

## Financial Statement Analysis: Ratio Analysis

### Inputs

#### Morton Chip Company December 31 Balance Sheets

(in thousands of dollars)

<i>Assets</i>	2009	2008
Cash and cash equivalents	\$77,500	\$74,625
Accounts Receivable	\$336,000	\$285,527
Inventories	\$241,500	\$234,982
Total current assets	\$655,000	\$595,134
Net fixed assets	\$292,500	\$142,436
Total assets	\$947,500	\$737,570
<i>Liabilities and equity</i>		
Accounts payable	\$129,000	\$123,109
Notes payable	\$84,000	\$65,000
Other current liabilities	\$117,000	\$114,217
Total current liabilities	\$330,000	\$302,326
Long-term debt	\$256,500	\$263,914
Total liabilities	\$586,500	\$566,240
Common equity	\$361,000	\$171,330
Total liabilities and equity	\$947,500	\$737,570

#### Morton Chip Company December 31 Income Statements

(in thousands of dollars)

	2009	2008
Sales	\$1,607,500	\$1,264,120
COGS	\$1,392,500	\$1,025,500
Selling, general, and administrative expenses	\$145,000	\$141,109
EBIT	\$70,000	\$97,511
Interest Expense	\$24,500	\$25,000
EBT	\$45,500	\$72,511
Taxes (40%)	\$18,200	\$29,005
Net Income	\$27,300	\$43,507

#### Ratio Analysis

##### Liquidity Ratios

	2009	2008
Current Ratio	1.98	1.97
Quick Ratio	1.62	1.30

##### Asset Management Ratios

Inventory Turnover	6.66	5.38
Days Sales Outstanding	76.29	82.44
Fixed Assets Turnover	5.50	8.88
Total Assets Turnover	1.70	1.71

##### Debt Management Ratios

MD4

Debt Ratio	61.90%	76.77%
Times-interest-earned ratio	2.86	3.90
<b>Profitability Ratios</b>		
Profit Margin	1.70%	3.44%
Basic Earning Power	7.39%	13.22%
Return on Assets	2.88%	5.90%
Return on Equity	7.56%	25.39%
<b>Du Pont analysis: <math>ROE = PM \times TA \text{ Turnover} \times \text{Equity Multiplier}</math></b>		
<i>PM</i>	1.70%	3.44%
<i>TA Turnover</i>	1.70	1.71
<i>Equity Multiplier</i>	2.62	4.30
ROE	7.56%	25.39%

**Common size analysis.**