

Quiz #5
(50 Points)

Please show all your work in order to receive full credit. Manage your time wisely.

(10) 1. You have been given the following 2000 financial information for Catalina Systems, a Tucson-based consulting firm. Calculate the listed financial ratios and evaluate the financial health of this small business. Remember, $TA=TL + NW$.

Total Assets	\$300,000
Current Liabilities	100,000
Before-tax profit	45,000
Current Assets	150,000
Sales (all are credit sales)	500,000
Accounts Receivable	100,000
Total Liabilities	150,000

a. Please calculate:

(1) Current Ratio

(2) Debt to Equity Ratio

(3) Return on Investment

(4) Accounts Receivable Turnover

b. Briefly, what are the strengths and weaknesses of this business?

(10) 2. Upon graduation you take a job as the assistant branch manager with Wilber-
ellis, a national agricultural supply business. On your first day at work you are
asked to answer the following questions:

a. What is the breakeven sales quantity in bags of seed if your fixed costs are
\$750,000 with a contribution of \$50 per bag?

b. What are breakeven sales (\$) if the sales price is \$125 per bag?

c. What are breakeven sales (\$) if you want a 15% required profit?

(10) 3. Should you make an investment (cash outlay) of \$100,000 in a project whose after-tax net benefits to you are \$30,000 in the first year, \$30,000 in the second year, and \$40,000 in years three and four if your required rate of return on your money is 20%? Why or why not? (Use the Net Present Value criterion)

(10) 4. You are thinking about buying a property for \$3,000 per acre. The property has 10 acres. Your downpayment is 10% of the selling price and you plan to finance the remainder. Your lender has agreed to finance this purchase at 12% for four years and your payments will be made semi-annually. What are your semi-annual payments?

(5) 5. Please explain the following statement: High ROM managers do not let their organizations drown in processes.

(5) 6. List four ways, according to Teresa Amabile, that managers can kill creativity in their organizations.