Quiz 1 Answers

Multiple Choice Questions

1. D  
2. C  
3. D  
4. B  
5. C  
6. C  
7. D  
8. B  
9. B  
10. B

Short Problems

1. (a) 10 points
   Current Ratio = 1250/800 = 1.56
   Quick Ratio = 0.94
   Total Debt Ratio = 60.83%
   Receivables TO = 14.29 times
   ACP = 25.55 days
   Profit Margin = 21%
   ROA = 17.5%
   ROE = 44.68%
   PE Ratio = 9.5 times
   M-B Ratio = 4.24 times

   (b) 4 points. Nienabers ROA is worse than industry average. CR, QR and ACP are better than industry average

   (c) 3 points. Nienaber uses more financial leverage than industry average. 61% of Nienaber’s assets are financed by debt, versus 45% in the industry.

   (d) 3 points. It takes Nienaber 25-26 days on average to collect its outstanding credit accounts.

   (e) 10 points. Net Capital Spending = 4750 – 4250 + 250 = $750 million

   (f) 10 points. Change in NWC = (1250-800) – (1100-750) = $100 million

2. (a) CF from Ops = 250K + 50K – 80K = $220K  10 points

   (b) CF to Creditors = 50K + 10K = $60K  5 points

   (c) CF to Stockholders = 20K – 20K = $0  5 points

   (d) CF from Assets = CF to Creditors + CF to Stockholders  10 points

   CF from Assets = 60K + 0 = $60K
   CF from Assets = CF from Ops - Δ in NWC – Net Capital Spending = 60K
   220K – 50K – Net Cap Spending = 60K
   Net Capital Spending = $110K

Bonus Question

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\text{ROE} = \frac{\text{Net Income}}{\text{Equity}} \times \frac{\text{Assets}}{\text{T. Assets}} = \frac{\text{ROA}}{\text{Equity}} \times \frac{1}{1 - \text{TDR}}
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\text{ROE} = 0.2 \times \frac{1}{(1-0.45)} = 36.36\%
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