

Financial Analysis and Planning Case Studies

Applications Session 1

Group Members Signatures: _____

(Each student should sign only if present and participating)

The actual income statement and balance sheet for the ninth year of operation of Health Care Pharmacy turned out to be the same as the pro-formas. Using these data, calculate the appropriate ratios for the ninth year and provide a brief report for the three areas of financial analysis.

<u>Solvency Ratios</u>	<u>7th</u>	<u>8th</u>	<u>9th</u>	<u>Usual Range</u>
1. Current Ratio	3.1	2.5	_____	\$2
2. Acid Test Ratio	1.1	0.9	_____	\$1
3. <u>Current Liabilities</u> Inventory	.55	.67	_____	<.50
4. <u>Total Liabilities</u> Net Worth	.95	1.20	_____	<1
5. <u>Fixed Assets</u> Net Worth	.25	.12	_____	.25-.50
6. <u>Long Term Liabilities</u> N.W.C.	.38	.33	_____	<.50

Solvency Ratios Report

<u>Efficiency Ratios</u>	<u>7th</u>	<u>8th</u>	<u>9th</u>	<u>Usual Range</u>
1. Inventory T.O.R.	5.2	5.0	_____	4-8
2. <u>Net Sales</u> Inventory	7.3	7.0	_____	5-12
3. Accts. Rec. Coll. Per.*	53	55	_____	30-40
4. Accts. Pay. Coll. Per.	28	28.4	_____	15-25
5. N.W.C. Turnover	6.8	7.0	_____	3-8
6. Degree of Newness of Fixed Assets	.45	.33	_____	>.50

*Charge Sales (Including third-party) for the 9th year were \$550,000.

Efficiency Ratios Report

<u>Profitability Ratios</u>	<u>7th</u>	<u>8th</u>	<u>9th</u>	<u>Usual Range</u>
1. <u>Net Profit</u> x 100 Net Sales	2.0%	1.4%	_____	2-4%
2. Return on Net Worth	16%	12%	_____	15%-25%
3. <u>Net Profit</u> x 100 Total Assets	7.8%	5.5%	_____	>10%
4. <u>Net Profit</u> x 100 Inventory	13%	10%	_____	>20%
5. <u>Net Profit</u> x 100 N.W.C.	14%	10%	_____	20%-30%

Profitability Ratios Report

Applications Session 2

Listed below are financial objectives for the 10th fiscal year for Health Care Pharmacy. Construct a pro forma income statement and balance sheet. Some of the data are provided which would have been obtained from other sources such as the accountant.

Financial Objectives for 10th Year

1. Project sales of \$1,300,000.
2. Maintain cost of goods sold at 70% of sales.
3. Make a net profit of 3.5% of sales, while maintaining manager=s salary at 5.7% of sales.
4. Project personnel expense at 9.2% of sales.
5. Decrease accounts receivable by \$3,600.
6. Purchase \$40,000 of new fixtures for \$20,000 cash and \$10,000 on long term note.
7. Decrease inventory by \$12,000.
8. Reinvest one-half of the net profit in pharmacy.
9. Maintain accounts payable collection period at 25 days.