**11.3**

**Effect of transactions on various financial ratios**

Indicate the effect that each transaction/event listed here will have on the financial ratio listed opposite it, and provide an explanation for your answer. Use + for increase, - for decrease, and (NE) for no effect. Assume that current assets exceed current liabilities in all cases, both before and after the transaction/event.

**Transaction/Event Financial Ratio**

1. Split the common stock 2 for 1 Book value per share of common stock
2. Collected accounts receivable Number of days’ sales in accounts receivable
3. Issued common stock for cash Total asset turnover
4. Sold treasury stock Return on equity
5. Accrued interest on a note receivable Current ration
6. Sold inventory on account Acid-test ratio
7. Wrote off an uncollectible account Accounts receivable turnover
8. Declared a cash dividend Dividend yield
9. Incurred operating expenses Margin
10. Sold equipment at a loss Earnings per share

**11.4**

**Effect of transactions on various financial ratios.**

Indicate the effect that each transaction/event listed here will have on the financial ratio listed opposite it, and provide an explanation for your answers. Use + for increase, - for decrease, and (NE) for no effect. Assume that current assets exceeded current liabilities in all cases, both before and after the transaction/event.

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Transaction/Event Financial Ratio**

1. Purchased inventory on account Number of days’ sales in inventory
2. Sold inventory for cash, at a profit Inventory turnover
3. Issued a 10% stock dividend Earnings per share
4. Issued common stock for cash Debt ratio
5. Sold land for a gain Return on investment
6. Purchased treasury stock for cash Debt/equity ratio
7. Accrued interest on a note payable Times interest earned
8. Accrued wages that have been earned by employees Current ratio
9. Purchased equipment for cash Plant and equipment turnover
10. Issued bonds at an interest rate that is less than the Return on equity

Company’s ROI