

**Course Code:** ACT4050-8

**Course Start Date:** 08/11/2014

**Section:** Financial Statement Analysis

**Week:** 7

**Activity:** Analyze a Firm's Financial Condition

**Activity Due Date:** 09/28/2014

**Activity Description**

Complete the following problem:

Chapter 14: 14-5A

In addition to the problem documentation, prepare a 2-3 page summary in which you analyze your results. Support your paper with minimum of one (1) scholarly resource. In addition to these specified resources, other appropriate scholarly resources, including older articles, may be included.

Length: 3-5 pages not including title and reference pages

Your paper should demonstrate thoughtful consideration of the ideas and concepts presented in the course and provide new thoughts and insights relating directly to this topic. Your response should reflect scholarly writing and current APA standards where appropriate. Be sure to adhere to Northcentral University's Academic Integrity Policy.

Upload your assignment using the Upload Assignment button below.

**Learning Outcomes**

- 3.0 Interpret the cost impact of activity changes on business planning and performance.
- 5.0 Generate cost information to support strategic decisions regarding products, customers, technology, and divisions.

**Resources**

Books	
Reference	Instruction
Warren, C. S., Reeve, J. M., & Duchac, J. (2012) Managerial accounting.	Read Chapter 14

### Instructions

Determine the following measures for 2012, rounding to one decimal place:

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

OBJ. 2, 3

### PR 14-5A Solvency and profitability trend analysis

Itzkoff Company has provided the following comparative information:

	2012	2011	2010	2009	2008
Net income	\$ 170,879	\$ 229,985	\$ 394,485	\$ 552,500	\$ 500,000
Interest expense	350,027	325,002	300,094	281,250	250,000
Income tax expense	49,492	83,179	166,358	124,800	156,000
Total assets (ending balance)	6,023,425	5,624,113	5,089,695	4,552,500	3,750,000
Total stockholders' equity (ending balance)	2,647,848	2,476,970	2,246,985	1,852,500	1,300,000
Average total assets	5,823,769	5,356,904	4,821,098	4,151,250	3,375,000
Average stockholders' equity	2,562,409	2,361,977	2,049,743	1,576,250	1,050,000

You have been asked to evaluate the historical performance of the company over the last five years.

Selected industry ratios have remained relatively steady at the following levels for the last five years:

	2008-2012
Rate earned on total assets	11%
Rate earned on stockholders' equity	16%
Number of times interest charges earned	3.1
Ratio of liabilities to stockholders' equity	1.5

### Instructions

1. Prepare four line graphs with the ratio on the vertical axis and the years on the horizontal axis for the following four ratios (rounded to one decimal place):
  - a. Rate earned on total assets
  - b. Rate earned on stockholders' equity
  - c. Number of times interest charges earned
  - d. Ratio of liabilities to stockholders' equity

Display both the company ratio and the industry benchmark on each graph. That is, each graph should have two lines.

2. Prepare an analysis of the graphs in (1).