Chapter 5

PROBLEMS

PROBLEM 5‑1

a.

Best Buy Co., Inc.

Vertical Common-Size Balance Sheet

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage\* | | |
|  | March 3,  2007 |  | February 25,  2006 |
| Assets |  |  |  |
| Current assets |  |  |  |
| Cash and cash equivalents | 8.9 |  | 6.3 |
| Short-term investments | 19.1 |  | 25.6 |
| Receivables | 4.0 |  | 3.8 |
| Merchandise inventories | 29.7 |  | 28.1 |
| Other current assets | 5.2 |  | 3.4 |
| Total current assets | 66.9 |  | 67.3 |
| Property and equipment |  |  |  |
| Land and buildings | 5.2 |  | 4.9 |
| Leasehold improvements | 11.3 |  | 11.2 |
| Fixtures and equipment | 19.4 |  | 24.4 |
| Property under capital lease | .2 |  | .3 |
|  | 36.1 |  | 40.8 |
| Less accumulated depreciation | 14.5 |  | 17.9 |
| Net property and equipment | 21.7 |  | 22.9 |
| Goodwill | 6.8 |  | 4.7 |
| Tradenames | .6 |  | .4 |
| Long-term investments | 2.3 |  | 1.8 |
| Other assets | 1.7 |  | 2.9 |
| Total assets | 100.0 |  | 100.0 |

\*Some rounding differences

Problem 5-1 Continued

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage | | |
|  | March 3,  2007 |  | February 25,  2006 |
| Liabilities and shareholders’ equity |  |  |  |
| Current liabilities |  |  |  |
| Accounts payable | 29.0 |  | 27.3 |
| Unredeemed gift card liabilities | 3.7 |  | 4.0 |
| Accrued compensation and related expense | 2.4 |  | 3.0 |
| Accrued liabilities | 7.3 |  | 7.4 |
| Accrued income taxes | 3.6 |  | 5.9 |
| Short-term debt | .3 |  | 0 |
| Current portion of long-term debt | .1 |  | 3.5 |
| Total current liabilities | 46.4 |  | 51.0 |
| Long-term liabilities | 3.3 |  | 3.1 |
| Long-term debt | 4.3 |  | 1.5 |
| Minority interest | .3 |  | ----- |
| Shareholders’ equity |  |  |  |
| Common stock | .4 |  | .4 |
| Additional paid-in capital | 3.2 |  | 5.4 |
| Retained earnings | 40.6 |  | 36.3 |
| Accumulated other comprehensive income | 1.6 |  | 2.2 |
| Total shareholders’ equity | 45.7 |  | 44.3 |
| Total liabilities and shareholders’ equity | 100.0 |  | 100.0 |

Problem 5-1 Continued

b.

Best Buy Co., Inc.

Horizontal Common-Size Balance Sheet

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage | | |
|  | March 3,  2007 |  | February 25,  2006 |
| Assets |  |  |  |
| Current assets |  |  |  |
| Cash and cash equivalents | 161.3 |  | 100.0 |
| Short-term investments | 85.1 |  | 100.0 |
| Receivables | 122.0 |  | 100.0 |
| Merchandise inventories | 120.7 |  | 100.0 |
| Other current assets | 174.1 |  | 100.0 |
| Total current assets | 113.7 |  | 100.0 |
| Property and equipment |  |  |  |
| Land and buildings | 121.6 |  | 100.0 |
| Leasehold improvements | 116.2 |  | 100.0 |
| Fixtures and equipment | 90.6 |  | 100.0 |
| Property under capital lease | 97.0 |  | 100.0 |
|  | 101.4 |  | 100.0 |
| Less accumulated depreciation | 92.6 |  | 100.0 |
| Net property and equipment | 108.3 |  | 100.0 |
| Goodwill | 165.0 |  | 100.0 |
| Tradenames | 184.1 |  | 100.0 |
| Long-term investments | 145.9 |  | 100.0 |
| Other assets | 67.0 |  | 100.0 |
| Total assets | 114.4 |  | 100.0 |

