UABC Problem

Comparative income statements and balance sheets for Utica Company follow for 2011 and 2010.

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| UABC Company |  |  |
| Comparative Income Statements |  |  |
| For Years Ended December 31, 2011 and 2010 |  |  |
|  | 2011 | 2010 |
| Sales | $12,013,631 | $11,016,668 |
| Cost of goods sold | 6,747,451 | 6,267,557 |
| Gross profit | 5,266,180 | 4,749,111 |
| Selling and administrative expenses | 3,637,065 | 3,296,448 |
| Operating income | 1,629,115 | 1,452,664 |
| Other expenses (revenues): |  |  |
| Interest revenue | (95,915) | (77,478) |
| Interest expense | 78,232  | 68,800 |
| Total other expenses (revenues) | (17,683) | (8,678) |
| Income before income taxes | 1,646,798 | 1,461,342 |
| Income taxes | 734,775 | 609,517 |
| Net income | $912,023 | $851,824 |
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| UABC Company |  |  |
| Comparative Balance Sheets |  |  |
| December 31, 2011 and 2010 |  |  |
|  | 2011 | 2010 |
| **Assets** |  |  |
| Cash | $246,652  | $254,183  |
| Marketable securities | 446,013  | 198,746  |
| Accounts receivable | 986,322  | 1,025,321  |
| Inventory | 1,531,467  | 1,588,061  |
| Prepaid expenses | 127,488  | 113,306  |
| Total current assets | 3,337,942  | 3,179,616  |
| Investments and other assets | 790,333  | 592,281  |
| Property Plant and equipment, net | 2,875,290  | 2,628,046  |
| Trademarks and other intangibles | 268,588  | 275,735  |
| Total Assets | $7,272,153  | $6,675,678  |
|  |  |  |
| **Liabilities and stockholders' equity** |  |  |
| Notes payable | $182,880  | $171,671  |
| Current maturities of long-term debt | 10,231  | 14,755  |
| Accounts payable and accrued expenses | 1,858,773  | 1,894,271  |
| Total current liabilities | 2,051,883  | 2,080,697  |
| Long-term debt | 567,495  | 528,494  |
| Total liabilities | 2,619,378  | 2,609,191  |
| Common stock | 127,274  | 122,249  |
| Additional paid-in capital | 232,956  | 221,817  |
| Retained earnings | 4,292,546  | 3,722,420  |
| Total stockholders' equity | 4,652,775  | 4,066,486  |
| Total liabilities and equity | $7,272,153  | $6,675,678  |

***Required:***

**A.** Prepare a comprehensive analysis of UABC for 2011, including the following measures (round all calculations to three decimal places.

1. Short-term solvency ratios (current ratio, acid test, inventory turnover, and days sales in receivables ratios)

2. Long-term solvency ratios (debt-to-equity and times-interest-earned ratios)

3. Performance measurement ratios (asset turnover, return on sales, return on assets, and return on equity ratios)

**B.** Comment on the financial condition of UABC with respect to short-term solvency, long-term solvency, and performance.

**C.** Using the data for UABC Company, prepare common size (vertical analysis) statements and evaluate the company’s performance in 2011 as compared to 2010. For the balance sheets, use total assets as the base; for the income statements, make one set using sales of each year as the base (vertical analysis) and another set using the year 2010 as the base for both years (horizontal analysis).

**D.** Comment on the condition of UABC drawing on the common size statements prepared above.