

Thorpe Company is a wholesale distributor of professional equipment and supplies. The Company's sales have averaged about \$ 900,000 annually for the three year period 2007 -2009. The firm's total assets at the end of 2009 amounted to \$ 850,000.

The President of Thorpe company has asked the controller to prepare a report that summarizes the financial aspects of the company's operations for the past three years. This report will be presented to the board of directors as its next meeting.

in addition to comparative financial statements, the controller has decided to present a number of relevant financial ratios that can assist in the identification and interpretation of trends. At the request of the controller, the accounting staff has calculated the following ratios for the three-year period 2007 -2009 :

Ratio	2007	2008	2009
Current ratio	2.00	2.13	2.18
Acid-test(quick) ratio	1.20	1.10	0.97
Accounts receivable turnover	9.72	8.57	7.13
Inventory Turnover	5.25	4.80	3.80
Percent of total debt to total assets	44.00%	41.00%	38.00%
Percentage of long term debt to total assets	25.00%	22.00%	19.00%
Sales to fixed assets(fixed asset turnover)	1.75	1.88	1.99
sales as a percent of 2007 sales	100.00%	103.00%	106.00%
gross profit percentage	40.00%	33.60%	38.50%
net income to sales	7.80%	7.80%	8.00%
Return on total assets	8.50%	8.60%	8.70%
Return on stockholders' equity	15.10%	14.60%	14.10%

In preparing his report, the controller has decided first to examine the financial ratios independently of any other data to determine whether the ratios themselves reveal any significant trends over the first three-year period

Required

(a) The current ratio is increasing, while the acid-test (quick) ratio is decreasing. Using the ratios provided, identify and explain the contributing factors(s) for this apparently divergent trend.

(b) In terms of the ratios provided, what conclusion(s) can be drawn regarding the company's use of financial leverage during the 2007-2009 period?

C) Using the ratios provided, what conclusion(s) can be drawn regarding the company's net investment in plant and equipment?