

4.

Award: 15.00 points

Zimmer, Inc. has provided its recent financial statements. The Controller has asked you to use this information to compute and interpret financial ratios that managers are going to use to assess liquidity and use for asset and debt management purposes. Use the information included in the Excel Simulation and the Excel functions described below to complete the task.

- **Cell Reference:** Allows you to refer to data from another cell in the worksheet. From the Excel Simulation below, if in a blank cell, “=B7” was entered, the formula would output the result from cell B7, or 360,000 in this example.
- **Basic Math functions:** Allows you to use the basic math symbols to perform mathematical functions. You can use the following keys: + (plus sign to add), - (minus sign to subtract), * (asterisk sign to multiply), and / (forward slash to divide). From the Excel Simulation below, if in a blank cell “=C13+C14” was entered, the formula would add the values from those cells and output the result, or 1,900,000 in this example. If using the other math symbols the result would output an appropriate answer for its function.
- **ROUND function:** Allows you to round a number or result of a formula calculation to a specific number of digits. The syntax of the ROUND function is “=ROUND(number,num_digits)” and returns the result of your formula rounded to a particular number of digits. The *number* argument can be a cell reference to a number or a formula itself that results in a number. The *num_digits* argument is the number of digits you want to round. The *num_digits* value rounds based on basis mathematical rounding rules, where anything below 5 will round down and anything 5 and above rounds up. Also, the *num_digits* value should be a positive value to round to any number of decimal places, while a negative value would round to the left of the decimal place, and a zero would round to the nearest whole number. If the value 1,253.5693 was entered in cell A1, it can be used in the ROUND function as the *number* reference. In this example, if the value in cell A1 should be rounded to 2 decimal places, in a new cell the function would be written as “=ROUND(A1,2)” and would result in as 1,253.57 in this example. If the number in cell A1 should be rounded to the nearest hundred place, in a new cell the function would be written as “=ROUND(A1,-2)” and would result in 1,300 in this example.

Selected Financial Ratios - Excel

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A1 Recent financial statements for Zimmer, Inc. are as follows:

	A	B	C	D	E	F
1	Recent financial statements for Zimmer, Inc. are as follows:					
2	Zimmer Company			Zimmer Company		
3	Comparative Balance Sheet			Income Statement		
4		This Year	Last Year			This Year
5	Assets					
6	Current assets:					
7	Cash	\$ 360,000	\$ 310,000	Sales (all on account)		\$ 4,980,000
8	Marketable securities	220,000	80,000	Cost of goods sold		<u>2,988,000</u>
9	Accounts receivable, net	775,000	700,000	Gross margin		<u>1,992,000</u>
10	Inventory	925,000	750,000	Selling and administrative expenses		
11	Other current assets	<u>355,000</u>	<u>195,000</u>	Operating expenses		985,500
12	Total current assets	2,635,000	2,035,000	Depreciation and amortization		410,500
13	Plant and equipment, net	1,975,000	1,800,000	General and administrative expenses		<u>150,000</u>
14	Other assets	<u>75,000</u>	<u>100,000</u>	Total selling and administrative expenses		<u>1,546,000</u>
15	Total assets	<u>\$ 4,685,000</u>	<u>\$ 3,935,000</u>	Net operating income		446,000
16	Liabilities and Stockholders' Equity					
17	Current Liabilities:					
18	Accounts payable	\$ 250,000	\$ 225,000	Interest expense		<u>60,000</u>
19	Short-term bank loans	750,000	600,000	Net income before taxes		386,000
20	Accrued payables	550,000	395,000	Income taxes		<u>135,100</u>
21	Other current liabilities	<u>275,000</u>	<u>223,400</u>	Net income		<u>\$ 250,900</u>
22	Total current liabilities	1,825,000	1,443,400	Additional information:		
23	Bonds payable, 10%	<u>575,000</u>	<u>400,000</u>	Dividend per share paid in current year	\$ 1.00	
				Market price of shares at year end	42.00	

Sheet1

READY 100%

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References

Excel Simulation Difficulty: 2 Medium Learning Objective: 15-03 Compute and interpret financial ratios that managers use for asset management purposes.

Chapter: Chapter 15 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.

Selected Financial Ratios - Excel

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	A	B	C	D	E	F
24	Total liabilities	2,400,000	1,843,400		Par value of common stock per share	20.00
25	Stockholders' equity:					
26	Common stock	1,150,000	1,150,000		Number of share outstanding	
27	Retained earnings	1,135,000	941,600			
28	Total stockholders' equity	2,285,000	2,091,600			
29	Total liabilities and stockholders' equity	\$ 4,685,000	\$ 3,935,000			
30						
31	Required:					
32	Compute the following ratios for the current year only:					
33	Gross margin percentage					
34	Current ratio (rounded to two decimal places)					
35	Acid-test ratio (rounded to two decimal places)					
36	Accounts receivable turnover (rounded to two decimal places)					
37	Average collection period (rounded to the nearest whole day)					
38	Inventory turnover ratio (rounded to two decimal places)					
39	Average sales period (rounded to the nearest whole day)					
40	Debt-to-equity ratio (rounded to two decimal places)					
41	Times interest earned (rounded to two decimal places)					
42	Book value per share (rounded to two decimal places)					
43	Earnings per share (rounded to two decimal places)					
44	Dividend payout ratio (rounded to three decimal places)					
45	Dividend yield ratio (rounded to three decimal places)					
46	Price-earnings ratio (rounded to two decimal places)					
47						

Sheet1

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