixed asset \$16,800, current assets were \$5,930, and current liabilities were \$3,150. The tax rate for 2009 was 34 percent.

- What is net income for 2009?
- What is the operating cash flow for 2009?
- What is the cash flow from assets for 2009? Is this possible? Explain.
- If no new debt was issued during the year, what is the cash flow to creditors? What is the cash flow to stockholders? Explain and interpret the positive and negative signs of your answers in (a) through (d).

#4:

The Ashwood Company has long-term debt ratio of 0.45 and a current ratio of 1.25. Current liabilities are \$875, sales are \$5,780, profit margin is 9.5 percent, and ROE is 18.5 percent. What is the amount of the firm's net fixed assets?

#5:

Some recent financial statements for Smolira Golf Corp. follow:

SMOLIRA GOLF 2008 AND 2009 Balance Sheets					
Assets			Liabilities and Owners' Equity		
	2008	2009		2008	2009
Current assets			Current liabilities		
Cash	\$21,860	\$22,050	Accounts payable	\$19,320	\$22,850
Account receivable	11,316	13,850	Notes payable	10,000	9,000
Inventory	<u>23,084</u>	<u>24,650</u>	Other	9,643	11,385
Total	\$56,260	\$60,550	Total	\$38,963	\$43,235
			Long-term debt	\$75,000	\$85,000
			Owner's equity		
			Common stock and paid-in surplus	\$25,000	\$25,000
Fixed assets			Accumulated retained earnings	151,365	167,840
Net plant and equipment	\$234,068	\$260,525	Total	\$176,365	\$192,840
Total assets	\$290,328	\$321,075	Total liabilities and owner's equity	\$290,328	\$321,075

SMOLIRA GOLF 2009 Income Statement		
Sales		\$305,830
Cost of goods sold		210,935
Depreciation		26,850
Earnings before interest and taxes		\$68,045
Interest paid		11,930
Taxable income		\$56,115
Taxes (35%)		19,640
Net income		\$36,475
Dividends	\$20,000	
Retained earnings	16,475	

Find the following financial ratios for Smolira Golf Corp. (use year-end figures rather than average values where appropriate):

Short-term solvency ratios:

- a. Current ratio
- b. Quick ratio
- c. Cash ratio

Asset utilization ratios:

- d. Total asset turnover
- e. Inventory turnover
- f. Receivables turnover

Long-term solvency ratios:

- g. Total debt ratio
- h. Debt-equity ratio
- i. Equity multiplier
- j. Times interest earned ratio
- k. Cash coverage ratio

Profitability ratios:

- l. Profit margin
- m. Return on assets
- n. Return on equity

#6:

Calculate Smolira Golf Corp's 2009 ROE by using the Extended Du Pont Equation. Clearly show all parts of the Du Pont Equation values using answers from #5.

#7:

Smolira Gold Corp uses Accounts Payable to fund \$5,000 increase in Inventory in 2009. Without using any calculations, what is the resultant impact to Current Ratio for 2009 – Increase, Decrease or Stay the same?