a. Compute the profit margin for 2010.

b. Assume in 2011, sales increase by 12 percent and cost of goods sold increases by 18 percent. The firm is able to keep all other expenses the same. Once again, assume a tax rate of 30 percent on income before taxes. What are income after taxes and the profit margin for 2011?

7. The Jockey Corp. shows the following financial data for 2009 and 2010.

Profitability ratios (LO2)

Year 2009		Year 2010	
Sales	$2,000,000	Sales	$2,800,000
Cost of goods sold	($1,250,000)	Cost of goods sold	($1,500,000)
Gross profit	$750,000	Gross profit	$1,300,000
S & A expenses	($150,000)	S & A expenses	($180,000)
Operating profit	$600,000	Operating profit	$1,120,000
Interest expense	($30,000)	Interest expense	($35,000)
Income before taxes	$570,000	Income before taxes	$1,085,000
Taxes (35%)	($199,500)	Taxes (35%)	($379,750)
Income after taxes	$370,500	Income after taxes	$705,250

For each year, compute the following and indicate whether it is increasing or decreasing profitability in 2010 as indicated by the ratio.

a. Cost of goods sold to sales.

b. Selling and administrative expense to sales.

c. Interest expenses to sales.

8. Northern Lights Company has $1,500,000 in assets and $750,000 of debt. It reports net income of $175,000.

Profitability ratios (LO2)

a. What is the return on the assets?

b. What is the return on the stockholders' equity?

c. If the firm has an asset turnover ratio of 4 times, what is the profit margin (return on sales)?

9. Moscow Textiles has total assets of $2,600,000 and current assets of $1,300,000. It turns over its fixed assets 3.5 times a year. It has $750,000 of debt. Its return on sales is 7 percent. What is its return on stockholders' equity?

Profitability ratios (LO2)

10. Fondue Pots, Inc., has total assets of $4,000,000 and current assets of $1,100,000. It turns over its fixed assets 3.2 times per year. Its return on sales is 8.0 percent. It has $1,500,000 of debt. What is its return of stockholders' equity?

Profitability ratios (LO2)

11. a. Acapulco Industries had an asset turnover of 2.6 times per year. If the return on total assets (investment) was 9.1 percent, what was Acapulco's profit margin?

Profitability ratios (LO2)

b. The following year, on the same level of assets, Acapulco's assets turnover declined to 1.3 times and its profit margin was 7 percent.

How did the return on total assets change from that of the previous year?

www.mhhe.com/bhdl4e