P 11-5 (Continued)

GROWTH INC.
Statement of Income
Years Ended December 31, 2004, 2003, and 2002

	2004	2003	2002
Revenues	$578,530	$523,249	$556,549
Costs and expenses:			
Cost of products sold	495,651	457,527	482,358
Selling, general, and administrative	35,433	30,619	29,582
Interest and debt expense	4,308	3,951	2,630
	535,392	492,097	514,570
Income before income taxes	43,138	31,152	41,979
Provision for income taxes	20,120	12,680	17,400
Net income	$ 23,018	$ 18,472	$ 24,579
Net income per share	$ 2.27	$ 1.85	$ 2.43

Partial footnotes: Under the LIFO method, inventories have been reduced by approximately $35,300 and $41,100 at December 31, 2004 and 2003, respectively, from current cost, which would be reported under the first-in, first-out method.

The effective tax rates were 36.6%, 30.7%, and 31.4%, respectively, for the years ended December 31, 2004, 2003, and 2002.

Required

a. Compute the following for 2004, without considering the LIFO reserve:

Liquidity
1. Days' sales in inventory
2. Merchandise inventory turnover
3. Inventory turnover in days
4. Operating cycle
5. Working capital
6. Current ratio
7. Acid-test ratio
8. Cash ratio

Debt
1. Debt ratio
2. Debt/equity ratio
3. Times interest earned

Profitability
1. Net profit margin
2. Total asset turnover
3. Return on assets
4. Return on total equity

b. Compute the ratios in part (a), considering the LIFO reserve.

c. Comment on the apparent liquidity, debt, and profitability, considering both sets of ratios.

P 11-6. Required

For each of the following numbered items, you are to select the lettered item(s) that indicate(s) its effect(s) on the corporation's statements. If more than one effect is applicable to a particular item, be sure to indicate *all* applicable letters. (Assume that the state statutes do not permit declaration of nonliquidating dividends except from earnings.)

Item	Effect
1. Declaration of a cash dividend due in one month on noncumulative preferred stock.	a. Reduces working capital
2. Declaration and payment of an ordinary stock dividend.	b. Increases working capital
3. Receipt of a cash dividend, not previously recorded, on stock of another corporation.	c. Reduces current ratio
	d. Increases current ratio
	e. Reduces the dollar amount of total capital stock

P-11-6 (continued)

Item	Effect
4. Passing of a dividend on cumulative preferred stocks.	f. Increases the dollar amount of total capital stock
5. Receipt of preferred shares as a dividend on stock held as a temporary investment. This was not a regularly recurring dividend.	g. Reduces total retained earnings
6. Payment of dividend mentioned in 1.	h. Increases total retained earnings
7. Issue of new common shares in a 5-for-1 stock split.	i. Reduces equity per share of common stock
	j. Reduces equity of each common stockholder

P 11-7. Argo Sales Corporation has in recent years maintained the following relationships among the data on its financial statements:

Gross profit rate on net sales	40%
Net profit rate on net sales	10%
Rate of selling expenses to net sales	20%
Accounts receivable turnover	8 per year
Inventory turnover	6 per year
Acid-test ratio	2-to-1
Current ratio	3-to-1
Quick-asset composition: 8% cash, 32% marketable securities, 60% accounts receivable	
Asset turnover	2 per year
Ratio of total assets to intangible assets	20-to-1
Ratio of accumulated depreciation to cost of fixed assets	1-to-3
Ratio of accounts receivable to accounts payable	1.5-to-1
Ratio of working capital to stockholders' equity	1-to-1.6
Ratio of total debt to stockholders' equity	1-to-2

The corporation had a net income of $120,000 for 2004, which resulted in earnings of $5.20 per share of common stock. Additional information includes the following.

Capital stock authorized, issued (all in 1970), and outstanding:
  Common, $10 per share par value, issued at 10% premium.
  Preferred, 6% nonparticipating, $100 per share par value, issued at a 10% premium.
Market value per share of common at December 31, 2004: $78.
Preferred dividends paid in 2004: $3,000.
Times interest earned in 2004: 33.
The amounts of the following were the same at December 31, 2004, as at January 1, 2004: inventory, accounts receivable, 5% bonds payable—due 2013, and total stockholders' equity.
All purchases and sales were on account.

Required

a. Prepare in good form the condensed balance sheet and income statement for the year ending December 31, 2004, presenting the amounts you would expect to appear on Argo's financial statements (ignoring income taxes). Major captions appearing on Argo's balance sheet are current assets, fixed assets, intangible assets, current liabilities, long-term liabilities, and stockholders' equity. In addition to the accounts divulged in the problem, you should include accounts for prepaid expenses, accrued expenses, and administrative expenses. Supporting computations should be in good form.

b. Compute the following for 2004. (Show your computations.):
   1. Rate of return on stockholders' equity
   2. Price/earnings ratio for common stock
   3. Dividends paid per share of common stock
   4. Dividends paid per share of preferred stock
   5. Yield on common stock

CMA Adapted

P 11-8. Warford Corporation was formed five years ago through a public subscription of common stock. Lucinda Street, who owns 15% of the common stock, was one of the organizers of Warford and is its current president. The company has been successful but currently is experiencing a shortage of funds. On June 10, Street approached Bell National Bank, asking for a 24-month extension on two $30,000 notes, which are due on June 30, 2004, and September 30, 2004. Another note of $7,000 is due on December 31, 2004, but