PROBLEM 14-11B

Interpretation of Financial Ratios

(LO1, LO2, LO3)

CHECK FIGURE

none

Shannon Michaels is interested in the stock of Acelicom, a company that sells building materials to the construction industry. Before purchasing the stock, Shannon would like your help in analyzing the following data:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | *Year 3* | *Year 2* | *Year 1* |
|  | Sales trend | 135 | 122 | 110 |
|  | Current ratio | 2.5 | 2.4 | 2.2 |
|  | Acid-test (quick) ratio | 0.8 | 1.0 | 1.2 |
|  | Accounts receivable turnover | 10.2 | 10.9 | 13.1 |
|  | Average sale period | 6.8 | 8.2 | 8.8 |
|  | Dividend yield | 7.8% | 6.9% | 6.1% |
|  | Dividend payout ratio | 40% | 50% | 60% |
|  | Return on total assets | 13.1% | 12.4% | 11.0% |
|  | Return on common stockholders’ equity | 14.5% | 11.2% | 9.6% |
|  | Dividends paid per share \* | $1.55 | $1.55 | $1.55 |

\*There have been no changes in common stock outstanding over the three-year period.

Shannon would like answers to a number of questions about the trend of events in Acelicom over the last three years. His questions are:

**Required:**

1. **Is it becoming easier for the company to pay its bills as they come due?**

**Explain your answer**