



FIN300 – Managerial Finance

Summer 2020

Assignment 2 - 15%

Section: O1

By

Student Name	ID

Problem 1 (10 points)

Why do we need financial ratios?

Problem 2 (20 points - True or False)

- The difference between the current ratio and the quick ratio is “cash”.
- The return on assets measures the risk that some assets may cause.
- Debt to equity is the ratio of long-term borrowing to total shareholders’ equity.
- Creditor days is measured as a percentage.
- Liquidity ratios matter for creditors.

Problem 3 (70 points)

Consider the following summarized balance sheet and income statement for Boubyan Petrochemicals Co. in 2019 and 2020

Table 1 Boubyan Petrochemicals Balance Sheet 2019-2020 (modified)

Assets (in Kuwaiti dinars)			Liabilities in (Kuwaiti dinars)		
	2019	2020		2019	2020
Cash	42million	47 million	Long term debt	60 million	130million
Accounts receivable	30million	40 million	Accounts payable	122million	135million
Inventories	6 million	6 million	Accrued expenses	35 million	35 million
Investment securities	342million	350 million	Share capital	75 million	75 million
Property, plants	54 million	58 million	Retained earnings	35 million	21 million
Intangible assets	18 million	14 million	Fair value reserves	165million	119million
Total assets	492 million	515 million	Total Liabilities and shareholders’ Equity	492 million	515 million

Table 2 Boubyan Petrochemicals Income Statement 2019-2020 (to be completed)

	2020	2019
Total revenue	75 million KD	55 million KD
Taxes	0.25 million KD	0.5 million KD
Interest expenses	9 million KD	8 million KD
Cost of goods sold	38 million KD	25 million KD
General and administrative expenses	16 million KD	16 million KD

In the questions below, you are expected to:

- Calculate financial ratios in both years
- Comment the financial ratios in 2020 only.
- Comment the change occurred from one year to the next.

Questions are on the next page:



AUM

American University Of The Middle East

- a. Creditors are interested in evaluating the liquidity position of this company. Recommend two financial ratios that could serve this purpose, calculate their values in both years and do the proper analysis.
- b. Investors are interested in evaluating the profitability of this company. Calculate the net profit margin, return on assets and return on equity in both years and do the proper analysis.
- c. A financial analyst reported that the debt position of Boubyan Petrochemicals improved (debt-to-asset ratio has fallen). Do the proper calculations to verify the analyst's claim.
- d. Calculate the creditor days and the inventory turnover ratio in both years and comment.
- e. Calculate the total asset turnover rate in both years and comment.