

Homework — Diagnosing a Business with Ratios

Required questions - turn in to the TAs

Homework for Week 2. Each set belongs to the video of the same number. **One question in each set is required**; answer it and turn it in to the TAs. The rest are optional practice, and worked answers to those are published alongside the set. A full set takes about twenty minutes. Work them before the case session.

Homework • 2.1

1. A firm reports revenue of GH¢50M and GH¢65M in consecutive years, with cost of goods sold of GH¢32.5M and GH¢45.5M. Common-size both years and state in one sentence what changed.

Homework • 2.2

1. A firm has net income of GH¢4.5M, sales of GH¢90M, total assets of GH¢60M, and equity of GH¢25M. Compute all three DuPont components and verify that their product equals ROE computed directly.

Homework • 2.3

1. Two firms both report 12% operating margins. Firm A reports a 9% net margin; Firm B reports a 4% net margin. Both face the same tax rate. What explains the difference, and which firm carries more risk? Explain.

Homework • 2.4

1. A firm has revenue of GH¢46M, cost of goods sold of GH¢32M, receivables of GH¢6.3M, inventory of GH¢5.8M, and payables of GH¢4.1M. Compute DSO, DIO, and DPO.

Homework • 2.5

1. A firm with revenue of GH¢120M and cost of goods sold of GH¢84M has receivables of GH¢22M, inventory of GH¢14M, and payables of GH¢11M. Compute the CCC. Then compute the cash released if DSO fell to 45 days with everything else unchanged.

Homework • 2.6

1. A firm's debt-to-equity ratio rises from 0.6 to 1.4 over three years while its operating margin is unchanged. Its ROE rises from 12% to 17%. Has management created value for the owners? Briefly argue both sides.