Homework 8

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Chapter 14

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. Current assets ⁄ Current liabilities = **current ratio**
8. (Cash + Marketable securities + Accounts receivable) ⁄ Current liabilities = **quick ratio**
9. Net sales ⁄ Total assets = **total assets turnover ratio**
10. Net sales ⁄ Net fixed assets = **fixed assets turnover ratio**
11. Accounts receivable ⁄ (Net sales ⁄ 365) = **average collection period**
12. Total debt / Total assets = **total debt to total assets**
13. Total assets / Total equity = **equiy multiplier**
14. Earnings before interest & taxes / Interest expense = **interest coverage**
15. Net income ⁄ Common equity = **return on equity**
16. Earnings before interest & taxes ⁄ Net sales = **operating profit margin**
17. Net income ⁄ Net sales = **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**.