Rhodes Corporation: Income Statements for Year Ending December 31 (Millions of Dollars)

	2013	2012
Sales	$11,000	$10,000
Operating costs excluding depreciation	9,360	8,500
Depreciation and amortization	380	360
Earnings before interest and taxes	$ 1,260	$ 1,140
Less interest	120	100
Pre-tax income	$ 1,140	$ 1,040
Taxes (40%)	456	416
Net income available to common stockholders	$ 684	$ 624
Common dividends	$ 220	$ 200

Rhodes Corporation: Balance Sheets as of December 31 (Millions of Dollars)

	2013	2012
Assets		
Cash	$ 550	$ 500
Short-term investments	110	100
Accounts receivable	2,750	2,500
Inventories	1,650	1,500
Total current assets	$5,060	$4,600
Net plant and equipment	3,850	3,500
Total assets	$8,910	$8,100
Liabilities and Equity		
Accounts payable	$1,100	$1,000
Accruals	550	500
Notes payable	384	200
Total current liabilities	$2,034	$1,700
Long-term debt	1,100	1,000
Total liabilities	$3,134	$2,700
Common stock	4,312	4,400
Retained earnings	1,464	1,000
Total common equity	$5,776	$5,400
Total liabilities and equity	$8,910	$8,100

(2-13)
Loss Carryback and Carryforward

The Bookbinder Company has made $150,000 before taxes during each of the last 15 years, and it expects to make $150,000 a year before taxes in the future. However, in 2013 the firm incurred a loss of $650,000. The firm will claim a tax credit at the time it files its 2013 income tax return, and it will receive a check from the U.S. Treasury. Show how it calculates this credit, and then indicate the firm's tax liability for each of the next 5 years. Assume a 40% tax rate on *all* income to ease the calculations.

Total assets turnover: 1.5
Gross profit margin on sales: (Sales − Cost of goods sold)/Sales = 25%
Total liabilities-to-assets ratio: 40%
Quick ratio: 0.80
Days sales outstanding (based on 365-day year): 36.5 days
Inventory turnover ratio: 3.75

Partial Income	**Statement Information**		
Sales	_______		
Cost of goods sold	_______		
Balance Sheet			
Cash	_______	Accounts payable	_______
Accounts receivable	_______	Long-term debt	50,000
Inventories	_______	Common stock	_______
Fixed assets	_______	Retained earnings	100,000
Total assets	$400,000	Total liabilities and equity	_______

(3-12) Comprehensive Ratio Calculations

The Kretovich Company had a quick ratio of 1.4, a current ratio of 3.0, a days sales outstanding of 36.5 days (based on a 365-day year), total current assets of $810,000, and cash and marketable securities of $120,000. What were Kretovich's annual sales?

(3-13) Comprehensive Ratio Analysis

Data for Lozano Chip Company and its industry averages follow.

a. Calculate the indicated ratios for Lozano.
b. Construct the extended Du Pont equation for both Lozano and the industry.
c. Outline Lozano's strengths and weaknesses as revealed by your analysis.

Lozano Chip Company: Balance Sheet as of December 31, 2013 (Thousands of Dollars)

Cash	$ 225,000	Accounts payable	$ 601,866
Receivables	1,575,000	Notes payable	326,634
Inventories	1,125,000	Other current liabilities	525,000
Total current assets	$2,950,000	Total current liabilities	$1,453,500
Net fixed assets	1,350,000	Long-term debt	1,068,750
		Common equity	1,752,750
Total assets	$4,275,000	Total liabilities and equity	$4,275,000

Lozano Chip Company: Income Statement for Year Ended December 31, 2013 (Thousands of Dollars)

Sales	$ 7,500,000
Cost of goods sold	6,375,000
Selling, general, and administrative expenses	825,000
Earnings before interest and taxes (EBIT)	$ 300,000
Interest expense	111,631
Earnings before taxes (EBT)	$ 188,369
Federal and state income taxes (40%)	75,348
Net income	$ 113,022

Ratio	Lozano	Industry Average
Current assets/Current liabilities	______	2.0
Days sales outstanding (365-day year)	______	35.0 days
COGS/Inventory	______	6.7
Sales/Fixed assets	______	12.1
Sales/Total assets	______	3.0
Net income/Sales	______	1.2%
Net income/Total assets	______	3.6%
Net income/Common equity	______	9.0%
Total debt/Total assets	______	30.0%
Total liabilities/Total assets	______	60.0%

(3-14) Comprehensive Ratio Analysis

The Jimenez Corporation's forecasted 2014 financial statements follow, along with some industry average ratios. Calculate Jimenez's 2014 forecasted ratios, compare them with the industry average data, and comment briefly on Jimenez's projected strengths and weaknesses.

Jimenez Corporation: Forecasted Balance Sheet as of December 31, 2014

Assets	
Cash	$ 72,000
Accounts receivable	439,000
Inventories	894,000
Total current assets	$ 1,405,000
Fixed assets	431,000
Total assets	$ 1,836,000
Liabilities and Equity	
Accounts payable	$ 332,000
Notes payable	100,000
Accruals	170,000
Total current liabilities	$ 602,000
Long-term debt	404,290
Common stock	575,000
Retained earnings	254,710
Total liabilities and equity	$ 1,836,000

Jimenez Corporation: Forecasted Income Statement for 2014

Sales	$4,290,000
Cost of goods sold	3,580,000
Selling, general, and administrative expenses	370,320
Depreciation and amortization	159,000
Earnings before taxes (EBT)	$ 180,680
Taxes (40%)	72,272
Net income	$ 108,408

Per Share Data	
EPS	$ 4.71
Cash dividends per share	$ 0.95
P/E ratio	5.0
Market price (average)	$ 23.57
Number of shares outstanding	23,000
Industry Financial Ratios (2013)[a]	
Quick ratio	1.0
Current ratio	2.7
Inventory turnover[b]	7.0
Days sales outstanding[c]	32.0 days
Fixed assets turnover[b]	13.0
Total assets turnover[b]	2.6
Return on assets	9.1%
Return on equity	18.2%
Profit margin on sales	3.5%
Debt-to-assets ratio	21.0%
Liabilities-to-assets ratio	50.0%
P/E ratio	6.0
Price/Cash flow ratio	3.5
Market/Book ratio	3.5

[a]Industry average ratios have been constant for the past 4 years.
[b]Based on year-end balance sheet figures.
[c]Calculation is based on a 365-day year.

SPREADSHEET PROBLEMS

(3-15) Build a Model: Ratio Analysis

resource

Start with the partial model in the file ***Ch03 P15 Build a Model.xls*** from the textbook's Web site. Joshua & White (J&W) Technologies's financial statements are also shown below. Answer the following questions. (*Note:* Industry average ratios are provided in ***Ch03 P15 Build a Model.xls.***)

a. Has J&W's liquidity position improved or worsened? Explain.
b. Has J&W's ability to manage its assets improved or worsened? Explain.
c. How has J&W's profitability changed during the last year?
d. Perform an extended DuPont analysis for J&W for 2012 and 2013. What do these results tell you?
e. Perform a common size analysis. What has happened to the composition (that is, percentage in each category) of assets and liabilities?
f. Perform a percentage change analysis. What does this tell you about the change in profitability and asset utilization?