Problem 5-1 Continued

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage | | |
|  | March 3,  2007 |  | February 25, 2006 |
| Liabilities and shareholders’ equity |  |  |  |
| Current liabilities |  |  |  |
| Accounts payable | 121.6 |  | 100.0 |
| Unredeemed gift card liabilities | 105.8 |  | 100.0 |
| Accrued compensation and related expense | 93.8 |  | 100.0 |
| Accrued liabilities | 112.8 |  | 100.0 |
| Accrued income taxes | 69.6 |  | 100.0 |
| Short-term debt | N/A |  | N/A |
| Current portion of long-term debt | 4.5 |  | 100.0 |
| Total current liabilities | 104.0 |  | 100.0 |
| Long-term liabilities | 118.8 |  | 100.0 |
| Long-term debt | 331.5 |  | 100.0 |
| Minority interests | N/A |  | N/A |
| Shareholders’ equity |  |  |  |
| Common stock | 98.0 |  | 100.0 |
| Additional paid-in capital | 66.9 |  | 100.0 |
| Retained earnings | 128.0 |  | 100.0 |
| Accumulated other comprehensive income | 82.8 |  | 100.0 |
| Total shareholders’ equity | 118.0 |  | 100.0 |
| Total liabilities and shareholders’ equity | 114.4 |  | 100.0 |

Problem 5-1 Continued

c. Vertical Common-Size

Assets:

Material increase in cash and cash equivalents

Material decrease in short-term investments

Material decrease in fixtures and equipment

Material increase in goodwill

Material increase in long-term investments

Liabilities and Shareholder’s Equity:

Material decrease in accrued income taxes

Material decrease in current portion of long-term debt

Material increase in long term debt

Material decrease in additional paid-in capital

Horizontal Common-Size

Assets:

Material increase in many items including cash and cash equivalents, receivables, merchandise inventory, other current assets, land and buildings, goodwill, tradenames, and long-term investments

Material decrease in short-term investments, and fixtures and equipment

Liabilities and shareholders equity:

Material increase in accounts payable, accrued liabilities, long-term liabilities, long-term debt, retained earnings, total shareholders’ equity, and total liabilities and shareholders’ equity

Material decrease in accrued income taxes

Material decrease in current portion of long-term debt

Material decrease in additional paid-in capital

Material decrease in accumulated other comprehensive income

PROBLEM 5‑2

a.

Best Buy Co., Inc.

Consolidated Statements of Earnings

Vertical Common-Size

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| For the fiscal years ended | March 3,  2007 |  | February 25,  2006 |  | February 26,  2005 |
| Revenue | 100.0 |  | 100.0 |  | 100.0 |
| Cost of goods sold | 75.6 |  | 75.0 |  | 76.3 |
| Gross profit | 24.4 |  | 25.0 |  | 23.7 |
| Selling, general and administrative expenses | 18.8 |  | 19.7 |  | 18.4 |
| Operating income | 5.6 |  | 5.3 |  | 5.3 |
| Net interest income | .3 |  | .2 |  | .0 |
| Gain on investments | .1 |  | ----- |  | ----- |
| Earnings from continuing operations before income tax expense | 5.9 |  | 5.6 |  | 5.3 |
| Income tax expense | 2.1 |  | 1.9 |  | 1.9 |
| Minority interest in earnings | .0 |  | ----- |  | ----- |
| Earnings from continuing operations | 3.8 |  | 3.7 |  | 3.4 |
| Gain on disposal of discontinued operations, net of tax | ----- |  | ----- |  | .2 |
| Net earnings | 3.8 |  | 3.7 |  | 3.6 |

Problem 5-2 Continued

b.

Best Buy Co., Inc.

Consolidated Statements of Earnings

Horizontal Common-Size

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| For the fiscal years ended | March 3, 2007 |  | February 25, 2006 |  | February 26, 2005 |
| Revenue | 131.0 |  | 112.4 |  | 100.0 |
| Cost of goods sold | 129.7 |  | 110.4 |  | 100.0 |
| Gross profit | 135.0 |  | 119.0 |  | 100.0 |
| Selling, general and administrative expenses | 134.0 |  | 120.4 |  | 100.0 |
| Operating income | 138.6 |  | 114.0 |  | 100.0 |
| Net interest income | Base not |  | Meaningful |  | 100.0 |
| Gain on investment | N/A |  | ----- |  | ----- |
| Earnings from continuing operations before income tax expense | 147.6 |  | 119.3 |  | 100.0 |
| Income tax expense | 147.7 |  | 114.1 |  | 100.0 |
| Minority interest in earnings | N/A |  | ----- |  | ----- |
| Earnings from continuing operations | 147.4 |  | 122.1 |  | 100.0 |
| Gain on disposal of discontinued operations, net of tax | N/A |  | (100.0) |  | 100.0 |
| Net earnings | 139.9 |  | 115.9 |  | 100.0 |

c. Vertical Common-Size

Operating income relative to revenue has increased from 2006 to 2007.

