

Financial Ratios Worksheet 2

Directions:

Answer the following questions.

1. Puckett Cruises has \$45,000 in net profit and \$125,000 in net sales. What is the Puckett Cruises' net profit margin?

$$(\$45,000 / \$125,000) \times 100 = 36\%$$

Puckett Cruises will see \$.36 of net profit from every \$1 of net sales.

2. Cycle Sanitation has \$15,000 in cash flow from operation and \$100,000 in net sales. What is Cycle Sanitation's cash flow margin?

$$\$15,000 / \$100,000 = \$0.15$$

Cycle Sanitation will get \$.15 from every \$1 net sales.

3. The Genome has \$150,000 in net sales, \$50,000 in cost of goods sold and \$25,000 in operating expenses. What is the Genome's business operating ratio? Based on the ratio is the company making money, breaking even or losing money?

$$(\$50,000 + \$25,000) / \$150,000 = .50$$

Based on the ratio of .5, the company is making money.

4. Cars Plus has a cost of goods sold of \$400,000 and \$900,000 of beginning inventory and \$400,000 of ending inventory. What is the inventory turnover ratio?

$$\$400,000 / ((\$900,000 + \$400,000) / 2) = .62$$

5. Paula's Party Store has net credit sales of \$50,000 and an average accounts receivable of \$10,000. What is their accounts receivable turnover ratio? What does this ratio mean?

$$\$50,000 / \$10,000 = 5$$

Paula's Party Store will collect their accounts receivable about 5 times per year or every 73 days.

6. Synthesis Labs had \$7,000,000 in total supplier purchases and an average accounts payable of \$800,000. What is Synthesis Labs' accounts payable turnover ratio? What does this mean?

$$\$7,000,000 / \$800,000 = 8.75$$

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Synthesis Labs accounts payable turned over 8.75 times a year or approximately every 42 days.

7. Constant Cleaning has \$400,000 of net credit purchases and \$20,000 of average accounts payable. What is their average payment period?

$$\text{\$400,000} / \text{\$20,000} = 20$$

Constant Cleaning demonstrated an average payment period of 20 times per year.

8. Jeff's Landscape Supply has \$100,000 of credit sales for the year and an average amount of accounts receivable of \$40,000. What is Al's average collection period?

$$(\text{365} \times \text{\$40,000}) / \text{\$100,000} = 146$$

Jeff's Landscape Supply has an average collection period of 146 days.

9. Holley's Hair Care has an operating expense of \$65,000 and net sales of \$1,000,000. What is their operating ratio? What does this mean?

$$\text{\$65,000} / \text{\$1,000,000} = .065$$

Holley's Hair Care pays out \$.065 (6.5%) of operating expenses for every \$1 in sales.

10. Gloria's Glasses has \$300,000 in total liabilities and \$1,200,000 in shareholder equity. What is the capital structure ratio? What does this mean?

$$\text{\$300,000} / \text{\$1,200,000} = .25$$

Gloria's Glasses has 1/4 as many liabilities as equity.

11. The Little House has \$250,000 of net operating income and \$100,000 of total debt service. What is their debt service coverage ratio?

$$\text{\$250,000} / \text{\$100,000} = 2.5$$

The Little House has a ratio of 2.5. This means they have enough to pay their current debt load and be left with 150% of their profit.