

**CP9-2**

**Finding Financial Information**

LO9-1, 9-5, 9-6

Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book.

Required:

1. What is the amount of accrued compensation at the end of the most recent reporting year?
2. By what amount did accounts payable change over the most recent reporting year? How did this change in accounts payable affect cash flows from operating activities during the most recent reporting year?
3. What is the amount of long-term liabilities at the end of the most recent reporting year?

**E13-5**

**Matching Each Ratio with Its Computational Formula**

LO13-4, 13-5, 13-6, 13-7

Match each ratio or percentage with its computation.

Ratios or Percentages	Definitions
1. Profit margin	A. $\text{Net Income (before extraordinary items)} \div \text{Net Sales}$
2. Inventory turnover ratio	B. $\text{Days in Year} \div \text{Receivable Turnover Ratio}$
3. Average collection period	C. $\text{Net Income} \div \text{Average Stockholders' Equity}$
4. Dividend yield ratio	D. $\text{Net Income} \div \text{Average Number of Shares of Common Stock Outstanding}$
5. Return on equity	E. $\text{Return on Equity} - \text{Return on Assets}$
6. Current ratio	F. $\text{Quick Assets} \div \text{Current Liabilities}$
7. Debt-to-equity ratio	G. $\text{Current Assets} \div \text{Current Liabilities}$
8. Price/earnings ratio	H. $\text{Cost of Goods Sold} \div \text{Average Inventory}$
9. Financial leverage percentage	I. $\text{Net Credit Sales} \div \text{Average Net Receivables}$
10. Receivable turnover ratio	J. $\text{Days in Year} \div \text{Inventory Turnover Ratio}$
11. Average days' supply of inventory	K. $\text{Total Liabilities} \div \text{Stockholders' Equity}$
12. Earnings per share	L. $\text{Dividends per Share} \div \text{Market Price per Share}$
13. Return on assets	M. $\text{Market Price per Share} \div \text{Earnings per Share}$
14. Quick ratio	N. $[\text{Net Income} + \text{Interest Expense (net of tax)}] \div \text{Average Total Assets}$
15. Times interest earned	O. $\text{Cash from Operating Activities (before interest and taxes)} \div \text{Interest Paid}$
16. Cash coverage ratio	P. $\text{Net Sales Revenue} \div \text{Net Fixed Assets}$
17. Fixed asset turnover ratio	Q. $(\text{Net Income} + \text{Interest Expense} + \text{Income Tax Expense}) \div \text{Interest Expense}$

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## CASES AND PROJECTS

**Page 496**

### Annual Report Cases

#### CP9-1

#### Finding Financial Information

LO9-1, 9-5, 9-6

AMERICAN EAGLE  
OUTFITTERS, INC.



Refer to the financial statements of American Eagle given in Appendix B at the end of this book.

*Required:*

1. What is the amount of accrued compensation and payroll taxes at the end of the most recent reporting year?
2. By what amount did accounts payable change over the most recent reporting year? How did this change in accounts payable affect cash flows from operating activities during the most recent reporting year?
3. What is the amount of long-term liabilities at the end of the most recent reporting year?

#### CP9-2

#### Finding Financial Information

LO9-1, 9-5, 9-6

UR  
BN  
URBAN OUTFITTERS INC.



Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book.

*Required:*

1. What is the amount of accrued compensation at the end of the most recent reporting year?
2. By what amount did accounts payable change over the most recent reporting year? How did this change in accounts payable affect cash flows from operating activities during the most recent reporting year?
3. What is the amount of long-term liabilities at the end of the most recent reporting year?

#### CP9-3

#### Comparing Companies within an Industry

LO9-2



Refer to the financial statements of American Eagle (Appendix B) and Urban Outfitters (Appendix C) and the Industry Ratio Report (Appendix D) at the end of this book.

*Required:*

1. Compute the payable turnover ratio for each company for the most recent reporting year.
2. Compare the latest year payable turnover ratio for each company to the industry average from the Industry Ratio Report. Are these companies doing better or worse than the average company in their industry at paying trade creditors?

### Financial Reporting and Analysis Case

#### CP9-4

#### Analyzing Hidden Interest in a Real Estate Deal: Present Value

#### LO9-7

Many advertisements contain offers that seem too good to be true. A few years ago, an actual newspaper ad offered “a \$150,000 house with a zero interest rate mortgage” for sale. If the purchaser made monthly payments of \$3,125 for four years ( $\$150,000 \div 48$  months), no interest would be charged. When the offer was made, mortgage interest rates were 12 percent. Present value for  $n = 48$ , and  $i = 1\%$  is 37.9740.

*Required:*

1. Did the builder actually provide a mortgage at zero interest?
2. Estimate the true price of the home that was advertised. Assume that the monthly payment was based on an implicit interest rate of 12 percent.

### Critical Thinking Case

#### CP9-5

#### Evaluating an Ethical Dilemma: Fair Advertising

#### LO9-7



The New York State Lottery Commission ran the following advertisement in a number of New York newspapers:

The Lotto jackpot for Wednesday, August 25, 2010, will be \$3 million including interest earned over a 20-year payment period. Constant payments will be made each year.

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E13-4

**Page 675****Using Financial Information to Identify Mystery Companies****LO13-1, 13-2, 13-3, 13-5, 13-6**

The following selected financial data pertain to four unidentified companies:

	<b>COMPANIES</b>			
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Balance Sheet Data</b>				
(component percentage)				
Cash	11.6	6.6	5.4	7.1
Accounts receivable	4.6	18.9	8.8	35.6
Inventory	7.0	45.8	65.7	26.0
Property and equipment	56.0	20.3	10.1	21.9
<b>Income Statement Data</b>				
(component percentage)				
Gross profit	56.7	36.4	14.1	15.8
Profit before taxes	2.7	1.4	1.1	0.9
<b>Selected Ratios</b>				
Current ratio	0.7	2.1	1.2	1.3
Inventory turnover ratio	30.0	3.5	5.6	16.7
Debt-to-equity ratio	3.3	1.8	3.8	3.1

This financial information pertains to the following companies:

- a. Full-line department store
- b. Wholesale fish company
- c. Automobile dealer (both new and used cars)
- d. Restaurant

*Required:*

Match each company with its financial information.

**E13-5****Matching Each Ratio with Its Computational Formula****LO13-4, 13-5, 13-6, 13-7**

Match each ratio or percentage with its computation.

Ratios or Percentages	Definitions
1. Profit margin	A. $\text{Net Income (before extraordinary items)} \div \text{Net Sales}$
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