

QUESTIONS

ANALYZING FINANCIAL STATEMENTS TO MAKE INVESTMENT DECISIONS



Question 1: Income Statement, Statement of Changes in Equity and Balance Sheet

P1.7A (LO 4) On June 1, 2021, One Planet Cosmetics Corp. was formed. Its assets, liabilities, share capital, revenues, expenses, and dividends as at June 30 follow:

Cash	\$15,000
Accounts receivable	9,000
Accounts payable	7,300
Bank loan payable	23,000
Common shares	36,000
Dividends declared	1,000
Service revenue	24,200
Supplies expense	2,100
Supplies	\$ 1,200
Equipment	52,000
Interest expense	800
Office expense	1,500
Utilities expense	1,500
Income tax expense	700
Salaries expense	5,700

Instructions

- Prepare a statement of income, statement of changes in equity, and statement of financial position for the month.
- Explain why it is necessary to prepare the financial statements in the order listed in part (a).

Question 2: Multiple-Step Income Statement

The adjusted trial balance of Club Canada Wholesale Inc. contained the following accounts at December 31, the company's year end:

CLUB CANADA WHOLESALE INC.		
Adjusted Trial Balance		
December 31, 2015		
	<u>Debit</u>	<u>Credit</u>
Cash	\$ 8,875	
Accounts receivable	17,600	
Notes receivable	30,000	
Merchandise inventory	92,400	
Supplies	3,780	
Land	72,000	
Buildings	197,000	
Accumulated depreciation—buildings		\$ 93,575
Equipment	83,500	
Accumulated depreciation—equipment		33,400
Accounts payable		57,500
Unearned revenue		7,550
Income tax payable		3,500
Mortgage payable		86,000
Common shares		20,000
Retained earnings		139,675
Sales		922,360
Sales returns and allowances	17,745	
Sales discounts	4,615	
Cost of goods sold	692,100	
Administrative expenses	116,115	
Selling expenses	5,900	
Interest expense	8,830	
Interest revenue		2,400
Income tax expense	15,500	
	<u>\$1,365,960</u>	<u>\$1,365,960</u>

Question 3: Classified Balance Sheet

These financial statement items are for Batra Corporation at year end, July 31, 2015:

Salaries expense	\$44,700	Supplies expense	\$ 900
Utilities expense	2,600	Dividends	12,000
Equipment	35,900	Depreciation expense	3,000
Accounts payable	4,220	Retained earnings, Aug. 1, 2014	17,940
Service revenue	81,100	Rent expense	10,800
Rent revenue	18,500	Income tax expense	5,000
Common shares	10,000	Supplies	1,500
Cash	5,060	Trading investments	20,000
Accounts receivable	17,100	Bank loan payable (due Dec. 31, 2015)	21,800
Accumulated depreciation—equipment	6,000	Interest expense	2,000
Interest payable	1,000		

Additional information:

Batra started the year with \$6,000 of common shares and issued additional shares for \$4,000 during the year.

Question 4: Horizontal Analysis

BE14.3 Prepare horizontal analysis.

(SO 2)

Selected data from the comparative statement of financial position of Rioux Ltd. are shown below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 150,000	\$ 175,000	\$ 75,000
Accounts receivable	600,000	400,000	450,000
Inventory	780,000	600,000	700,000
Property, plant, and equipment	3,130,000	2,800,000	2,850,000
Intangible assets	90,000	100,000	0
Total assets	<u>\$4,750,000</u>	<u>\$4,075,000</u>	<u>\$4,075,000</u>

- Using horizontal analysis, calculate the percentage of a base-year amount, assuming 2013 is the base year.
- Using horizontal analysis, calculate the percentage change for each year.

Question 5: Vertical Analysis

BE14.7 Prepare vertical analysis.

(SO 3)

Selected data (in thousands) from the income statement of JTI Inc. are shown below. Using vertical analysis, calculate the percentage of the base amount for each year.

	<u>2015</u>	<u>2014</u>
Net sales	\$1,914	\$2,073
Cost of goods sold	<u>1,612</u>	<u>1,674</u>
Gross profit	302	399
Operating expenses	<u>218</u>	<u>210</u>
Profit before income tax	84	189
Income tax expense	<u>17</u>	<u>38</u>
Profit	<u>\$ 67</u>	<u>\$ 151</u>

Question 6: Liquidity Ratios

E14.6 Calculate and compare liquidity ratios.

(SO 4)

Selected comparative financial statement data for Kigio Inc. are shown below.

KIGIO INC.			
Statement of Financial Position (partial)			
December 31			
(in thousands)			
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets			
Cash	\$ 30	\$ 91	\$ 60
Trading investments	55	60	40
Accounts receivable, net	676	586	496
Inventory	628	525	575
Prepaid expenses	<u>41</u>	<u>52</u>	<u>29</u>
Total current assets	<u>\$1,430</u>	<u>\$1,314</u>	<u>\$1,200</u>
Total current liabilities	<u>\$ 890</u>	<u>\$ 825</u>	<u>\$ 750</u>

Additional information:

(in thousands)	<u>2015</u>	<u>2014</u>	<u>2013</u>
Allowance for doubtful accounts	\$ 50	\$ 45	\$ 40
Net credit sales	4,190	3,940	3,700
Cost of goods sold	2,900	2,650	2,350

Instructions

- Calculate all possible liquidity ratios for 2015 and 2014.
- Indicate whether each of the liquidity ratios calculated in part (a) is better or worse in 2015.

Question 7: Solvency Ratios

E14.8 Calculate and compare solvency ratios.

(SO 5)

The following selected information (in thousands) is available for Tukai Limited:

	<u>2015</u>	<u>2014</u>
Total assets	\$3,890	\$3,700
Total liabilities	2,175	1,960
Interest expense	15	25
Income tax expense	175	150
Profit	405	375
Cash provided by operating activities	850	580
Cash used by investing activities	400	300

Instructions

- Calculate all possible solvency ratios for 2015 and 2014.
- Indicate whether each of the solvency ratios calculated in part (a) is better or worse in 2015.

Question 8: Profitability Ratios

E14.10 Calculate and compare profitability ratios.

(SO 6)

The following selected information is for Karatu Corporation:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total assets	\$350,000	\$275,000	\$274,000
Total shareholders' equity	133,500	100,000	50,000
Net sales	500,000	400,000	300,000
Cost of goods sold	375,000	290,000	180,000
Profit	33,500	30,000	20,000

Karatu had no preferred shares.

Instructions

- Calculate the gross profit margin, profit margin, asset turnover, return on assets, and return on common shareholders' equity ratios for 2015 and 2014.
- Indicate whether each of the profitability ratios calculated in part (a) is better or worse in 2015.