

AC499: Bachelors Capstone in Accounting | Unit 4

Unit 4 Practice Activity: Financial Report Analysis – Rainbow Paint Co.

Note: This is a practice activity to be performed before completing the assignment for this unit. Also, this is the data to be used as the basis for your Unit 9 final project. The solutions for the Unit 4 practice activity are located here.

Rainbow Paint Co.'s comparative financial statements for the years ending December 31, 2013 and 2012 are as follows. The market price of Rainbow Paint Co.'s common stock was \$30 on December 31, 1999 and \$25 on December 31, 2013.

Rainbow Paint Co.
Comparative Income Statement
For the Years Ended December 31, 2013 and 2012

	2013	2012
Sales	\$ 5,125,000	\$ 3,257,600
Sales returns and allowances	125,000	57,600
Net sales	<u>\$ 5,000,000</u>	<u>\$ 3,200,000</u>
Cost of goods sold	3,400,000	2,080,000
Gross profit	<u>\$ 1,600,000</u>	<u>\$ 1,120,000</u>
Selling expenses	650,000	464,000
Administrative expenses	325,000	224,000
Total operating expenses	<u>\$ 975,000</u>	<u>\$ 688,000</u>
Income from operations	<u>\$ 625,000</u>	<u>\$ 432,000</u>
Other income	25,000	19,200
Income before interest & taxes	<u>\$ 650,000</u>	<u>\$ 451,200</u>
Other expense (interest)	105,000	64,000
Income before income tax	<u>\$ 545,000</u>	<u>\$ 387,200</u>
Income tax expense	300,000	176,000
Net income	<u>\$ 245,000</u>	<u>\$ 211,200</u>

AC499: Bachelors Capstone in Accounting | Unit 4

Rainbow Paint Co. Comparative Retained Earnings Statement For the Years Ended December 31, 2013 and 2012

	2013	2012
Retained earnings, January 1	\$ 723,000	\$ 581,800
Add net income for year	245,000	211,200
Total	<u>\$ 968,000</u>	<u>\$ 793,000</u>
Deduct dividends:	\$ 40,000	\$ 40,000
On preferred stock	45,000	30,000
On common stock		
Total	<u>\$ 85,000</u>	<u>\$ 70,000</u>
Retained earnings, December 31	<u>\$ 883,000</u>	<u>\$ 723,000</u>

Paint CO, Comparative Balance Sheet December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash	\$ 175,000	\$ 125,000
Marketable securities	150,000	50,000
Accounts receivable (net)	425,000	325,000
Inventories	720,000	480,000
Prepaid expenses	30,000	20,000
Total current assets	\$ 1,500,000	\$ 1,000,000
Long-term investments	250,000	225,000
Property, plant, and equipment (net)	2,093,000	1,948,000
Total assets	<u>\$ 3,843,000</u>	<u>\$ 3,173,000</u>
Liabilities		
Current liabilities	\$ 750,000	\$ 650,000
Long-term liabilities:		
Mortgage note payable, 10%, due 2016	\$ 410,000	-
Bonds payable, 8%, due 2017	800,000	\$ 800,000
Total long-term liabilities	\$ 1,210,000	\$ 800,000
Total liabilities	\$ 1,960,000	\$ 1,450,000
Stockholders' Equity		
Preferred 8% stock, \$100 par	\$ 500,000	\$ 500,000
Common stock, \$10 par	500,000	500,000

AC499: Bachelors Capstone in Accounting | Unit 4

Retained earnings	883,000	723,000
Total stockholders' equity	\$ 1,883,000	\$ 1,723,000
Total liabilities and stockholders' equity	<u>\$ 3,843,000</u>	<u>\$ 3,173,000</u>

Instructions: Determine the following measures for 2013:

1. Working capital
2. Current ratio
3. Quick ratio
4. Accounts receivable turnover
5. Number of days' sales in receivables
6. Inventory turnover
7. Number of days' sales in inventory
8. Ratio of fixed assets to long-term liabilities
9. Ratio of liabilities to stockholders' equity
10. Number of times interest charges earned
11. Number of times preferred dividends earned
12. Ratio of net sales to assets
13. Rate earned on total assets
14. Rate earned on stockholders' equity
15. Rate earned on common stockholders' equity
16. Earnings per share on common stock
17. Price-earnings ratio
18. Dividends per share of common stock
19. Dividend yield