#1

14.1 Smith Corporation provides the following comparative income statement:

Smith Corporation
Comparative Income Statement
For the Years Ended December 31, 20X3 and 20X2

	20X3	20X2	Percentage of Increase or (Decrease)
Sales	$570,000	$680,000	
Cost of Goods Sold	200,000	170,000	
Gross Profit	$370,000	$510,000	
Operating Expenses	100,000	210,000	
Net Income	$270,000	$300,000	

(*a*) Using horizontal analysis, fill in the percentage change.
(*b*) Evaluate the results.

COST OF GOODS HAS RISEN / HAS FALLEN DUE TO ..
OPERATING EXPENSES HAVE RISEN / DROPPED DUE TO ..
THERE HAS BEEN A RISE / DECLINE IN PROFITABILITY ...

FINANCIAL STATEMENT ANALYSIS

14.4 Charles Corporation's balance sheet at December 31, 20X7, shows the following:

Current Assets	
Cash	$ 4,000
Marketable Securities	8,000
Accounts Receivable	100,000
Inventories	120,000
Prepaid Expenses	1,000
Total Current Assets	$233,000
Current Liabilities	
Notes Payable	$ 5,000
Accounts Payable	150,000
Accrued Expenses	20,000
Income Taxes Payable	1,000
Total Current Liabilities	$176,000
Long-term Liabilities	$340,000

Determine (*a*) working capital, (*b*) current ratio, and (*c*) quick ratio.

14.6 The Rivers Company reports the following data relative to accounts receivable:

	20X2	20X1
Average Accounts Receivable	$ 400,000	$ 416,000
Net Credit Sales	2,600,000	3,100,000

The terms of sale are net 30 days. (*a*) Compute the accounts receivable turnover and the collection period. (*b*) Evaluate the results.

THE COMPANY'S MANAGEMENT OF RECEIVABLES IS ...
COLLECTION PERIOD EXCEEDED / WAS WITHIN THE TERMS OF NET 30 DAYS ..
THE SITUATION IS IMPROVING / GETTING WORSE ... AS INDICATED BY....

14.7 Utica Company's net accounts receivable were $250,000 at December 31, 20X8, and $300,000 at December 31, 20X9. Net cash sales for 20X9 were $100,000. The accounts receivable turnover for 20X9 was 5.0. What were Utica's total net sales for 20X9? (AICPA Adapted)

#2

14.8 On January 1, 20X6, the River Company's beginning inventory was $400,000. During 20X6, River purchased $1,900,000 of additional inventory. On December 31, 20X6, River's ending inventory was $500,000.

(*a*) What is the inventory turnover and the age of inventory for 20X6?

(*b*) If the inventory turnover in 20X5 was 3.3 and the age of the inventory was 110.6 days, evaluate the results for 20X6.

14.9 Based on your answer to Problem 14.8, what is the operating cycle in 20X6 if we assume that the collection period is 42 days?

14.10 A condensed balance sheet and other financial data for Alpha Company appear below.

Alpha Company
Balance Sheet
December 31, 20X1

ASSETS	
Current Assets	$100,000
Plant Assets	150,000
Total Assets	$250,000

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	$100,000
Long-term Liabilities	75,000
Total Liabilities	$175,000
Stockholders' Equity	75,000
Total Liabilities and Stockholders' Equity	$250,000

Income Statement Data

Net Sales	$375,000
Interest Expense	4,000
Net Income	22,500

The following account balances existed at December 31, 20X0: Total assets, $200,000; Stockholders' Equity, $65,000. The tax rate is 35 percent.

Industry Norms as of December 31, 20X1

Stockholders' equity to total liabilities	0.57
Stockholders' equity to long-term liabilities	1.15
Plant assets to long-term liabilities	2.40
Profit margin	0.12
Return on total assets	0.15
Return on stockholders' equity	0.30
Net sales to average total assets	1.71

Calculate and evaluate the following ratios for Alpha Company as of December 31, 20X1.

(*a*) Stockholders' equity to total liabilities
(*b*) Stockholders' equity to long-term liabilities
(*c*) Plant assets to long-term liabilities
(*d*) Profit margin
(*e*) Return on total assets
(*f*) Return on stockholders' equity
(*g*) Net sales to average total assets

FINANCIAL STATEMENT ANALYSIS.

#12

FINANCIAL STATEMENT ANALYSIS

14.13 Jones Corporation's financial statements appear below.

Jones Corporation
Balance Sheet
December 31, 20X1

ASSETS		
Current Assets		
Cash	$100,000	
Marketable Securities	200,000	
Inventory	300,000	
Total Current Assets		$ 600,000
Noncurrent Assets		
Plant Assets		500,000
Total Assets		$1,100,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	$200,000	
Long-term Liabilities	100,000	
Total Liabilities		$ 300,000
Stockholders' Equity		
Common Stock, $1 par value, 100,000 shares	$100,000	
Premium on Common Stock	500,000	
Retained Earnings	200,000	
Total Stockholders' Equity		800,000
Total Liabilities and Stockholders' Equity		$1,100,000

Jones Corporation
Income Statement
For the Year Ended December 31, 20X1

Net Sales	$10,000,000
Cost of Goods Sold	6,000,000
Gross Profit	$ 4,000,000
Operating Expenses	1,000,000
Income before Taxes	$ 3,000,000
Income Taxes (50% rate)	1,500,000
Net Income	$ 1,500,000

Additional information available is a market price of $150 per share of stock and total dividends of $600,000 for 20X1, and $250,000 of inventory as of December 31, 20X0. Compute the following ratios:

(*a*) Current ratio
(*b*) Quick ratio
(*c*) Inventory turnover
(*d*) Age of inventory
(*e*) Stockholders' equity to total liabilities
(*f*) Plant assets to long-term liabilities
(*g*) Operating expenses to net sales
(*h*) Earnings per share
(*i*) Price/earnings ratio
(*j*) Dividends per share
(*k*) Dividend payout