

3. Award: 15.00 points

The financial statements for Castile Products, Inc., are given below:

Castile Products, Inc. Balance Sheet December 31	
Assets	
Current assets:	
Cash	\$ 22,000
Accounts receivable, net	240,000
Merchandise inventory	360,000
Prepaid expenses	9,000
Total current assets	631,000
Property and equipment, net	900,000
Total assets	\$1,531,000
Liabilities and Stockholders' Equity	
Liabilities:	
Current liabilities	\$ 250,000
Bonds payable, 8%	330,000
Total liabilities	580,000
Stockholders' equity:	
Common stock, \$5 par value	\$ 140,000
Retained earnings	811,000
Total stockholders' equity	951,000
Total liabilities and stockholders' equity	\$1,531,000

Castile Products, Inc. Income Statement For the Year Ended December 31	
Sales	\$3,360,000
Cost of goods sold	1,386,000
Gross margin	1,974,000
Selling and administrative expenses	650,000
Net operating income	1,324,000
Interest expense	26,400
Net income before taxes	1,297,600
Income taxes (30%)	389,280
Net income	\$ 908,320

Account balances at the beginning of the year were: accounts receivable, \$240,000; and inventory, \$300,000. All sales were on account.

Required:

Compute the following financial data and ratios:

1. Working capital.
2. Current ratio. (Round your answer to 1 decimal place.)
3. Acid-test ratio. (Round your answer to 2 decimal places.)
4. Debt-to-equity ratio. (Round your answer to 2 decimal places.)
5. Times interest earned ratio. (Round your answer to 2 decimal places.)
6. Average collection period. (Use 365 days in a year. Round your intermediate calculations and final answer to 1 decimal place.)
7. Average sale period. (Use 365 days in a year. Round your intermediate calculations and final answer to 1 decimal place.)
8. Operating cycle. (Round your intermediate calculations and final answer to 1 decimal place.)

1.	Working capital		
2.	Current ratio		
3.	Acid-test ratio		
4.	Debt-to-equity ratio		
5.	Times interest earned ratio		
6.	Average collection period		days
7.	Average sale period		days
8.	Operating cycle		days

Garrison 16e Rechecks 2017-12-04, 2018-01-11

References

Worksheet

Learning Objective: 15-02 Compute and interpret financial ratios that managers use to assess liquidity.

Learning Objective: 15-04 Compute and interpret financial ratios that managers use for debt management purposes.

Difficulty: 1 Easy

Learning Objective: 15-03 Compute and interpret financial ratios that managers use for asset management purposes.