

Homework 8

Gus Lipkin

Chapter 13

1. The method of evaluating the firm's performance over time is known as **trend analysis**.
2. Ratios used to compare different firms at the same point in time belong to a category of analysis called **cross-sectional analysis**.
3. Ratios used to compares a firm's ratios against average ratios for other companies in the firm's industry is called **industry comparative analysis**.
4. An analyst should be careful when conducting ratio analysis to ensure that **the overall performance of the firm is not judged on a single ratio**.
5. The primary purpose of the liquidity ratios is to determine **the ability of the firm to meet short-term obligations to creditors**.
6. Typically, assets and liabilities with maturities of one **year** or less are considered to be current for financial statement purposes.
7. $\text{Current assets} / \text{Current liabilities} = \text{current ratio}$
8. $(\text{Cash} + \text{Marketable securities} + \text{Accounts receivable}) / \text{Current liabilities} = \text{quick ratio}$
9. $\text{Net sales} / \text{Total assets} = \text{total assets turnover ratio}$
10. $\text{Net sales} / \text{Net fixed assets} = \text{fixed assets turnover ratio}$
11. $\text{Accounts receivable} / (\text{Net sales} / 365) = \text{average collection period}$
12. $\text{Total debt} / \text{Total assets} = \text{total debt to total assets}$
13. $\text{Total assets} / \text{Total equity} = \text{equiy multiplier}$
14. $\text{Earnings before interest \& taxes} / \text{Interest expense} = \text{interest coverage}$
15. $\text{Net income} / \text{Common equity} = \text{return on equity}$
16. $\text{Earnings before interest \& taxes} / \text{Net sales} = \text{operating profit margin}$
17. $\text{Net income} / \text{Net sales} = \text{net profit margin}$
18. The price/earnings ratio (P/E) is calculated as **stock price divided by earnings per share**.
19. A firm with total asset turnover lower than the industry average may have **insufficient sales**.
20. Earnings before interest and taxes (EBIT) is another way of describing **operating profits**.