|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Exercise 14-6 Selected Financial Ratios (LO3, LO4)** |  |  |  |  |  |
| Recent financial statements for Madison Corporation, a company that sells drilling equipment, are given below: |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | Madison Corporation  |  |  |  |  |
|  | Balance Sheet  |  |  |  |  |  |
|  | 30-Jun |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Assets |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |
| Cash  |  | 21,000 |  |  |  |  |
| Accounts recievable, net |  | 160,000 |  |  |  |  |
| Merchandise inventory |  | 300,000 |  |  |  |  |
| Prepaid expenses |  | 9,000 |  |  |  |  |
| Total current assets |  | 490,000 |  |  |  |  |
| Propert and equipment |  | 810,000 |  |  |  |  |
| Total assets: |  | 1,300,000 |  |  |  |  |
|  |  |  |  |  |  |  |
| Liabilities and Stockholders' Equity |  |  |  |  |  |  |
| Liabilities  |  |  |  |  |  |  |
|  Current liabilities |  | 200,000 |  |  |  |  |
|  Bonds payable |  | 300,000 |  |  |  |  |
| Total liabilities |  | 500,000 |  |  |  |  |
| Stockholders' equity |  |  |  |  |  |  |
|  Common stock, $5 par value | 100,000 |  |  |  |  |  |
| Retained Earnings | 700,000 |  |  |  |  |  |
| Total stockholders' equity |  | 800,000 |  |  |  |  |
| Total labilities and stockholders' equity | 1,300,000 |  |  |  |  |
|  |  |  |  |  |  |  |
|  | Madison Corporation |  |  |  |  |
|  | Income Statement |  |  |  |  |
| Sales | 2,100,000 |  |  |  |  |  |
| Cost of goods sold | 1,260,000 |  |  |  |  |  |
| Gross Margin | 840,000 |  |  |  |  |  |
| Selling and administrative expense | 660,000 |  |  |  |  |  |
| Net operating | 180,000 |  |  |  |  |  |
| Interest expense | 30,000 |  |  |  |  |  |
| Net income before taxes | 150,000 |  |  |  |  |  |
| Income taxes (30%) | 45,000 |  |  |  |  |  |
| Net Income  | 105,000 |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Account balances at the beginning of the company's fiscal year were: accounts receivable,  |  |  |
| $140,000; and inventory, $260,000. All sales were on account. |  |  |  |  |

**Exercise 14-7 Selected Financial Ratios for Common Stockholders.**

Refer to the financial statements for Madison Corporation in Exercise 14-6. In addition to the data in these statements, assume that Madison Corp paid dividends of $3.15 per share during the year. Also, assume that the company’s common stock had a market price of $63 per share on June 30 and there was no change in the number of outstanding shares of common stock during the fiscal year.

Required:

Compute the following financial ratios:

1. Earnings per share
2. Dividend payout ratio
3. Dividend yield ratio
4. Price earnings ratio

 **14-8 Selected Financial Ratios for Common Stockholders (LO2)**

Refer to the financial statements for Madison Corporation in Exercise 14-6. Assets at the beginning of the year totaled $1,100,000, and the stockholders’ equity totaled $725,000.

Required:

Compute the following financial ratios:

1. Return on total assets.
2. Return on common stockholders’ equity.
3. Was Financial Leverage positive or negative for the year? Explain.