Earnings from continuing operations before income tax expense has consistently increased from 2005 to 2007.

Horizontal Common-Size

Material increase in all items computed

PROBLEM 5-3

a.

Kelly Securities, Inc. and Subsidiaries

Balance Sheets

December 31, 2006 and December 31, 2005

Vertical Common-Size Analysis

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage | | |
|  | 2006 |  | 2005 |
| Assets |  |  |  |
| Current assets |  |  |  |
| Cash and equivalents | 8.1 |  | 4.9 |
| Trade accounts receivable, less allowances | 57.0 |  | 61.2 |
| Prepaid expenses and other current assts | 3.1 |  | 3.6 |
| Deferred taxes | 2.0 |  | 2.6 |
| Total current assets | 70.2 |  | 72.3 |
| Property and equipment |  |  |  |
| Land and buildings | 4.2 |  | 4.5 |
| Equipment, furniture, and leasehold improvements | 21.2 |  | 22.7 |
| Accumulated depreciation | (13.8) |  | (14.5) |
| Net property and equipment | 11.6 |  | 12.6 |
| Noncurrent deferred taxes | 2.4 |  | 1.7 |
| Goodwill, net | 6.6 |  | 6.7 |
| Other assets | 9.2 |  | 6.7 |
| Total assets | 100.0 |  | 100.0 |

Problem 5-3 Continued

|  |  |  |  |
| --- | --- | --- | --- |
|  | (In Percentage) | | |
| Liabilities and Stockholders’ Equity | 2006 |  | 2005 |
| Current liabilities: |  |  |  |
| Short-term borrowings | 4.7 |  | 4.3 |
| Accounts payable | 9.0 |  | 8.4 |
| Accrued payroll and related taxes | 18.7 |  | 20.0 |
| Accrued insurance | 1.6 |  | 2.6 |
| Income and other taxes | 4.6 |  | 4.3 |
| Total current liabilities | 38.7 |  | 39.7 |
| Noncurrent liabilities |  |  |  |
| Accrued insurance | 3.9 |  | 4.2 |
| Accrued retirement benefits | 4.9 |  | 4.4 |
| Other long-term liabilities | .9 |  | .6 |
| Total noncurrent liabilities | 9.7 |  | 9.1 |
| Stockholders’ equity |  |  |  |
| Capital stocks $1.00 par value |  |  |  |
| Class A common stock | 2.5 |  | 2.8 |
| Class B common stock | .2 |  | .3 |
| Treasury stock |  |  |  |
| Class A common stock | (5.3) |  | (6.9) |
| Class B common stock | (.0) |  | (.0) |
| Paid-in capital | 2.2 |  | 2.1 |
| Earnings invested in the business | 50.0 |  | 52.4 |
| Accumulated other comprehensive income | 2.1 |  | .6 |
| Total stockholders’ equity | 51.6 |  | 51.2 |
| Total liabilities and stockholders’ equity | 100.0 |  | 100.0 |

Problem 5-3 Continued

b.

Kelly Services, Inc. and Subsidiaries

Balance Sheets

December 31, 2006 and December 31, 2005

Horizontal Common-Size Analysis

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage | | |
| Assets | 2006 |  | 2005 |
| Current assets |  |  |  |
| Cash and equivalents | 185.8 |  | 100.0 |
| Trade accounts receivable, less allowances | 104.3 |  | 100.0 |
| Prepaid expense and other current assets | 95.2 |  | 100.0 |
| Deferred taxes | 87.4 |  | 100.0 |
| Total current assets | 108.7 |  | 100.0 |
| Property and equipment |  |  |  |
| Land and buildings | 105.0 |  | 100.0 |
| Equipment, furniture, and leasehold improvements | 104.5 |  | 100.0 |
| Accumulated depreciation | 106.1 |  | 100.0 |
| Net property and equipment | 102.7 |  | 100.0 |
| Noncurrent deferred taxes | 160.4 |  | 100.0 |
| Goodwill, net | 109.4 |  | 100.0 |
| Other assets | 154.4 |  | 100.0 |
| Total assets | 111.9 |  | 100.0 |

