

Accounting



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Section a) Return on Total assets = 4.2 % b) Return on Common stockholders' equity = 10.06 % c) The company's financial leverage is negative as the stockholder's equity is more than the return on total assets.

Section 2

- a) Earnings per share is \$ 5.2
- b) The dividend payout ratio for common stock = \$ 0.23
- c) The dividend yield ratio for common stock = 0.37%
- d) The price earnings ratio = 11, the price earnings ratio is more in Stephens Company, the investors regard his company as more profitable
- e) The book value is \$40. The difference between the book value (\$40) and market value (\$60) indicates that considerable margin exists, hence it is a bargain.
- f) The gross margin percentage is 27

Section 3

- a) The current ratio = 1.86
- b) The acid test ration = 0.85
- c) The average collection period = 38.4 days
- d) The average sale period = 107days
- e) The debt- to equity ratio = 1.14
- f) The times interest earned = 4.25

Section 4

Upon the diligent research carried out, there are four factors which would describe the credibility of the load and its feasibility

- i. Debt to equity ratio
- ii. Current ratio
- iii. Average sale period; and

iv. Return on assets

The debt to equity ratio and current ratio are inversely proportional for an effective business. The debt to equity ratio in research has proven to be more than his companies, where as the current ratio has also decreased. But, based on the research the debt to equity ratio and current ratio provide enough evidence to sanction for loan.

Furthermore the average sale period is very critical as well. The average sale period of the research indicates 107 days and that of his companies is 95 days. So, there is no threatening increase in the sales period

Return on assets for the companies is 10.2% , whereas from the data we can deduce that return on assets 4.2% , which is relatively lesser to the companies and the return on common stockholder's equity is more in comparison to ROA, that is why the company has negative financial leverage.

Based on these values and analysis, I would recommend that loan should be approved.