

A COMPREHENSIVE REVIEW OF RATIOS



Calculate each of the following financial ratios for Procter & Gamble using the financial statements at the end of the packet. **(See CFIN 4-4 for help on these ratios).** You should hand write your answers to the problems in the spaces provided; below each calculation, write a brief statement of why the ratio is important in the analysis of a company.

LIQUIDITY RATIOS

$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$	current assets = current liabilities =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{quick ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$ <p><i>(also called acid test)</i></p>	current assets = inventory = current liabilities =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

ASSET MANAGEMENT RATIOS

$\text{inventory turnover ratio} = \frac{\text{total revenues}}{\text{inventory}}$	total revenues = inventory =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{total assets turnover ratio} = \frac{\text{total revenues}}{\text{total assets}}$	total revenues = total assets =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{accounts receivable turnover ratio} = \frac{\text{total revenues}}{\text{accounts receivable}^*}$ <p><small>* same as net receivables</small></p>	total revenues = accounts receivable =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

DEBT MANAGEMENT RATIOS

$\text{debt ratio} = \frac{\text{total debt}^*}{\text{total assets}}$ <p><i>* use short-term plus long-term debt</i></p>	total debt = total assets =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{times interest earned ratio} = \frac{\text{operating income}}{\text{interest expense}}$	operating income = interest expense =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

PROFITABILITY RATIOS

$\text{profit margin on sales ratio} = \frac{\text{net income}}{\text{total revenues}}$	net income = total revenues =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{return on total assets ratio} = \frac{\text{net income}}{\text{total assets}}$	net income = total assets =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{return on equity ratio} = \frac{\text{net income}}{\text{stockholders' equity}}$	net income = stockholders' equity =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

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MARKET PERFORMANCE RATIOS

$\text{earnings per share ratio} = \frac{\text{net income}}{\text{number of shares}}$	net income = number of shares =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{price earnings ratio} = \frac{\text{market stock price}}{\text{earnings per share}}$	market stock price = earnings per share = (from above)	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

$\text{market to book ratio} = \frac{\text{market stock price}}{\text{book value per share}^*}$	market price per share = book value per share =	<u>Answer</u>
why is this ratio important in the analysis of the financial performance of a company?		

* book value per share is calculated by taking total stockholders' equity divided by number of shares

WORKING CAPITAL

$\text{working capital} = \text{current assets} - \text{current liabilities}$	current assets = current liabilities =	<u>Answer</u>
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Procter & Gamble

INCOME STATEMENT, June 30 (amounts in thousands)

Revenue	6/30/2017
Total Revenue	65,058,000
Cost of Revenue	32,535,000
Gross Profit	32,523,000
Operating Expenses	
Research Development	-
Selling General and Administrative	18,568,000
Non Recurring	-
Others	-
Total Operating Expenses	-
Operating Income or Loss	13,955,000
Income from Continuing Operations	
Total Other Income/Expenses Net	-233,000
Earnings Before Interest and Taxes	13,722,000
Interest Expense	465,000
Income Before Tax	13,257,000
Income Tax Expense	3,063,000
Minority Interest	594,000
Net Income From Continuing Ops	10,194,000
Non-recurring Events	
Discontinued Operations	5,217,000
Extraordinary Items	-
Effect Of Accounting Changes	-
Other Items	-
Net Income	
Net Income	15,326,000

Procter & Gamble

MARKET DATA

Number of Shares (in thousands): **2,520,000**

Market Stock Price per Share: **\$80.68**



Procter & Gamble

BALANCE SHEET, June 30 (amounts in thousands)

Period Ending	6/30/2017
Current Assets	
Cash And Cash Equivalents	5,569,000
Short Term Investments	9,568,000
Net Receivables	4,594,000
Inventory	4,624,000
Other Current Assets	2,139,000
Total Current Assets	26,494,000
Long Term Investments	-
Property Plant and Equipment	19,893,000
Goodwill	44,699,000
Intangible Assets	24,187,000
Accumulated Amortization	-
Other Assets	5,133,000
Deferred Long Term Asset Charges	-
Total Assets	120,406,000
Current Liabilities	
Accounts Payable	16,656,000
Short/Current Long Term Debt	13,554,000
Other Current Liabilities	-
Total Current Liabilities	30,210,000
Long Term Debt	18,038,000
Other Liabilities	8,254,000
Deferred Long Term Liability Charges	8,126,000
Minority Interest	594,000
Negative Goodwill	-
Total Liabilities	65,222,000
Stockholders' Equity	
Misc. Stocks Options Warrants	-
Redeemable Preferred Stock	-
Preferred Stock	-
Common Stock	4,009,000
Retained Earnings	96,124,000
Treasury Stock	-93,715,000
Capital Surplus	63,641,000
Other Stockholder Equity	-15,881,000
Total Stockholder Equity	55,184,000