

8. Prepare in good form an income statement for Franklin Kite Co. Inc. Take your calculations all the way to computing earnings per share.

Sales.....	\$900,000
Shares outstanding	50,000
Cost of goods sold.....	400,000
Interest expense.....	40,000
Selling and administrative expense.....	60,000
Depreciation expense.....	20,000
Preferred stock dividends	80,000
Taxes	50,000

14. Fill in the blank spaces with categories 1 through 7:

1. Balance sheet (BS)
2. Income statement (IS)
3. Current assets (CA)
4. Fixed assets (FA)
5. Current liabilities (CL)
6. Long-term liabilities (LL)
7. Stockholders' equity (SE)

Indicate Whether Item Is on Balance Sheet (BS) or Income Statement (IS)	If on Balance Sheet, Designate Which Category	Item
_____	_____	Accounts receivable
_____	_____	Retained earnings
_____	_____	Income tax expense
_____	_____	Accrued expenses
_____	_____	Cash
_____	_____	Selling and administrative expenses
_____	_____	Plant and equipment
_____	_____	Operating expenses
_____	_____	Marketable securities
_____	_____	Interest expense
_____	_____	Sales
_____	_____	Notes payable (6 months)
_____	_____	Bonds payable, maturity 2019
_____	_____	Common stock
_____	_____	Depreciation expense
_____	_____	Inventories
_____	_____	Capital in excess of par value
_____	_____	Net income (earnings after taxes)
_____	_____	Income tax payable

c. What is the ratio of market value per share to book value per share?

25. Amigo Software Inc. has total assets of \$889,000, current liabilities of \$192,000, and long-term liabilities of \$154,000. There is \$87,000 in preferred stock outstanding. Thirty thousand shares of common stock have been issued.

a. Compute book value (net worth) per share.

b. If there is \$56,300 in earnings available to common stockholders and the firm's stock has a P/E of 23 times earnings per share, what is the current price of the stock?

c. What is the ratio of market value per share to book value per share? (Round to two places to the right of the decimal point.)

26. Friend Software Inc. has total assets of \$15,000,000, current liabilities of \$1,000,000, and long-term liabilities of \$2,000,000. There is \$5,000,000 in preferred stock outstanding. One million shares of common stock have been issued.

(return on sales)?

9. Network Communications has total assets of \$1,500,000 and current assets of \$612,000. It turns over its fixed assets three times a year. It has \$319,000 of debt. Its return on sales is 8 percent. What is its return on stockholders' equity?

10. Fender's Music, Inc. has total assets of \$1,000,000 and current assets of \$400,000. It has \$300,000 of debt. Its return on sales is 10 percent. What is its return on stockholders' equity?

23. The Lancaster Corporation's income statement is given below.

- a. What is the times-interest-earned ratio?
- b. What would be the fixed-charge-coverage ratio?

LANCASTER CORPORATION	
Sales	\$246,000
Cost of goods sold	122,000
Gross profit	<u>\$124,000</u>
Fixed charges (other than interest)	27,500
Income before interest and taxes	<u>\$ 96,500</u>
Interest	21,800
Income before taxes	<u>\$ 74,700</u>
Taxes (35%)	26,145
Income after taxes	<u><u>\$ 48,555</u></u>

28. Quantum Moving Company has the following data. Industry information also is shown.

Company Data			Industry Data on
Year	Net Income	Total Assets	Net Income/Total Assets
2011	\$424,000	\$2,843,000	14.0%
2012	428,000	3,267,000	9.8
2013	412,000	3,834,000	3.9
Year	Debt	Total Assets	Industry Data on
			Debt/Total Assets
2011	\$1,722,000	\$2,843,000	56.6%
2012	1,732,000	3,267,000	42.0
2013	1,950,000	3,834,000	38.0

As an industry analyst comparing the firm to the industry, are you likely to praise or criticize the firm in terms of:

- Net income/Total assets.
- Debt/Total assets.

29. The Global Products Corporation has three subsidiaries

6. Cyber Security Systems had sales of 3,500 units at \$75 per unit last year. The marketing manager projects a 30 percent increase in unit volume sales this year with a 40 percent price increase. Returned merchandise will represent 8 percent of total sales. What is your net dollar sales projection for this year?

and
Inventory

14. Convex Mechanical Supplies produces a product with the following costs as of July 1, 2012:

Material	\$ 6
Labor	4
Overhead	2
	<hr/>
	\$12

Beginning inventory at these costs on July 1 was 5,000 units. From July 1 to December 1, Convex produced 15,000 units. These units had a material cost of \$10 per unit. The costs for labor and overhead were the same. Convex uses FIFO inventory accounting.

15. The Bradley Corporation produces a product with the following costs as of July 1, 2014:

Material	\$4 per unit
Labor	4 per unit
Overhead	2 per unit

Beginning inventory at these costs on July 1 was 3,250 units. From July 1 to December 1, 2014, Bradley produced 12,500 units. These units had a material cost of \$5, labor of \$4, and overhead of \$5 per unit. Bradley uses LIFO inventory accounting.

9. Watt's Lighting Stores made the following sales projection for the next six months. All sales are credit sales.

March	\$35,000
April	41,000
May	30,000
June	39,000
July	47,000
August	49,000

Sales in January and February were \$38,000 and \$37,000, respectively.

Experience has shown that of total sales, 10 percent are uncollectible, 30 percent are collected in the month of sale, 40 percent are collected in the following month, and 20 percent are collected two months after sale.

Prepare a monthly cash receipts schedule for the firm for March through August.

Of the sales expected to be collected in the month of sale, 10 percent are uncollectible, 20 percent are collected in the month of sale, 30 percent are collected in the following month, and 40 percent are collected two months after sale.

5. Eaton Tool Company has fixed costs of \$255,000, sells its units for \$66, and has variable costs of \$36 per unit.
- Compute the break-even point.
 - Ms. Eaton comes up with a new plan to cut fixed costs to \$200,000. However, more labor will now be required, which will increase variable costs per unit to \$39. The sales price will remain at \$66. What is the new break-even point?
 - Under the new plan, what is likely to happen to profitability at very high volume levels (compared to the old plan)?

12. Healthy Foods Inc. sells 50-pound bags of grapes to the military for \$10 a bag. The fixed costs of this operation are \$80,000, while the variable costs of grapes are \$.10 per pound.

- a. What is the break-even point in bags?
- b. Calculate the profit or loss on 12,000 bags and on 25,000 bags.
- c. What is the degree of operating leverage at 20,000 bags and at 25,000 bags? Why does the degree of operating leverage change as the quantity sold increases?
- d. If Healthy Foods has an annual interest expense of \$10,000, calculate the degree of financial leverage at both 20,000 and 25,000 bags.
- e. What is the degree of combined leverage at both sales levels?

19. Firms in Japan often employ both high operating and financial leverage because of the use of modern technology and close borrower–lender relationships. Assume the Mitaka Company has a sales volume of 130,000 units at a price of \$30 per unit; variable costs are \$10 per unit, and fixed costs are \$1,850,000. Interest expense is \$405,000. What is the degree of combined leverage for this Japanese firm?