

## INCOME STATEMENT

**P1.10** Farwell Company has the following information available from its most recent fiscal year. Use the relevant information to determine the net income (loss) for the period.

- A. Cash sales, \$40,000
- B. Employee salary expense, \$30,000
- C. Common stock issued for cash, \$100,000
- D. Sales on account, \$58,000
- E. Utility expense, \$1,500
- F. Long-term loan received, \$50,000
- G. Interest earned on investments, \$100
- H. Property tax expense, \$10,000
- I. Inventory purchased for resale, \$120,000
- J. Cost of inventory sold, \$102,000
- K. Insurance purchased for the next year, \$4,800
- L. Rent expense, \$12,000

## FINANCIAL ANALYSIS

**P2.7** The financial statements for Faulkender Company are as follows:

**FAULKENDER COMPANY**  
Comparative Balance Sheet  
December 31, 2009 and 2008

	<u>2008</u>	<u>2009</u>
Cash	\$22,000	\$20,000
Accounts receivable	41,500	39,000
Inventory	72,000	64,000
Plant and equipment	288,000	265,000
Accumulated depreciation	<u>(80,000)</u>	<u>(72,000)</u>
Total assets	<u>\$343,500</u>	<u>\$316,000</u>
Accounts payable	\$ 24,000	\$ 37,000
Wages payable	3,500	4,000
Taxes payable	6,750	8,500
Bonds payable	100,000	100,000
Common stock	80,000	80,000
Retained earnings	<u>129,250</u>	<u>86,500</u>
Total liabilities and stockholder's equity	<u>\$343,500</u>	<u>\$316,000</u>

**FAULKENDER COMPANY**  
Income Statement  
For the Year Ended December 31, 2009

Sales	\$400,000	
Cost of goods sold	<u>248,000</u>	
Gross margin		\$152,000
Operating expenses:		
Selling expenses	\$39,000	
Rent expense	\$45,000	
Depreciation expense	\$11,000	
Bad debt expense	1,715	
Interest expense	<u>15,000</u>	<u>111,715</u>
Income from operations		\$ 40,285
Loss on sale of equipment		<u>(1,000)</u>
Income before taxes		\$39,285
Income tax expense		11,785
Net income		<u>\$27,500</u>

**CALCULATE RATIOS AND EXPLAIN EACH ONE**

Quick ratio:

Current ratio:

Gross margin ratio:

Return on sales ratio:

Return on investment ratio:

Return on owners' equity ratio:

Debt to equity ratio:

Accounts receivable turnover:

Days in the collection period:

Inventory turnover:

Days in the selling period:

Accounts payable turnover:

Days in the payment period: