

12-3A – Ratio Analysis

Below are the financial statements of Squirrel Co.

Squirrel Co.		
Income Statement		
For the Year Ended November 30		
	2017	2016
Sales, net	\$3,600,000	\$3,900,000
Cost of goods sold	<u>1,500,000</u>	<u>1,600,000</u>
Gross profit	2,100,000	2,300,000
Operating expenses	<u>1,600,000</u>	<u>2,000,000</u>
Operating income	500,000	300,000
Interest expense	<u>200,000</u>	<u>150,000</u>
Income before taxes	300,000	150,000
Income taxes	<u>85,000</u>	<u>40,000</u>
Net income	<u>\$215,000</u>	<u>\$110,000</u>

Squirrel Co.			
Balance Sheet			
As at November 30			
	2017	2016	2015
Cash	\$150,000	\$53,000	\$125,000
Accounts receivable, net	140,000	80,000	55,000
Inventory	450,000	350,000	300,000
Prepaid insurance	<u>35,000</u>	<u>20,000</u>	<u>25,000</u>
Total current assets	775,000	503,000	505,000
Property, plant and equipment, net	<u>600,000</u>	<u>550,000</u>	<u>400,000</u>
Total assets	<u>\$1,375,000</u>	<u>\$1,053,000</u>	<u>\$905,000</u>
Accounts payable	\$350,000	\$185,000	\$160,000
Salaries payable	<u>37,000</u>	<u>50,000</u>	<u>35,000</u>
Total current liabilities	387,000	235,000	195,000
Bank loan payable	<u>550,000</u>	<u>500,000</u>	<u>450,000</u>
Total liabilities	937,000	735,000	645,000
Preferred shares \$20 (1,000 shares all years)	150,000	150,000	150,000
Common shares (50,000 shares all years)	100,000	100,000	100,000
Retained earnings	<u>188,000</u>	<u>93,000</u>	<u>10,000</u>
Total shareholders' equity	<u>438,000</u>	<u>343,000</u>	<u>260,000</u>
Total liabilities and shareholders' equity	<u>\$1,375,000</u>	<u>\$1,053,000</u>	<u>\$905,000</u>

Additional information:

	2017	2016	2015
Market price per share	\$150	\$50	\$35
Dividends per share	\$2.00	\$1.00	\$0.50

Required:

- For 2016 and 2017, compute all “Common Financial Ratios” from the beginning of this module. For each ratio note whether it is getting Better (B) or Worse (W).
- Comment on the financial performance and position of the company.