

Exercises - CH14

Selected financial information for Helmet Corporation, a merchandising company, for the fiscal year ending December 31 appear below. The company did not issue any new common stock during the year. A total of 4,500,000 shares of common stock were outstanding. The interest rate on the bond payable was 10%, the income tax rate was 30%, and the dividend per share of common stock was \$1.29. The market value of the company's common stock at the end of the year was \$37. All of the company's sales are on account.

Required: Compute the following financial data and ratios for this year:

1. Working capital.
2. Current ratio.
3. Acid-test ratio.

Helmet Corporation		
Excerpts from Comparative Balance Sheet		
(dollars in thousands)		
	This Year	Last Year
Current assets		
Cash	\$ 2,000	\$ 3,100
Accounts receivable, net	14,650	12,900
Inventory	16,850	17,000
Prepaid expenses	4,000	3,500
Total current assets	\$ 37,500	\$ 36,500
Current liabilities		
Accounts payable	\$ 19,000	\$ 22,365
Accrued liabilities	2,870	2,530
Notes payable, short term	1,000	1,000
Total current liabilities	\$ 22,870	\$ 25,895

[EX.01]

Requirement 1: Compute working capital.

Current assets	\$37,500
Current liabilities	<u>22,870</u>
Working capital	<u>\$14,630</u>

Requirement 2: Compute the current ratio.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$37,500}{\$22,870} = 1.64$$

Requirement 3: Compute the acid-test ratio.

$$\begin{aligned} \text{Acid test ratio} &= \frac{\text{Cash} + \text{Marketable securities} + \text{Accounts receivable}}{\text{Current liabilities}} \\ &= \frac{\$2,000 + \$0 + \$14,650}{\$22,870} = 0.73 \end{aligned}$$

Selected financial information for Helmet Corporation, a merchandising company, for the fiscal year ending December 31 appear below. The company did not issue any new common stock during the year. A total of 4,500,000 shares of common stock were outstanding. The interest rate on the bond payable was 10%, the income tax rate was 30%, and the dividend per share of common stock was \$1.29. The market value of the company's common stock at the end of the year was \$37. All of the company's sales are on account.

Required: Compute the following financial ratios for this year:

1. Times interest earned ratio.
2. Debt-to-equity ratio.

Helmet Corporation		
Excerpts from Comparative Financial Statements		
(dollars in thousands)		
	This Year	Last Year
Total assets	\$ 118,500	\$ 111,500
Total current liabilities	22,870	25,895
Total liabilities	47,870	51,895
Total paid-in capital	11,500	11,500
Retained earnings	59,130	48,105
Total stockholders' equity	70,630	59,605
Total liabilities and stockholders' equity	118,500	111,500
Net operating income	26,125	26,250
Interest expense	2,090	2,100
Net income before taxes	24,035	24,150
Income taxes	7,210	7,245
Net income	16,825	16,905
Dividends to common stockholders	5,800	5,800
Net income added to retained earnings	11,025	11,105

[EX.02]

Requirement 1: Compute the times interest earned ratio.

$$\text{Times interest earned} = \frac{\text{Earnings before interest and taxes}}{\text{Interest expense}} = \frac{\$26,125}{\$2,090} = 12.5$$

Requirement 2: Compute the debt-to-equity ratio.

$$\text{Debt - to - equity ratio} = \frac{\text{Total liabilities}}{\text{Stockholders' equity}} = \frac{\$47,870}{\$70,630} = 0.68$$

Selected financial information for Helmet Corporation, a merchandising company, for the fiscal year ending December 31 appears on the right. The company did not issue any new common stock during the year. A total of 4,500,000 shares of common stock were outstanding. The interest rate on the bond payable was 10%, the income tax rate was 30%, and the dividend per share of common stock was \$1.29. The market value of the company's common stock at the end of the year was \$37. All of the company's sales are on account.

Required: Compute the following financial data for this year:

1. Return on total assets.
2. Return on equity.

Helmet Corporation		
Excerpts from Comparative Financial Statements		
(dollars in thousands)		
	This Year	Last Year
Sales	\$ 101,000	\$ 98,000
Cost of goods sold	37,875	36,750
Gross margin	63,125	61,250
Net operating income	26,125	26,250
Interest expense	2,090	2,100
Net income before taxes	24,035	24,150
Income taxes	7,210	7,245
Net income	16,825	16,905
Total assets	118,500	111,500
Total stockholders' equity	70,630	59,605

[EX.03]

Requirement 1: Compute return on total assets.

$$\text{Return on total assets} = \frac{\text{Net income} + [\text{Interest expense} \times (1 - \text{Tax rate})]}{\text{Average total assets}} = \frac{\$16,825 + [\$2,090 \times (1 - 0.30)]}{\$115,000} = 15.9\%$$

Requirement 2: Compute return on equity.

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Average stockholders' equity}} = \frac{\$16,825}{\$65,118} = 25.8\%$$

Selected financial information for Helmet Corporation, a merchandising company, for the fiscal year ending December 31 appear below. The company did not issue any new common stock during the year. A total of 4,500,000 shares of common stock were outstanding. The interest rate on the bond payable was 10%, the income tax rate was 30%, and the dividend per share of common stock was \$1.29. The market value of the company's common stock at the end of the year was \$37. All of the company's sales are on account.

Required: Compute the following financial data for this year:

1. Earnings per share.
2. Price-earnings ratio.
3. Book value per share.

Helmet Corporation		
Excerpts from Comparative Financial Statements		
(dollars In thousands)		
	This year	Last year
Net operating income	\$ 26,125	\$ 26,250
Interest expense	2,090	2,100
Net income before taxes	24,035	24,150
Income taxes	7,210	7,245
Net income	16,825	16,905
Dividends to common stockholders	5,800	5,800
Net income added to retained earnings	11,025	11,105
Beginning retained earnings	48,105	37,000
Ending retained earnings	59,130	48,105
Total stockholders' equity	70,630	59,605
Total liabilities and stockholders' equity	118,500	111,500

[EX.04]

Requirement 1: Compute the earnings per share.

$$\text{Earnings per share} = \frac{\text{Net income}}{\text{Average number of common shares outstanding}} = \frac{\$16,825}{4,500} = \$3.74$$

Requirement 2: Compute the price-earnings ratio.

$$\text{Price – earnings ratio} = \frac{\text{Market price per share}}{\text{Earnings per share}} = \frac{\$37}{\$3.74} = 9.89$$

Requirement 3: Compute the book value per share.

$$\text{Book value per share} = \frac{\text{Total stockholders' equity}}{\text{Number of common shares outstanding}} = \frac{\$70,630}{4,500} = \$15.70$$