

## FA 4 FS.handouts.pencast

### LO4 Forms of the Income Statement

**P 7.** Oak Nursery Corporation's single-step income statements for 2010 and 2009 follow.

	2010	2009
<b>Revenues</b>		
Net sales	\$525,932	\$475,264
Interest income	1,800	850
Total revenues	<u>\$527,732</u>	<u>\$476,114</u>
<b>Costs and expenses</b>		
Cost of goods sold	\$234,948	\$171,850
Selling expenses	161,692	150,700
General and administrative expenses	62,866	42,086
Interest expense	3,600	1,700
Total costs and expenses	<u>\$463,106</u>	<u>\$366,336</u>
<b>Income before income taxes</b>	\$ 64,626	\$109,778
<b>Income taxes expense</b>	16,000	28,600
<b>Net income</b>	<u>\$ 48,626</u>	<u>\$ 81,178</u>
Earnings per share	<u>\$ 2.43</u>	<u>\$ 4.06</u>

Oak Nursery Corporation had 20,000 shares of common stock outstanding during both 2010 and 2009.

### *Required*

1. From the information provided, prepare multistep income statements for 2009 and 2010 showing percentages of net sales for each component.
2. Did income from operations increase or decrease from 2009 to 2010? Write a short explanation of why this change occurred.
3. What effect did other revenues and expenses have on the change in income before income taxes? What action by management probably caused this change?

## LO5 Liquidity and Profitability

**P 8.** A summary of data from the income statements and balance sheets for Roman Construction Supply, Inc., for 2010 and 2009 appears below.

	<b>2010</b>	<b>2009</b>
Current assets	\$ 183,000	\$ 155,000
Total assets	1,160,000	870,000
Current liabilities	90,000	60,000
Long-term liabilities	400,000	290,000
Stockholders' equity	670,000	520,000
Net sales	2,300,000	1,740,000
Net income	150,000	102,000

Total assets and stockholders' equity at the beginning of 2009 were \$680,000 and \$420,000, respectively.

### ***Required***

1. Compute the following liquidity measures for 2009 and 2010: (a) working capital and (b) current ratio. Comment on the differences between the years.
2. Compute the following measures of profitability for 2009 and 2010: (a) profit margin, (b) asset turnover, (c) return on assets, (d) debt to equity ratio, and (e) return on equity. Comment on the change in performance from 2009 to 2010.

### LO3 LO5 Classified Balance Sheet

**P 9.** The following information is from the June 30, 2011, post-closing trial balance of Beauty Supplies Corporation.

Account Name	Debit	Credit
Cash	\$ 16,000	
Short-Term Investments	16,500	
Notes Receivable	5,000	
Accounts Receivable	138,000	
Merchandise Inventory	72,500	
Prepaid Rent	800	
Prepaid Insurance	2,400	
Sales Supplies	640	
Office Supplies	220	
Deposit for Future Advertising	1,840	
Building, Not in Use	24,800	
Land	11,700	
Delivery Equipment	20,600	
Accumulated Depreciation–Delivery Equipment		\$ 14,200
Trademark	2,000	
Accounts Payable		57,300
Salaries Payable		2,600
Interest Payable		920
Long-Term Notes Payable		40,000
Common Stock (\$1.10 par value)		11,000
Additional Paid-in Capital		80,000
Retained Earnings		106,980

1. From the information provided, prepare a classified balance sheet for Beauty Supplies Corporation.
2. Compute Beauty Supplies' current ratio and debt to equity ratio.
3. As a user of the classified balance sheet, why would you want to know the current ratio or the debt to equity ratio?