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Eng 111 Winter 2020

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Homework 2

1.

Company B has a higher profit margin at 7.5% compare to company A’s profit margin of 5.33%. Work shown below:

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2.

The CEO is incorrect. The company’s **quick ratio** is lower in 2019 than it was in 2018 and is lower than the industry average. The quick ratio is a measure of liquidity for a company, so claiming that that liquid assets increased, and current liabilities went down would raise the quick ratio, not lower it. On the other hand, we notice that the current ratio increased significantly, meaning there was improvement with respect to CA assets compared to CL, however because our quick ratio decreased, we can conclude the current assets that increased were inventory, and not as liquid as cash or accounts receivable.

3.

Cash flow from assets = 218 – 38 – 180 = 0

Cash flow to creditors = 35 + 69 = 104

Cash flow to stockholders = Cash flow from assets – cash flow to creditors = 0– 104 = -104

**-$104**

4.

Facebook’s P/E ratio is 33.26 currently. The current S&P 500 PE ratio is 25.43. Facebook most likely has a higher PE, or price per share / earnings per share, than the average company on S&P 500 because investors on the stock market anticipate future increased earnings for Facebook. In other words, investors are willing to spend much more on each share than the share actually earns because they think Facebook will earn more in the future.

5.

a)

|  |  |  |  |
| --- | --- | --- | --- |
| 2014 |  |  |  |
| **Current Assets** |  | **Liabilities** |  |
| Cash And Cash Equivalents | 198484.8 | Accounts Payable | 90,996 |
| Short Term Investments | 26344.8 | Short/Current Term Debt | 34,932 |
| Net Receivables | 72417.6 | Other Current Liabilities | 5,085 |
| Inventory | 55328.4 | Total Current Liabilities | 131,013 |
| Other Current Assets | 8217.6 | Long Term Debt | 0 |
| Total Current Assets | 28393.2 | Other Liabilities | 4,733 |
| Long Term Investments | 0 | **Total Liabilities** | 135,746 |
| Property Plant and Equipment | 110418 | Common Stock | 289 |
| Intangible Assets | 360793.2 | Retained Earnings | 136,247 |
| **Total Assets** | 499604.4 | Capital Surplus | 227,322 |
|  |  | **Total Stockholder Equity** | 363,858 |

Net income: $33,169

EFN: $34,932

b)

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Assets** |  | **Liabilities** |  |
| Cash And Cash Equivalents | 231,931 | Accounts Payable | 90,996 |
| Short Term Investments | 26,345 | Short/Current Term Debt | 37696 |
| Net Receivables | 72,418 | Other Current Liabilities | 5,085 |
| Inventory | 55,328 | Total Current Liabilities | 133,777 |
| Other Current Assets | 8,218 | Long Term Debt | 0 |
| Total Current Assets | 28,393 | Other Liabilities | 4,733 |
| Long Term Investments | 0 | **Total Liabilities** | 138,510 |
| Property Plant and Equipment | 110,418 | Common Stock | 289 |
| Intangible Assets | 360,793 | Retained Earnings | 166928.71 |
| **Total Assets** | 499,604 | Capital Surplus | 227,322 |
|  |  | **Total Stockholder Equity** | 394,540 |

Net income: $ 33445.61

EFN: -$33,446

c)

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NPV = -168,915 + (30405.1 – 27641) /1.1 + (33445.6– 27641) /1.1^2

-168,915 was the cost of raising assets by 20%

30405.1 – 27641 represents the increase in net income as does 33445.6– 27641

6.

434,000 \* 1.12 = 486,080

486,080– 200,000 = 286,080

286,080 / 6 = 47,680

NPV = -434,000 + + +

NPV = -152344.85