

Argosy University

Financial Management: Theory & Practice, 13th Edition

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Chapter 3 Analysis of Financial Statements

Previous Page Chapter 3 Analysis of Financial Statements Next Page

TABLE 3-2 MicroDrive Inc.: Summary of Financial Ratios (Millions of Dollars)

RATIO	FORMULA	CALCULATION	RATIO	INDUSTRY AVERAGE	COMMENT
Current liquidity	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\$1,000}{\$310} =$	3.2	4.2	Poor
Quick	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$	$\frac{\$385}{\$310} =$	1.2	2.1	Poor
Asset Management					
Inventory turnover	$\frac{\text{Sales}}{\text{Inventories}}$	$\frac{\$3,000}{\$615} =$	4.9	9.0	Poor
Days sales outstanding (DSO)	$\frac{\text{Receivables}}{\text{Annual sales} / 365}$	$\frac{\$375}{\$8,219} =$	45.6	36.0	Poor
Fixed assets turnover	$\frac{\text{Sales}}{\text{Net fixed assets}}$	$\frac{\$3,000}{\$1,000} =$	3.0	3.0	OK
Total assets turnover	$\frac{\text{Sales}}{\text{Total assets}}$	$\frac{\$3,000}{\$2,000} =$	1.5	1.8	Poor
Debt Management					
Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$	$\frac{\$1,064}{\$2,000} =$	53.2%	40.0%	High (risky)
Times-interest-earned (TIE)	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Interest charges}}$	$\frac{\$283.8}{\$88} =$	3.2	6.0	Low (risky)
EBITDA coverage	$\frac{\text{EBITDA} + \text{Lease pmts.}}{\text{Interest} + \text{Principal payments} + \text{Lease pmts.}}$	$\frac{\$411.8}{\$136} =$	3.0	4.3	Low (risky)
Profitability					
Profit margin on sales	$\frac{\text{Net income available to common stockholders}}{\text{Sales}}$	$\frac{\$113.5}{\$3,000} =$	3.8%	5.0%	Poor
Basic earning power (BEP)	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Total assets}}$	$\frac{\$283.8}{\$2,000} =$	14.2%	17.2%	Poor
	$\frac{\text{Net income available to common stockholders}}{\text{Total assets}}$	$\frac{\$113.5}{\$2,000} =$	5.7%	8.6%	Poor