INCOME STATEMENT

P1.10 Farwell Company has the following information available from its most recent fiscal year. Use the relevant information to determine the net income (loss) for the period.

A. Cash sales, $40,000
B. Employee salary expense, $30,000
C. Common stock issued for cash, $100,000
D. Sales on account, $58,000
E. Utility expense, $1,500
F. Long-term loan received, $50,000
G. Interest earned on investments, $100
H. Property tax expense, $10,000
I. Inventory purchased for resale, $120,000
J. Cost of inventory sold, $102,000
K. Insurance purchased for the next year, $4,800
L. Rent expense, $12,000

REVENUE= **$40,000**
$58,000
$100
$98,100

EXPENSES= **$30,000**
$1,500
$10,000
$102,000
$12,000
$155,500

NET INCOME (LOSS) = $98,100 - $155,500 = ($57,400)

FINANCIAL ANALYSIS

P2.7 The financial statements for Faulkender Company are as follows:

FAULKENDER COMPANY
Comparative Balance Sheet
December 31, 2009 and 2008

	2008	**2009**
Cash	$22,000	$20,000
Accounts receivable	41,500	39,000
Inventory	72,000	64,000
Plant and equipment	288,000	265,000
Accumulated depreciation	(80,000)	(72,000)
Total assets	$343,500	$316,000
Accounts payable	$ 24,000	$ 37,000
Wages payable	3,500	4,000
Taxes payable	6,750	8,500
Bonds payable	100,000	100,000
Common stock	80,000	80,000
Retained earnings	129,250	86,500
Total liabilities and stockholder's equity	$343,500	$316,000

FAULKENDER COMPANY
Income Statement
For the Year Ended December 31, 2009

Sales		$400,000
Cost of goods sold		248,000
Gross margin		$152,000
Operating expenses:		
Selling expenses	$39,000	
Rent expense	$45,000	
Depreciation expense	$11,000	
Bad debt expense	1,715	
Interest expense	15,000	111,715
Income from operations		$ 40,285
Loss on sale of equipment		(1,000)
Income before taxes		$39,285
Income tax expense		11,785
Net income		$27,500

CALCULATE RATIOS AND EXPLAIN EACH ONE

Quick ratio:

Current ratio:

Gross margin ratio:

Return on sales ratio:

Return on investment ratio:

Return on owners' equity ratio:

Debt to equity ratio:

Accounts receivable turnover:

Days in the collection period:

Inventory turnover:

Days in the selling period:

Accounts payable turnover:

Days in the payment period:

CALCULATE RATIOS AND EXPLAIN EACH ONE

Quick ratio: (cash + short-term investments + receivables) / current liabilities
($22,000 + $41,500)/($24,000 + $3,500 + $6,750) = $63,500/$34,250 = 1.85

Current ratio: Current assets/Current liabilities
($22,000 + $41,500 + $72,000)/($24,000 + $3,500 + $6,750) = $135,500/$34,250 = 3.96

Gross margin ratio: gross margin / sales
$152,000/$400,000 = 38%

Return on sales ratio: Net income/Sales
$27,500/$400,000 = 6.88%

Return on investment ratio: net income / average total assets
$27,500/[($343,500 + $316,000)/2] = $27,500/$329,750 = 8.34%

Return on owners' equity ratio: net income / average owners' equity
$27,500/[($80,000 + $80,000 + $129,250 + $86,500)/2] = $27,500/$187,875 = 14.64%

Debt to equity ratio: Total debt / total shareholders' equity
($24,000 + $3,500 + $6,750 + $100,000)/($80,000 + $129,250) = $134,250/$209,250 = 0.6

Accounts receivable turnover: sales / average accounts receivable
$400,000/[($41,500+$39,000)/2] = 9.94;

Days in the collection period: 365/9.94 = 36.72 days

Inventory turnover: cost of sales / average inventory
$248,000/[($72,000+$64,000)/2] = 3.65;

Days in the selling period: 365/3.65 = 100 days

Accounts payable turnover: cost of sales / average accounts payable
$248,000/[($24,000+$37,000)/2] = 8.13;

Days in the payment period: 365/8.13 = 44.9 days