



Unit 4 Practice Activity: Financial Report Analysis – Rainbow Paint Co.

Note: This is a practice activity to be performed before completing the Assignment for this unit. Also, this is the data to be used as the basis for your Unit 9 Final Project. The solutions for the Unit 4 Practice activity are located [here](#).

Rainbow Paint Co.'s comparative financial statements for the years ending December 31, 2013 and 2012 are as follows. The market price of Rainbow Paint Co.'s common stock was \$30 on December 31, 1999 and \$25 on December 31, 2013.

Rainbow Paint Co. Comparative Income Statement For the Years Ended December 31, 2013 and 2012

	2013	2012
Sales	\$ 5,125,000	\$ 3,257,600
Sales returns and allowances	<u>125,000</u>	<u>57,600</u>
Net sales	\$ 5,000,000	\$ 3,200,000
Cost of goods sold	<u>3,400,000</u>	<u>2,080,000</u>
Gross profit	\$ 1,600,000	\$ 1,120,000
Selling expenses	650,000	464,000
Administrative expenses	<u>325,000</u>	<u>224,000</u>
Total operating expenses	\$ 975,000	\$ 688,000
Income from operations	\$ 625,000	\$ 432,000
Other income	<u>25,000</u>	<u>19,200</u>
Income before Interest & Taxes	\$	\$ 451,200
650,000		
Other expense (interest)	<u>105,000</u>	<u>64,000</u>
Income before income tax	\$ 545,000	\$ 387,200
Income tax expense	<u>300,000</u>	<u>176,000</u>
Net income	\$ 245,000	\$ 211,200
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Rainbow Paint Co. Comparative Retained Earnings Statement For the Years Ended December 31, 2013 and 2012

	2013	2012
Retained earnings, January 1	\$ 723,000	\$ 581,800
Add net income for year	<u>245,000</u>	<u>211,200</u>
Total	\$ 968,000	\$ 793,000
Deduct dividends:		
On preferred stock	\$ 40,000	\$ 40,000
On common stock	<u>45,000</u>	<u>30,000</u>
Total	\$ 85,000	\$ 70,000
Retained earnings, December 31	\$ 883,000	\$ 723,000
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**Rainbow Paint CO,
Comparative Balance Sheet
December 31, 2013 and 2012**

Assets	2013	2012
Current assets:		
Cash	\$ 175,000	\$ 125,000
Marketable securities	150,000	50,000
Accounts receivable (net)	425,000	325,000
Inventories	720,000	480,000
Prepaid expenses	<u>30,000</u>	<u>20,000</u>
Total current assets	\$ 1,500,000	\$ 1,000,000
Long-term investments	250,000	225,000
Property, plant, and equipment (net)	<u>2,093,000</u>	<u>1,948,000</u>
Total assets	<u>\$ 3,843,000</u>	<u>\$ 3,173,000</u>
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Liabilities		
Current liabilities	<u>\$ 750,000</u>	<u>\$ 650,000</u>
Long-term liabilities:		
Mortgage note payable, 10%, due 2016	\$ 410,000	-
Bonds payable, 8%, due 2017	<u>800,000</u>	<u>\$ 800,000</u>
Total long-term liabilities	<u>\$ 1,210,000</u>	<u>\$ 800,000</u>
Total liabilities	<u>\$ 1,960,000</u>	<u>\$ 1,450,000</u>
Stockholders' Equity		
Preferred 8% stock, \$100 par	\$ 500,000	\$ 500,000
Common stock, \$10 par	500,000	500,000
Retained earnings	<u>883,000</u>	<u>723,000</u>
Total stockholders' equity	<u>\$ 1,883,000</u>	<u>\$ 1,723,000</u>
Total liabilities and stockholders' equity	<u>\$ 3,843,000</u>	<u>\$ 3,173,000</u>
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Instructions: Determine the following measures for 2013:

1. Working capital
2. Current ratio
3. Quick ratio
4. Accounts receivable turnover
5. Number of days' sales in receivables
6. Inventory turnover
7. Number of days' sales in inventory
8. Ratio of fixed assets to long-term liabilities

9. Ratio of liabilities to stockholders' equity
10. Number of times interest charges earned
11. Number of times preferred dividends earned
12. Ratio of net sales to assets
13. Rate earned on total assets
14. Rate earned on stockholders' equity
15. Rate earned on common stockholders' equity
16. Earnings per share on common stock
17. Price-earnings ratio
18. Dividends per share of common stock
19. Dividend yield