|  |
| --- |
| Comparative financial statements for Heritage Antiquing Services for the fiscal year ending December 31 appear on the following page. The company did not issue any new common or preferred stock during the year. A total of 500 thousand shares of common stock were outstanding. The interest rate on the bond payable was 10%, the income tax rate was 40%, and the dividend per share of common stock was $.75. The market value of the company’s common stock at the end of the year was $21. All of the company’s sales are on account. |

|  |
| --- |
| Heritage Antiquing ServicesComparative Balance Sheet(dollars in thousands) |
|   | This Year | Last Year |
| **Assets** |   |   |   |   |   |   |
|   Current assets: |   |   |   |   |   |   |
|      Cash | $ | 1,110 |   | $ | 1,250 |   |
|      Accounts receivable, net |   | 9,400 |   |   | 8,100 |   |
|      Inventory |   | 13,600 |   |   | 11,100 |   |
|      Prepaid expenses |   | 600 |   |   | 520 |   |
|   |  |  |  |  |  |  |
|   Total current assets |   | 24,710 |   |   | 20,970 |   |
|   |  |  |  |  |  |  |
|   Property and equipment: |   |   |   |   |   |   |
|      Land |   | 10,400 |   |   | 10,400 |   |
|      Buildings and equipment, net |   | 45,206 |   |   | 38,903 |   |
|   |  |  |  |  |  |  |
|   Total property and equipment |   | 55,606 |   |   | 49,303 |   |
|   |  |  |  |  |  |  |
|   Total assets | $ | 80,316 |   | $ | 70,273 |   |
|   |  |  |  |  |  |  |
| **Liabilities and Stockholders' Equity** |   |   |   |   |   |   |
|   Current liabilities: |   |   |   |   |   |   |
|      Accounts payable | $ | 20,100 |   | $ | 18,800 |   |
|      Accrued payables |   | 1,050 |   |   | 780 |   |
|      Notes payable, short term |   | 0 |   |   | 290 |   |
|   |  |  |  |  |  |  |
|   Total current liabilities |   | 21,150 |   |   | 19,870 |   |
|   Long-term liabilities: |   |   |   |   |   |   |
|      Bonds payable |   | 8,700 |   |   | 8,700 |   |
|   |  |  |  |  |  |  |
|   Total liabilities |   | 29,850 |   |   | 28,570 |   |
|   |  |  |  |  |  |  |
|   Stockholders' equity: |   |   |   |   |   |   |
|      Preferred stock |   | 1,000 |   |   | 1,000 |   |
|      Common stock |   | 2,000 |   |   | 2,000 |   |
|      Additional paid-in capital |   | 4,000 |   |   | 4,000 |   |
|   |  |  |  |  |  |  |
|        Total paid-in capital |   | 7,000 |   |   | 7,000 |   |
|        Retained earnings |   | 43,466 |   |   | 34,703 |   |
|   |  |  |  |  |  |  |
|   Total stockholders' equity |   | 50,466 |   |   | 41,703 |   |
|   |  |  |  |  |  |  |
|   Total liabilities and stockholders' equity | $ | 80,316 |   | $ | 70,273 |   |
|   |  |  |  |  |  |  |
|  |

|  |
| --- |
| Heritage Antiquing ServicesComparative Income Statement and Reconciliation(dollars in thousands) |
|   | This Year | Last Year |
|   Sales | $ | 73,000 |   | $ | 64,000 |   |
|   Cost of goods sold |   | 39,000 |   |   | 38,000 |   |
|   |  |  |  |  |  |  |
|   Gross margin |  | 34,000 |  |  | 26,000 |  |
|   |  |  |  |  |  |  |
|   Selling and administrative expenses: |   |   |   |   |   |   |
|   Selling expenses |   | 10,700 |   |   | 10,200 |   |
|   Administrative expenses |   | 7,100 |   |   | 7,000 |   |
|   |  |  |  |  |  |  |
|   Total selling and administrative expenses |   | 17,800 |   |   | 17,200 |   |
|   |  |  |  |  |  |  |
|   Net operating income |   | 16,200 |   |   | 8,800 |   |
|   Interest expense |   | 870 |   |   | 870 |   |
|   |  |  |  |  |  |  |
|   Net income before taxes |   | 15,330 |   |   | 7,930 |   |
|   Income taxes |   | 6,132 |   |   | 3,172 |   |
|   |  |  |  |  |  |  |
|   Net income |   | 9,198 |   |   | 4,758 |   |
|   Dividends to preferred stockholders |   | 60 |   |   | 320 |   |
|   |  |  |  |  |  |  |
|   Net income remaining for common stockholders |   | 9,138 |   |   | 4,438 |   |
|   Dividends to common stockholders |   | 375 |   |   | 375 |   |
|   |  |  |  |  |  |  |
|   Net income added to retained earnings |   | 8,763 |   |   | 4,063 |   |
|   Retained earnings, beginning of year |   | 34,703 |   |   | 30,640 |   |
|   |  |  |  |  |  |  |
|   Retained earnings, end of year | $ | 43,466 |   | $ | 34,703 |   |
|   |  |  |  |  |  |  |
|  |

|  |
| --- |
| **Required:** |
| Compute the following financial ratios for long-term creditors for this year: |

|  |  |
| --- | --- |
| **1.** | Times interest earned ratio. **(Round your answer to 1 decimal place. )** |

|  |  |
| --- | --- |
|   Times interest earned ratio |   |

|  |  |
| --- | --- |
| **2.** | Debt-to-equity ratio. **(Round your answer to 2 decimal places.)** |

|  |  |
| --- | --- |
|   Debt-to-equity ratio |   |