(1)

Maggie Washington is considering an investment in one of two fast-food restaurant chains because she believes the trend toward eating out more often will continue. Her choices have been narrowed to Quik Burger and Big Steak, whose balance sheets and income statements follow.

Balance Sheets
(in thousands)

	Quik Burger	Big Steak
Assets		
Cash	$ 2,000	$ 4,500
Accounts Receivable (net)	2,000	6,500
Inventory	2,000	5,000
Property, Plant, and Equipment (net)	20,000	35,000
Other Assets	4,000	5,000
Total Assets	$30,000	$56,000
Liabilities and Stockholders' Equity		
Accounts Payable	$ 2,500	$ 3,000
Notes Payable	1,500	4,000
Bonds Payable	10,000	30,000
Common Stock ($1 par value)	1,000	3,000
Paid-in Capital in Excess of Par Value, Common	9,000	9,000
Retained Earnings	6,000	7,000
Total Liabilities and Stockholders' Equity	$30,000	$56,000

Income Statements
(in thousands)

	Quik Burger	Big Steak
Sales	$53,000	$86,000
Cost of Goods Sold (including restaurant operating expense)	37,000	61,000
Gross Margin from Sales	$16,000	$25,000
General Operating Expenses		
Selling Expenses	$ 7,000	$10,000
Administrative Expenses	4,000	5,000
Interest Expense	1,400	3,200
Income Taxes Expense	1,800	3,400
Total Operating Expenses	$14,200	$21,600
Net Income	$ 1,800	$ 3,400

In addition to the information on the financial statements, dividends paid were $500,000 for Quik Burger and $600,000 for Big Steak. The market prices of the stocks were $30 and $20, respectively, and their betas were 1.00 and 1.15. Financial information pertaining to prior years is not readily available to Maggie Washington. Assume that all notes payable are current liabilities and that all bonds payable are long-term liabilities.

(背面仍有題目,請繼續作答)

Required

Conduct a comprehensive ratio analysis of Quik Burger and Big Steak and compare the results. The analysis should be performed using the following steps (round all ratios and percentages to one decimal place):

1. Prepare an analysis of liquidity.
2. Prepare an analysis of profitability.
3. Prepare an analysis of long-term solvency.
4. Prepare an analysis of market tests.
5. Compare the two companies by inserting the ratio calculations from the preceding four steps in a table with the following column headings: Ratio Name, Quik Burger, Big Steak, and Company with More Favorable Ratio. Indicate in the last column the company that apparently had the more favorable ratio in each case. (Consider changes of .1 or less to be indeterminate.)
6. In what ways would having access to prior years' information aid this analysis?

* The following format is provided for your convenience to answer question 1 to 5.

5. Comparative analysis

Ratio Name	Quik Burger	Big Steak	Company with More Favorable Ratio*
1. Liquidity analysis			
a. Current ratio			
b. Quick ratio			
c. Receivable turnover			
d. Average days' sales uncollected			
e. Inventory turnover			
2. Profitability analysis			
a. Profit margin			
b. Asset turnover			
c. Return on assets			
d. Return on equity			
e. Earnings per share			
3. Long-term solvency analysis			
a. Debt to equity ratio			
b. Interest coverage ratio			
4. Market test analysis			
a. Price/earnings ratio			
b. Dividends yield			
c. Market risk			

(30%)

2. **(EPS Computation of Primary and Fully Diluted EPS)** Edmund Gloucester of the controller's office of Lear Corporation was given the assignment of determining the primary and fully diluted earnings per share values for the year ending December 31, 1995. Gloucester has compiled the information listed below.

