

DESCRIPTION:

This activity covers the financial statements and ratios. Hand out the account note cards randomly to students. Ask them to make two groups - income statement and balance sheet. You can give them a blank form and ask them to write up an organized statement for each (or, you can have them lineup according to the order of the statement they represent). Next, hand out the ratio note cards randomly and ask students to find the people they need to calculate the ratio on their card.

RATIONALE:

This activity works because it gets students actively involved in reviewing their understanding of the accounts that make up the Income Statement and Balance Sheet. It also tests their ability to calculate ratios from the statements.

MATERIALS NEEDED:

Account note cards

Ratio note cards

Blank forms for Income statement and balance sheet (optional)

BLANK FORMS FOR STATEMENTS:

| INCOME STATEMENT | | |
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| BALANCE SHEET | |
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CALCULATE RATIOS:

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:

FINANCIAL STATEMENTS KEY:**COMPANY NAME**

Income Statement

For the Year Ended December 31, XXXX

| | | |
|---------------------------|--------------|-----------------|
| Sales | | \$240,000 |
| Cost of goods sold | | <u>148,000</u> |
| Gross Margin | | \$91,200 |
| Operating Expenses: | | |
| Selling expenses | \$23,400 | |
| Administrative expenses | 41,700 | |
| Depreciation expense | <u>9,600</u> | <u>74,700</u> |
| Income from operations | | \$16,500 |
| Gain on sale of equipment | | <u>1,000</u> |
| Income before taxes | | \$17,500 |
| Income tax expense | | <u>5,250</u> |
| Net Income | | <u>\$12,250</u> |

COMPANY NAME

Balance Sheet

March 31, 2011

| | |
|--|------------------|
| Cash | \$13,200 |
| Accounts receivable | 24,900 |
| Inventory | 43,200 |
| Plant and equipment | 172,800 |
| Accumulated depreciation | <u>48,000</u> |
| Total assets | <u>\$206,100</u> |
| Accounts payable | \$14,000 |
| Salaries payable | 2,050 |
| Dividends payable | 4,500 |
| Long-term notes payable | 60,000 |
| Common stock | 48,000 |
| Retained earnings | <u>77,550</u> |
| Total liabilities and stockholder's equity | <u>\$206,100</u> |

RATIOS KEY:

QUICK RATIO: (cash + short-term investments + receivables) / current liabilities
 $(\$13,200 + \$24,900) / (\$14,000 + \$2,050 + 4,500) = 1.85$

CURRENT RATIO: Current assets/Current liabilities
 $(\$13,200 + \$24,900 + \$43,200) / (\$14,000 + \$2,050 + 4,500) = 3.96$

GROSS MARGIN RATIO: gross margin / sales
 $\$91,200 / \$240,000 = 38\%$

RETURN ON SALES RATIO: Net income/Sales
 $\$12,250 / \$240,000 = 5.10\%$

RETURN ON INVESTMENT RATIO: net income / average total assets
 $\$12,250 / 197,850 = 6.19\%$

RETURN ON OWNERS' EQUITY RATIO: net income / average owners' equity
 $\$12,250 / [(\$48,000 + \$64,725) / 2] = 21.73\%$

DEBT TO EQUITY RATIO: Total debt / total shareholders' equity
 $(\$14,000 + \$2,050 + \$4,500 + \$60,000) / (\$48,000 + \$77,550) = .64$

ACCOUNTS RECEIVABLE TURNOVER: sales / average accounts receivable
 $\$240,000 / \$24,150 = 9.9379$ times

DAYS IN THE COLLECTION PERIOD: $365 / 9.9379 = 36.73$ days

INVENTORY TURNOVER: cost of sales / average inventory
 $\$148,800 / \$40,800 = 3.6471$ times

DAYS IN THE SELLING PERIOD: $365 / 3.6471 = 100.08$ days

ACCOUNTS PAYABLE TURNOVER: cost of sales / average accounts payable
 $\$148,800 / \$18,100 = 8.221$ times

DAYS IN THE PAYMENT PERIOD: $365 / 8.221 = 44.4$ days