Problem 5-3 Continued

|  |  |  |  |
| --- | --- | --- | --- |
|  | In Percentage | | |
| Liabilities and Stockholders’ Equity | 2006 |  | 2005 |
| Current liabilities: |  |  |  |
| Short-term borrowings | 121.7 |  | 100.0 |
| Accounts payable | 120.3 |  | 100.0 |
| Accrued payroll and related taxes | 104.2 |  | 100.0 |
| Accrued insurance | 70.9 |  | 100.0 |
| Income and other taxes | 120.1 |  | 100.0 |
| Total current liabilities | 109.1 |  | 100.0 |
| Noncurrent Liabilities |  |  |  |
| Accrued insurance | 105.1 |  | 100.0 |
| Accrued retirement benefits | 125.3 |  | 100.0 |
| Other long-term liabilities | 167.8 |  | 100.0 |
| Total noncurrent liabilities | 118.9 |  | 100.0 |
| Stockholders’ equity |  |  |  |
| Capital stock |  |  |  |
| Class A common stock | 100.0 |  | 100.0 |
| Class B common stock | 99.6 |  | 100.0 |
| Treasury stock |  |  |  |
| Class A common stock | 86.6 |  | 100.0 |
| Class B common stock | 100.0 |  | 100.0 |
| Paid-in capital | 118.6 |  | 100.0 |
| Earnings invested in the business | 106.8 |  | 100.0 |
| Accumulated other comprehensive income | 386.4 |  | 100.0 |
| Total stockholders’ equity | 112.9 |  | 100.0 |
| Total liabilities and stockholders’ equity | 111.9 |  | 100.0 |

Problem 5-3 Continued

c. Vertical Common-Size Analysis

Assets

Material increase in cash and equivalents

Material decrease in trade accounts receivable, less allowances

Material increase in noncurrent deferred taxes

Material increase in other assets

Liabilities

Material decrease in accrued insurance

Material increase in accrued retirement benefits

Material increase in other long-term liabilities

Stockholders’ Equity

Material decrease in treasury stock,

Class A common stock

Material increase in accumulated other comprehensive income

Horizontal Common-Size Analysis

Assets

Very material increase in cash and equivalents

Material decrease in deferred taxes

Very material increase in noncurrent deferred taxes

Very material increase in other assets

Liabilities

Material increase in short-term borrowings, accounts payable, income and other taxes, and accrued retirement benefits

Very material increase in other long-term liabilities

Very material decrease in accrued insurance

Stockholders’ Equity

Material increase in paid-in capital

Very material increase in accumulated other comprehensive income

Material decrease in treasury stock, Class A common stock

PROBLEM 5-4

a.

Kelly Services, Inc. and Subsidiaries

Statement of Earnings

For the three fiscal years ended December 31, 2006

Vertical Common-Size Analysis\*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2006 |  | 2005 |  | 2004 |
| Revenue from services | 100.0 |  | 100.0 |  | 100.0 |
| Cost of services | 83.5 |  | 83.8 |  | 84.0 |
| Gross Profit | 16.5 |  | 16.2 |  | 16.0 |
| Selling, general, and administrative expenses | 15.1 |  | 15.2 |  | 15.4 |
| Earnings from operations | 1.4 |  | 1.0 |  | .6 |
| Other income (expense), net | .0 |  | .0 |  | .0 |
| Earnings from continuing operations before taxes | 1.4 |  | 1.0 |  | .6 |
| Income taxes | .4 |  | .3 |  | .2 |
| Earnings from continuing operations | 1.0 |  | .7 |  | .4 |
| Earnings from discontinued operations, net of tax | .1 |  | .0 |  | .0 |
| Net earnings | 1.1 |  | .7 |  | .4 |

\*Some rounding differencesProblem 5-4 Continued

b.

