SEMINAR 02

Financial analysis

1. Which indicators can be used to measure company performance? What are their advantages and disadvantages?

2. Atlas corp. has an operating profit margin of 8 % and a sales-to-assets ratio of 3. Total assets are EUR 500,000 and equity is EUR 300,000. We further assume that the interest payments are EUR 30,000 and the tax rate is 25%.

- What is the return on assets?
- What is the return on equity?

3. If the company's assets of EUR 10,000 represent sales for 200 days:

- What are the company's annual sales?
- What is its total asset turnover (i.e. total capital employed)?

4. Company Xko records accounts receivable of EUR 3,000, which represents its sales for 20 days. The total assets of the company are EUR 75,000. The firm's net profit margin is 5%.

- Calculate the ratio of sales to assets (turnover of total assets).
- Determine the return on assets.

5. If a company has a net profit margin of 12% and we know that the tax burden is 40%, what is the pre-tax profit margin?

6. The company's long-term debt-to-equity ratio is 0.4. Equity is EUR 1 million. Current assets are EUR 200,000 and total assets are 1.5 million. If current liquidity reaches a value of 2, what is the company's debt ratio? How much are long-term funding sources?

7. Assume that a firm has both fixed and variable interest rate debt. What effect will the drop-in interest rates have on the interest coverage ratio?

8. GreeN corp. has current assets of EUR 300 million, current liabilities of EUR 200 million. If the value of cash liquidity is 0.05, how much cash does the company have?

9. What effect would the following operations have on the current liquidity of the company?

- Sale of part of the inventory.
- The company takes out a bank loan to pay its suppliers.
- The company will negotiate an open credit line with the bank, which will allow it to borrow at any time to pay suppliers.
- The company used the cash to purchase more inventory.

10. Is this statement true or false?

- The company's debt-to-equity ratio is always less than 1.
- Return on equity is always lower than return on assets.
- What makes the difference between a firm's operating cycle and the net operating cycle?
- What values can financial leverage achieve?
- How can it be determined whether there are conditions for further indebtedness of the company?