

**Income Statement**  
For the Year Ended December 31, 2004

	Allen Company	Barker Company
Sales		
Cost of goods sold	\$1,050,000	\$2,800,000
Selling and administrative expenses	725,000	2,050,000
Interest expense	230,000	580,000
Income taxes	10,000	32,000
Net income	<u>42,000</u>	<u>65,000</u>
	<u>\$ 43,000</u>	<u>\$ 73,000</u>
<b>Industry Averages:</b>		
Times interest earned		7.2 times
Debt ratio		40.3%
Debt/equity		66.6%
Debt to tangible net worth		72.7%

- Required**
- Compute the following ratios for each company:
    - Times interest earned
    - Debt ratio
    - Debt/equity ratio
    - Debt to tangible net worth
  - Is Barker Company in a position to take on additional long-term debt? Explain.
  - Which company has the better long-term debt position? Explain.

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Consecutive five-year balance sheets and income statements of the Laura Gibson Corporation are shown below and on the following page.

- Required**
- Compute the following for the years ended December 31, 2000–2004:
    - Times interest earned
    - Fixed charge coverage
    - Debt ratio
    - Debt/equity ratio
    - Debt to tangible net worth
  - Comment on the debt position and the trends indicated in the long-term debt-paying ability.

**Laura Gibson Corporation**  
**Balance Sheets**  
December 31, 2000 through December 31, 2004

(Dollars in thousands)

	2004	2003	2002	2001	2000
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 27,000	\$ 26,000	\$ 25,800	\$ 25,500	\$ 25,000
Accounts receivable, net	135,000	132,000	130,000	129,000	128,000
Inventories	<u>128,000</u>	<u>130,000</u>	<u>134,000</u>	<u>132,000</u>	<u>126,000</u>
Total current assets	290,000	288,000	289,800	286,500	279,000
Property, plant and equipment, net	250,000	248,000	247,000	246,000	243,000
Intangibles	<u>20,000</u>	<u>18,000</u>	<u>17,000</u>	<u>16,000</u>	<u>15,000</u>
Total assets	<u>\$560,000</u>	<u>\$554,000</u>	<u>\$553,800</u>	<u>\$548,500</u>	<u>\$537,000</u>
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 75,000	\$ 76,000	\$ 76,500	\$ 77,000	\$ 78,000
Income taxes	<u>13,000</u>	<u>13,500</u>	<u>14,000</u>	<u>13,000</u>	<u>13,500</u>
Total current liabilities	88,000	89,500	90,500	90,000	91,500
Long-term debt	170,000	168,000	165,000	164,000	262,000
Stockholders' equity	<u>302,000</u>	<u>296,500</u>	<u>298,300</u>	<u>294,500</u>	<u>183,500</u>
Total liabilities and stockholders' equity	<u>\$560,000</u>	<u>\$554,000</u>	<u>\$553,800</u>	<u>\$548,500</u>	<u>\$537,000</u>

**Laura Gibson Corporation**  
**Statement of Earnings**  
**Years Ended December 31, 2000-2004**

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(continued)

<i>(In thousands, except per share)</i>	2004	2003	2002	2001	2000
Net sales	\$920,000	\$950,000	\$910,000	\$850,000	\$800,000
Cost of goods sold	<u>640,000</u>	<u>648,000</u>	<u>624,000</u>	<u>580,000</u>	<u>552,000</u>
Gross margin	280,000	302,000	286,000	270,000	248,000
Selling and administrative expense	156,000	157,000	154,000	150,000	147,000
Interest expense	<u>17,000</u>	<u>16,000</u>	<u>15,000</u>	<u>14,500</u>	<u>23,000</u>
Earnings from continuing operations before income taxes	107,000	129,000	117,000	105,500	78,000
Income taxes	<u>36,300</u>	<u>43,200</u>	<u>39,800</u>	<u>35,800</u>	<u>26,500</u>
Earnings from continuing operations	<u>70,700</u>	<u>85,800</u>	<u>77,200</u>	<u>69,700</u>	<u>51,500</u>
Discontinued operating earnings (loss), net of taxes:					
From operations	(1,400)	1,300	1,400	1,450	1,600
On disposal	<u>(900)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings (loss) from discontinued operation	<u>(2,300)</u>	<u>1,300</u>	<u>1,400</u>	<u>1,450</u>	<u>1,600</u>
Net earnings	<u>\$ 68,400</u>	<u>\$ 87,100</u>	<u>\$ 78,600</u>	<u>\$ 71,150</u>	<u>\$ 53,100</u>
Earnings (loss) per share:					
Continuing operations	\$ 1.53	\$ 1.69	\$ 1.46	\$ 1.37	\$ 1.25
Discontinued operations	<u>(.03)</u>	<u>.01</u>	<u>.01</u>	<u>.01</u>	<u>.01</u>
Net earnings per share	<u>\$ 1.50</u>	<u>\$ 1.70</u>	<u>\$ 1.47</u>	<u>\$ 1.38</u>	<u>\$ 1.26</u>

Note: Operating lease payments were as follows: 2004, \$30,000; 2003, \$27,000; 2002, \$28,500; 2001, \$30,000; 2000, \$27,000. (Dollars in thousands)