Kelly Services, Inc. and Subsidiaries

Statement of Earnings

For the three fiscal years ended December 31, 2006

Horizontal Common-Size Analysis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2006 |  | 2005 |  | 2004 |
| Revenues from services | 113.6 |  | 106.5 |  | 100.0 |
| Cost of services | 113.0 |  | 106.3 |  | 100.0 |
| Gross Profit | 117.2 |  | 107.6 |  | 100.0 |
| Selling, general, and administrative expense | 111.6 |  | 105.2 |  | 100.0 |
| Earnings from operations | 254.0 |  | 164.8 |  | 100.0 |
| Other income (expense), net | N/A |  | 21.7 |  | 100.0 |
| Earnings from continuing operations before taxes | 266.1 |  | 168.9 |  | 100.0 |
| Income taxes | 214.4 |  | 137.4 |  | 100.0 |
| Earnings from continuing operations | 294.7 |  | 186.3 |  | 100.0 |
| Earnings from discontinued operations, net of tax | 351.3 |  | 171.3 |  | 100.0 |
| Net earnings | 299.3 |  | 185.1 |  | 100.0 |

Problem 5-4 Continued

c. Vertical Common-Size Analysis

Earnings from operations increased materially. This carried over to earnings from continuing operations before taxes, earnings from continuing operations, net earnings, and income taxes

Horizontal Common-Size Analysis

Material increases in revenue from services, cost of services, gross profit, selling, general and administrative expenses, and income taxes

Very material increase in earnings from operations, earnings from continuing operations before taxes, earnings from continuing operations, earnings from discontinued operations, net of tax, and net earnings

PROBLEM 5

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | Change Analysis | | |
| Item |  | Year 1 |  | Year 2 |  | Amount |  | Percent |
| 1 |  | ----- |  | 3,000 |  | 3,000 |  | ----- |
| 2 |  | 6,000 |  | (4,000) |  | (10,000) |  | ----- |
| 3 |  | (7,000) |  | 4,000 |  | 11,000 |  | ----- |
| 4 |  | 4,000 |  | ----- |  | (4,000) |  | (100) |
| 5 |  | 8,000 |  | 10,000 |  | 2,000 |  | 25 |

**Required Determine the absolute change and the percentage for these items.**

PROBLEM 6

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | Change Analysis | | |
| Item |  | Year 1 |  | Year 2 |  | Amount |  | Percent |
| 1 |  | 4,000 |  | ----- |  | (4,000) |  | (100) |
| 2 |  | 5,000 |  | (3,000) |  | (8,000) |  | ----- |
| 3 |  | (9,000) |  | 2,000 |  | 11,000 |  | ----- |
| 4 |  | 7,000 |  | ----- |  | (7,000) |  | (100) |
| 5 |  | ----- |  | 15,000 |  | 15,000 |  | ----- |

**Required Determine the absolute change and the percentage for these items.PROBLEM 7**

a.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | December 31, | | |  | Increase | (Decrease) | |
| 2008 |  | 2007 | Dollars |  | Percent | |
| Net sales | $30,000 |  | $28,000 |  | $2,000 |  | 107.1 | |
| Cost of goods sold | 20,000 |  | 19,500 |  | 500 |  | 102.6 | |
| Gross profit | 10,000 |  | 8,500 |  | 1,500 |  | 117.7 | |
| Selling, general, and administrative expense | 3,000 |  | 2,900 |  | 100 |  | 103.5 | |
| Operating income | 7,000 |  | 5,600 |  | 1,400 |  | 125.0 | |
| Interest expense | 100 |  | 80 |  | 20 |  | 125.0 | |
| Income before taxes | 6,900 |  | 5,520 |  | 1,380 |  | 125.0 | |
| Income tax expense | 2,000 |  | 1,600 |  | 400 |  | 125.0 | |
| Net income | 4,900 |  | 3,920 |  | 980 |  | 125.0 | |

Required

a. Complete the increase (decrease) in dollars and percent.

b. Comment on trends.

b. Net Sales increased substantially more than Cost of Goods Sold.

Net Sales increased substantially more than Selling, General, and Administrative Expense.

Interest Expense, Income Tax Expense, and Net Income increased materially faster than Net Sales.