

# Practice Problems

As you can see, someone has spilled ink over some of the entries in the balance sheet and income statement of Transylvania Railroad. Use the information from the tables to work out the following missing entries, and then calculate the company's return on equity. Note: Inventory turnover, average collection period, and return on equity are calculated using start-of-year, not average, values.

Long-term debt ratio	0.4
Times interest earned	8.0
Current ratio	1.4
Quick ratio	1.0
Cash ratio	0.2
Inventory turnover	5.0
Average collection period	73 days

## INCOME STATEMENT

(Figures in \$ millions)

Net sales	¥ 800
Cost of goods sold	¥ 300
Selling, general, and administrative expenses	10
Depreciation	20
Earnings before interest and taxes (EBIT)	¥ 80
Interest expense	¥ 20
Income before tax	¥ 60
Tax (35% of income before tax)	¥ 21
Net income	¥ 39

**BALANCE SHEET**  
(Figures in \$ millions)

	This Year	Last Year
<b>Assets</b>		
Cash and marketable securities	三十	20
Accounts receivable	三十	34
Inventories	三十	26
Total current assets	九十	80
Net property, plant, and equipment	三十	25
Total assets	三十	105
<b>Liabilities and shareholders' equity</b>		
Accounts payable	25	20
Notes payable	30	35
Total current liabilities	三十	55
Long-term debt	三十	20
Shareholders' equity	三十	30
Total liabilities and shareholders' equity	115	105

- a. Total assets
- b. Total current liabilities
- c. Total current assets
- d. Cash and marketable securities
- e. Accounts receivable
- f. Inventory
- g. Fixed assets
- h. Long-term debt
- i. Shareholders' equity
- j. Net sales
- k. Cost of goods sold
- l. EBIT
- m. Interest expense
- n. Income before tax
- o. Tax
- p. Net income