24 Comparative Financial Statements

DEMONSTRATION PROBLEM

Here is the income statement of Morris Sales Company, Inc. The balance sheet appears on the next page.

Morris Sales Company, Inc.
Income Statement
For Year Ended December 31, 20 —

Revenue from Sales:		
Sales		*$875,000.00*
Cost of Goods Sold:		
Merchandise Inventory, January 1, 20 —	*$135,000.00*	
Delivered Cost of Purchases	*595,750.00*	
Cost of Goods Available for Sale	*$730,750.00*	
Less Merchandise Inventory, December 31, 20 —	*147,950.00*	
Cost of Goods Sold		*582,800.00*
Gross Profit		*$292,200.00*
Operating Expenses:		
Selling Expenses (control)	*$135,390.00*	
General Expenses (control)	*90,270.00*	
Total Operating Expenses		*225,660.00*
Income from Operations		*$ 66,540.00*
Other Expenses:		
Interest Expense		*11,240.00*
Income Before Income Tax		*$ 55,300.00*
Income Tax Expense		*8,290.00*
Net Income		*$ 47,010.00*

The price of the stock on December 31, 20—, is $43. The beginning common stockholders' equity is $193,650.

Instructions

Determine the following, showing the figures you used in your calculations (round off to two decimal places):

1. Working capital
2. Current ratio
3. Quick ratio
4. Merchandise inventory turnover
5. Number of days merchandise inventory kept in stock
6. Rate of return on common stockholders' equity

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7. Earnings per share of common stock

DEMONSTRATION PROBLEM (continued)

Morris Sales Company, Inc.
Balance Sheet
December 31, 20 —

Assets			
Current Assets:			
Cash		*$ 24,210.00*	
Notes Receivable		*6,725.00*	
Accounts Receivable (net)		*86,080.00*	
Merchandise Inventory		*147,950.00*	
Prepaid Expenses		*4,045.00*	
Total Current Assets			*$269,010.00*
Plant and Equipment:			
Delivery Equipment (net)		*$ 83,050.00*	
Store Equipment (net)		*51,340.00*	
Office Equipment (net)		*16,810.00*	
Total Plant and Equipment			*151,200.00*
Total Assets			*$420,210.00*
Liabilities			
Current Liabilities:			
Notes Payable	*$ 4,120.00*		
Accounts Payable	*57,840.00*		
Total Current Liabilities		*$ 61,960.00*	
Long-Term Liablities:			
Mortgage Payable (due June 30, 20 —)		*135,700.00*	
Total Liabilities			*$197,660.00*
Stockholder's Equity			
Common Stock, $15 par (10,000 shares			
authorized and issued)	*$150,000.00*		
Paid-in Capital in Excess of Par Value	*35,000.00*	*$185,000.00*	
Retained Earnings		*37,550.00*	
Total Stockholders' Equity			*222,550.00*
Total Liabilities and Stockholders' Equity			*$420,210.00*

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SOLUTION

1. Working capital = $269,010 − $61,960 = $207,050

2. $$\text{Current ratio} = \frac{\$269{,}010}{\$61{,}960} = \underline{\underline{4.34}}$$

3. $$\text{Quick ratio} = \frac{\$24{,}210 + \$6{,}725 + \$86{,}080}{\$61{,}960} = \frac{\$117{,}015}{\$61{,}960} = \underline{\underline{1.89}}$$

4. $$\text{Merchandise inventory turnover} = \frac{\$582{,}800}{\left[\dfrac{\$135{,}000 + \$147{,}950}{2}\right]} = \frac{\$582{,}800}{\$141{,}475} = \underline{\underline{4.12}} \text{ times per year}$$

5. $$\text{Number of days merchandise inventory kept in stock} = \frac{365 \text{ days}}{4.12} = \underline{\underline{88.59}} = 89 \text{ days}$$

6. $$\text{Rate of return on common stockholders' equity} = \frac{\$47{,}010}{\left[\dfrac{\$193{,}650 + \$222{,}550}{2}\right]} = \frac{\$47{,}010}{\$208{,}100} = \underline{\underline{22.59\%}}$$

7. $$\text{Earnings per share of common stock} = \frac{\$47{,}010}{10{,}000 \text{ shares}} = \underline{\underline{\$4.70}} \text{ per share}$$

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