1. The company is authorized to issue 8,000,000 shares of $10 par value common stock. As of December 31, 1994, 3,000,000 shares had been issued and were outstanding.
2. The per share market price of the common stock and the average Aa corporate bond yield on selected dates were as follows:

	Price per Share	Average Aa Corporate Bond Yield
July 1, 1994	$20.00	17%
January 1, 1995	21.00	18
April 1, 1995	25.00	20
July 1, 1995	11.00	21
August 1, 1995	10.50	21
November 1, 1995	9.00	20
December 31, 1995	10.00	18

3. A total of 700,000 shares of an authorized 1,200,000 shares of convertible preferred stock had been issued on July 1, 1994. The stock was issued at its par value of $25, and it has a cumulative dividend of $3 per share. The stock is convertible into common stock at the rate of one share of convertible preferred for one share of common. The rate of conversion is to be automatically adjusted for stock splits and stock dividends. Dividends are paid quarterly on September 30, December 31, March 31, and June 30.
4. Lear Corporation is subject to a 40% income tax rate.
5. The after-tax net income for the year ended December 31, 1995 was $13,550,000.

The following specific activities took place during 1995.

1. January 1—A 5% common stock dividend was issued. The dividend had been declared on December 1, 1994, to all stockholders of record on December 29, 1994.
2. April 1—A total of 200,000 shares of the $3 convertible preferred stock was converted into common stock. The company issued new common stock and retired the preferred stock. This was the only conversion of the preferred stock during 1995.
3. July 1—A 2-for-1 split of the common stock became effective on this date. The Board of Directors had authorized the split on June 1.
4. August 1—A total of 300,000 shares of common stock were issued to acquire a factory building.
5. November 1—A total of 24,000 shares of common stock were purchased on the open market at $9 per share. These shares were to be held as treasury stock and were still in the treasury as of December 31, 1995.
6. Common stock cash dividends—Cash dividends to common stockholders were declared and paid as follows:
   April 15—$.30 per share
   October 15—$.20 per share
7. Preferred stock cash dividends—Cash dividends to preferred stockholders were declared and paid as scheduled.

Instructions

(a) Determine the number of shares used to compute primary earnings per share for the year ended December 31, 1995.

(b) Determine the number of shares used to compute fully diluted earnings per share for the year ended December 31, 1995.

(c) Compute the adjusted net income to be used as the numerator in the primary earnings per share calculation for the year ended December 31, 1995.

(30%)

(背面仍有題目,請繼續作答)

(3) (Available-for-Sale and Held-to-Maturity Debt Securities Entries) The following information relate to the debt securities investments of the Lakeside Company.

1. On February 1, the company purchased 9% bonds of Crandall Co. having a par value of $500,000 a 100 plus accrued interest. Interest is payable April 1 and October 1.
2. On April 1, semiannual interest is received.
3. On July 1, 12% bonds of Quincy, Inc. were purchased. These bonds with a par value of $200,000 were purchased at 100 plus accrued interest. Interest dates are June 1 and December 1.
4. On September 1, bonds of a par value of $100,000, purchased on February 1, are sold at 99 plus accrued interest.
5. On October 1, semiannual interest is received.
6. On December 1, semiannual interest is received.
7. On December 31, the fair value of the bonds purchased February 1 and July 1 are 95 and 94, respectively.

Instructions

(a) Prepare any journal entries you consider necessary, including year-end entries (December 31), assuming these are available-for-sale securities.

(b) If Lakeside classified these as held-to-maturity securities, explain how the journal entries would differ from those in part (a).

(25%)

(4) **Understanding Pension Accounting Terminology** Match the following items with the financial statements by entering the appropriate letter in each blank.

Items

_____ 1. Accumulated benefit obligation
_____ 2. Unrealized pension cost
_____ 3. Unrecognized gains (losses)
_____ 4. Additional minimum pension liability
_____ 5. Unrecognized prior service cost
_____ 6. Pension benefits paid
_____ 7. Expected return on pension plan assets
_____ 8. Unrecognized transition cost
_____ 9. Accrued pension cost
_____ 10. Net periodic pension expense
_____ 11. Vested benefit obligation
_____ 12. Unfunded accumulated benefit obligation
_____ 13. Pension plan assets at fair value
_____ 14. Prepaid pension cost
_____ 15. Pension plan assets used in operations of the plan (furniture and fixtures)

Reported on the Financial Statements

A. Income statement expense
B. Income statement gains and losses
C. Balance sheet assets
D. Balance sheet liabilities
E. Balance sheet owners' equity
F. None of the above

(15%)