Consecutive five-year balance sheets and income statements of Mary Lou Szabo Corporation are as follows:

MARY LOU SZABO CORPORATION

Balance Sheets

December 31, 2017, through December 31, 2021

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (Dollars in thousands) | 2021 | 2020 | 2019 | 2018 | 2017 |
| Assets |  |  |  |  |  |
| Current assets: |  |  |  |  |  |
| Cash | $ 24,000 | $ 25,000 | $ 26,000 | $ 24,000 | $ 26,000 |
| Accounts receivable, net | 120,000 | 122,000 | 128,000 | 129,000 | 130,000 |
| Inventories | 135,000 | 138,000 | 141,000 | 140,000 | 137,000 |
| Total current assets | 279,000 | 285,000 | 295,000 | 293,000 | 293,000 |
| Property, plant, and equipment, net | 500,000 | 491,000 | 485,000 | 479,000 | 470,000 |
| Goodwill | 80,000 | 85,000 | 90,000 | 95,000 | 100,000 |
| Total assets | $859,000 | $861,000 | $870,000 | $867,000 | $863,000 |
| Liabilities and Stockholders’ Equity |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |
| Accounts payable | $180,000 | $181,000 | $181,500 | $183,000 | $184,000 |
| Income taxes | 14,000 | 14,500 | 14,000 | 12,000 | 12,500 |
| Total current liabilities | 194,000 | 195,500 | 195,500 | 195,000 | 196,500 |
| Long-term debt | 65,000 | 67,500 | 79,500 | 82,000 | 107,500 |
| Redeemable preferred stock | 80,000 | 80,000 | 80,000 | 80,000 | — |
| Total liabilities | 339,000 | 343,000 | 355,000 | 357,000 | 304,000 |
| Stockholders’ equity: |  |  |  |  |  |
| Preferred stock | 70,000 | 70,000 | 70,000 | 70,000 | 120,000 |
| Common stock | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Paid-in capital in excess of par, |  |  |  |  |  |
| common stock | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Retained earnings | 85,000 | 83,000 | 80,000 | 75,000 | 74,000 |
| Total stockholders’ equity | 520,000 | 518,000 | 515,000 | 510,000 | 559,000 |
| Total liabilities and stockholders’ |  |  |  |  |  |
| equity | $859,000 | $861,000 | $870,000 | $867,000 | $863,000 |

MARY LOU SZABO CORPORATION

Statement of Earnings

Years Ended December 31, 2017–2021

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (Dollars in thousands) | 2021 | 2020 | 2019 | 2018 | 2017 |
| Net sales | $ 980,000 | $ 960,000 | $ 940,000 | $ 900,000 | $ 880,000 |
| Cost of goods sold | 625,000 | 616,000 | 607,000 | 580,000 | 566,000 |
| Gross profit | 355,000 | 344,000 | 333,000 | 320,000 | 314,000 |
| Selling and administrative expense | (240,000) | (239,000) | (238,000) | (239,000) | (235,000) |
| Interest expense | (6,500) | (6,700) | (8,000) | (8,100) | (11,000) |
| Earnings from continuing  operations before income taxes | 108,500 | 98,300 | 87,000 | 72,900 | 68,000 |
| Income taxes | 35,800 | 33,400 | 29,200 | 21,700 | 23,100 |
| Earnings from continuing  operations | 72,700 | 64,900 | 57,800 | 51,200 | 44,900 |
| Extraordinary loss, net of taxes | — | — | — | — | (30,000) |
| Net earnings | $ 72,700 | $ 64,900 | $ 57,800 | $ 51,200 | $ 14,900 |
| Earnings (loss) per share:  Continuing operations | $ 2.00 | $ 1.80 | $ 1.62 | $ 1.46 | $ 1.28 |
| Extraordinary loss | — | — | — | — | (0.85) |
| Net earnings per share | $ 2.00 | $ 1.80 | $ 1.62 | $ 1.46 | $ 0.43 |

|  |  |  |
| --- | --- | --- |
| *Note:* Dividends on preferred stock were as follows:  Redeemable preferred stock | Preferred stock |  |
| 2018–2021 $6,400 | 2018–2021 | $ 6,300 |
|  | 2017 | 10,800 |

Required

1. Compute the following for the years ended December 31, 2019–2021:
   1. Net profit margin
   2. Total asset turnover
   3. Return on assets
   4. DuPont return on assets
   5. Operating income margin
   6. Operating asset turnover
   7. Return on operating assets
   8. DuPont return on operating assets
   9. Sales to fixed assets
   10. Return on investment
   11. Return on total equity
   12. Return on common equity
   13. Gross profit margin

*Note:* For ratios that call for using average balance sheet figures, compute the rate using average balance sheet figures and year-end balance sheet figures.

1. Briefly comment on profitability and trends indicated in profitability. Also comment on the difference in results between using the average balance sheet figures and year-end figures.

PROBLEM 8-12

Net Income Before Minority Share of

a. 1. Net Profit Margin = Earnings Equity Income and Nonrecurring Items

Net Sales

2021: 

2020: 

2019: 

2018: 

2017: 

2. 

2021: 

2020: 

2019: 

2018: 

2017: Cannot compute average assets.

Net Income Before Minority

Share of Earnings and

3. Return on Assets = Nonrecurring Items

Average Total Assets

2021: 

2020: 

2019: 

2018: 

2017: Cannot compute average assets.

4. DuPont Return on Assets = Net Profit Margin x Total Asset Turnover

2021: 7.42% x 1.14 times = 8.46%

2020: 6.76% x 1.11 times = 7.50%

2019: 6.15% x 1.08 times = 6.64%

2018: 5.69% x 1.04 times = 5.92%

2017: Cannot compute average assets.

5. 

2021: 

2020: 

2019: 

2018: 

2017: 

6. 

2021: 

2020: 

2019: 

2018: 

2017: Average assets cannot be computed.

7. 

2021: 

2020: 

2019: 

2018: 

2017: Average assets cannot be computed.

8. DuPont Return on Operating Assets =

Operating Income Margin x Operating Asset Turnover

Average Balance Sheet Figures

2021: 11.73% x 1.26 = 14.78%

2020: 10.94% x 1.23 = 13.46%

2019: 10.11% x 1.21 = 12.23%

2018: 9.00% x 1.17 = 10.53%

2017: Average assets cannot be computed.

9. 

2021: 

2020: 

2019: 

2018: 

2017: Average net fixed assets cannot be computed.

Net Income Before Minority Share of

Earnings and Nonrecurring Items +

10. Return on Investment = [Interest Expense x (1 − Tax Rate)]

Average (Long-Term Liabilities + Equity)

2021: 

2020: 

2019: 

2018: 

2017: Average long-term liabilities + equity cannot be computed.

Net Income Before Nonrecurring

Items − Dividends on Redeemable

11. Return on Total Equity = Preferred Stock

Average Total Equity

2021: 

2020: 

2019: 

2018: 

2017: Average total equity cannot be computed.

Net Income Before Nonrecurring

12. Return on Common Equity = Items − Preferred Dividends

Average Common Equity

Average Balance Sheet Figures

2021: 

2020: 

2019: 

2018: 

2017: Average common equity cannot be computed.

13. 

2021: 

2020: 

2019: 

2018: 

2017: 

b. In general, the profitability appears to be very good and the trend is positive.

There was not a significant difference in results between using average balance sheet figures and year-end figures. The year-end figure allowed for an additional year that was not a very profitable year in relation to subsequent years.