

**4-11. (Financial analysis)** The T. P. Jarmon Company manufactures and sells a line of exclusive sportswear. The firm's sales were \$600,000 for the year just ended, and its total assets exceeded \$400,000. The company was started by Mr. Jarmon just 10 years ago and has been profitable every year since its inception. The chief financial officer for the firm, Brent Vehlim, has decided to seek a line of credit from the firm's bank totaling \$80,000. In the past, the company has relied on its suppliers to finance a large part of its needs for inventory. However, in recent months tight money conditions have led the firm's suppliers to offer sizable cash discounts to speed up payments for purchases. Mr. Vehlim wants to use the line of credit to replace a large portion of the firm's payables during the summer, which is the firm's peak seasonal sales period.

The firm's two most recent balance sheets were presented to the bank in support of its loan request. In addition, the firm's income statement for the year just ended was provided. These statements are found in the following tables:

**T. P. Jarmon Company, Balance Sheet for 12/31/2009 and 12/31/2010**

	2009	2010
Cash	\$ 15,000	\$ 14,000
Marketable securities	6,000	6,200
Accounts receivable	42,000	33,000
Inventory	51,000	84,000
Prepaid rent	<u>1,200</u>	<u>1,100</u>
Total current assets	\$ 115,200	\$ 138,300
Net plant and equipment	<u>286,000</u>	<u>270,000</u>
Total assets	<u>\$ 401,200</u>	<u>\$ 408,300</u>
Accounts payable	\$ 48,000	\$ 57,000
Notes payable	15,000	13,000
Accruals	<u>6,000</u>	<u>5,000</u>
Total current liabilities	\$ 69,000	\$ 75,000
Long-term debt	160,000	150,000
Common stockholders' equity	<u>172,200</u>	<u>183,300</u>
Total liabilities and equity	<u>\$ 401,200</u>	<u>\$ 408,300</u>