

Discussion questions

Question 1.

Which of the following types of firms do you expect to have particularly high or low asset turnover? Explain why.

Supermarket

Pharmaceutical Company

Jewelry Retailer

Steel Company

Question 2.

Which of the following types of firms do you expect to have particularly high or low sales margins? Why?

Supermarket

Pharmaceutical Company

Jewelry Retailer

Software Company

Question 3.

Sven Broker, an analyst with an established brokerage firm, comments: "The critical number I look at for any company is operating cash flow. If cash flows are less than earnings, I consider the company to be a poor performer and a poor investment prospect." Do you agree with this assessment? Why or why not?

Question 4

Joe Investor claims: "A company cannot grow faster than its sustainable growth rate." True or false? Explain why.

Question 5 (Homework)

What are the reasons for a firm having lower cash from operations than working capital from operations? What are the possible interpretations of these reasons?

Question 6

What are the potential benchmarks that you could use to compare a company's financial ratios? What are the pros and cons of these alternatives?

Question 7 (Homework)

The International Financial Reporting Standards do not allow companies to use LIFO for inventory valuation, whereas US GAAP does allow a choice between LIFO and FIFO. In a period of rising prices, how would the following ratios be affected by the accounting decision to select LIFO, rather than FIFO, for inventory valuation?

(Comment on Gross margin, Current ratio, Asset turnover, Debt-to-equity ratio)

Problem The Fiat Group in 2008

Decompose Fiat's return on equity and evaluate the drivers of the company's performance during the period 2006-2008. What trends can you identify in the company's performance? What has likely been the effect of the credit crisis on Fiat?