* P-2.12, *Understanding and Analyzing Financial Statement Relationships*, page 66. This exercise introduces some basic relationships within financial statements.
  + Gary’s TV had the following accounts and amounts in its financial statements on December 31, 2010. Assume that all balance sheet items reflect account balances at December 31, 2010, and that all income statement items reflect activities that occurred during the year then ended.

|  |  |
| --- | --- |
| Interest expense | 36,000 |
| Paid-in capital | 80,000 |
| Accumulated depreciation | 24,000 |
| Notes payable (long-term) | 280,000 |
| Rent expense | 72,000 |
| Merchandise inventory | 840,000 |
| Accounts receivable | 192,000 |
| Depreciation expense | 12,000 |
| Land | 128,000 |
| Retained earnings | 900,000 |
| Cash | 144,000 |
| Cost of goods sold | 1,760,000 |
| Equipment | 72,000 |
| Income tax expense | 240,000 |
| Accounts payable | 92,000 |
| Sales revenue | 2,480,000 |

Required:

1. Calculate the differences between current assets and current liabilities for Gary’s TV at December 31, 2010.
2. Calculate the total assets at December 31, 2010.
3. Calculate the earnings from operations (operating income) for the year ended December 31, 2010.
4. Calculate the net income (or loss) for the year ended December 31, 2010.
5. What was the average income tax rate for Gary’s TV for 2010?
6. If 256,000 of dividends had been declared and paid during the year, what was the January 1, 2010, balance of retained earnings?

* P-2.14, *Prepare an Income Statement, Balance Sheet, and Statement of Changes in Owners' Equity*, pages 67–68. This question invites you to consider the composition of the financial statements.

|  |  |
| --- | --- |
| Merchandise inventory | 264,000 |
| Notes payable (long-term) | 300,000 |
| Sales | 900,000 |
| Buildings and equipment | 504,000 |
| Selling, general, and administrative expenses | 72,000 |
| Accounts receivable | 120,000 |
| Common stock (42,000 shares) | 210,000 |
| Income tax expense | 84,000 |
| Cash | 192,000 |
| Retained earnings, 1/1/10 | 129,000 |
| Accrued liabilities | 18,000 |
| Cost of goods sold | 540,000 |
| Accumulated depreciation | 216,000 |
| Interest expense | 48,000 |
| Accounts payable | 90,000 |
| Dividends declared and paid during 210 | 39,000 |

Except as otherwise indicated, assume that all balance sheet items reflect account balances at December 31, 2010 and that all income statement items reflect activities that occurred during the year ended December 31, 2010. There were no changes in paid-in capital during the year.

Required:

1. Prepare an income statement and statement of changes in owners’ equity for the year ended December 31, 2010, and a balance sheet at December 31, 2010, for Shae, Inc.
   * Based on the financial statements that you have prepared for part **a**, answer the questions in parts **b-e**. Provide brief explanations for each of your answers and state any assumptions you believe are necessary to ensure that your answers are correct
2. What is the company’s average income tax rate?
3. What interest rate is charged on long-term debt?
4. What is the par value per share of common stock?
5. What is the company’s dividend policy (i.e. what proportion of the company’s earning is used for dividends)?

* P-3.16, *ROI Analysis Using DuPont Model*, pages 98–99. This provides an opportunity to complete some useful financial analysis.
  + Charlie’s Furniture Store has been in business for several years. The firm’s owners have described the store as a “high-price, high-service” operation that provides lots of assistance to its customers. Margin has averaged a relatively high 32% per year for several years, but turnover has been a relatively low 0.4 based on average total assets of $1,6000,000. A discount furniture store is about to open in the area served by Charlie’s, and management is considering lowering prices to compete effectively.
  + Required:
    1. Calculate current sales and ROI for Charlie’s Furniture Store.
    2. Assuming that the new strategy would reduce margin to 20%, and assuming that average total assets would stay the same, calculate the sales that would be required to have the same ROI as Charlie’s currently earns.
    3. Suppose you presented the results of your analysis in parts **a** and **b** of this problem to Charlie, and he replied, “What are you telling me? If I reduce my prices as planned, then I have to practically double my sales volume to earn the same return?” Given the results of your analysis, how would you react to Charlie?
    4. Now suppose Charlie says, “You know, I’m not convinced that lowering prices is my only option in staying competitive. What if I were to increase my marketing effort? I’m thinking about kicking off a new advertising campaign after conducting more extensive market research to better identify who my target customer groups are.” In general, explain to Charlie what the likely impact of a successful strategy of this nature would be on margin, turnover, and ROI.
    5. Think of an alternative strategy that might help Charlie maintain the competitiveness of his business. Explain the strategy, and then describe the likely impact of this strategy on margin, turnover, and ROI.