Given the following balance sheet, income statement, historical ratios and industry averages,

1. Calculate the financial ratios for the most current year.
2. Analyze its overall financial situation for the most recent year. Break your analysis into an evaluation of the firm’s liquidity, activity, debt and profitability.

**Income Statement**

**For the Year Ended December 31, 2010**

Sales Revenue $2,080,976

Less: Cost of Goods Sold 1,701,000

Gross Profit $379,976

Less: Operating Expenses 273,846

Operating Profit $106,130

Less: Interest Expense 19,296

Net Profit before Taxes $86,834

Less: Taxes (40%) 34,810

Net Profit after Taxes $52,024

**Balance Sheet**

**December 31, 2010**

**Assets**

Cash $95,000

Accounts Receivable 237,000

Inventories 243,000

Total Current Assets $575,000

Gross Fixed Assets $500,000

Less: Accumulated Depreciation 75,000

Net Fixed Assets 425,000

Total Assets $1,000,000

**Liabilities and Stockholders’ Equity**

Accounts Payable $ 89,000

Accrual 87,000

Notes Payable 169,000

Total Current Liabilities $345,000

Long Term Debt 188,000

Total Liabilities $533,000

Stockholders’ Equity:

Common Stock 255,000

Retained Earnings 212,000

Total Stockholders’ Equity $467,000

Total Liabilities & Stockholders’ Equity $1,000,000

**Historical and Industry Average Ratios**

**Industry Avg.**

**2008 2009 2010 2010**

Current Ratio 1.6 1.7 1.6

Quick Ratio 0.9 1.0 0.9

Inventory Turnover 8.1 9.3 8.4

Average Collection Period 33 Days 37 Days 39 Days

Total Asset Turnover 2.3 2.2 2.2

Debt Ratio 60% 56% 58%

Times Interest Earned 2.5 3.5 2.3

Gross Profit Margin 21.0% 19.7% 21.4%

Operating Profit Margin 4.7% 4.8% 4.7%

Net Profit Margin 1.8% 1.6% 1.4%

Return on Total Assets 4.1% 3.5%  3.1%

Return on Equity 10.3% 7.9%  7.3%