

17. Assume the following data for Cable Corporation and Multi-Media, Inc.

	Cable Corporation	Multi-Media, Inc.
Net income	\$ 30,000	\$ 100,000
Sales	300,000	2,000,000
Total assets	400,000	900,000
Total debt	150,000	450,000
Stockholders' equity	250,000	450,000

Interpreting results from the Du Pont system of analysis (LO3)

- Compute return on stockholders' equity for both firms using ratio 3a. Which firm has the higher return?
 - Compute the following additional ratios for both firms.
 - Net income/Sales
 - Net income/Total assets
 - Sales/Total assets
 - Debt/Total assets
 - Discuss the factors from part b that added or detracted from one firm having a higher return on stockholders' equity than the other firm as computed in part a.
- A firm has sales of \$1.2 million, and 10 percent of the sales are for cash. The year-end accounts receivable balance is \$180,000. What is the average collection period? (Use a 360-day year.)
 - The Chamberlain Corporation has an accounts receivable turnover equal to 12 times. If accounts receivable are equal to \$90,000, what is the value for average daily credit sales?
 - Kamin Corporation has the following financial data for the years 2009 and 2010:

Average collection period (LO2)

Average daily sales (LO2)

Inventory turnover (LO2)

	2009	2010
Sales	\$4,000,000	\$5,000,000
Cost of goods sold	3,000,000	4,500,000
Inventory	400,000	500,000

- Compute inventory turnover based on ratio number 6, Sales/Inventory, for each year.
 - Compute inventory turnover based on an alternative calculation that is used by many financial analysts, Cost of goods sold/Inventory, for each year.
 - What conclusions can you draw from part a and part b?
- Jim Short's Company makes clothing for schools. Sales in 2010 were \$4,000,000. Assets were as follows:

Turnover ratios (LO2)

Cash	\$ 100,000
Accounts receivable	800,000
Inventory	400,000
Net plant and equipment	500,000
Total assets	\$1,800,000