Brief Exercise 14-3
No new common or preferred stock were issued.
800,000 shares of common stock were outstanding
Bond interest rate is 12%
Tax rate is 40%
Dividend per share of common stock is $0.25
Market value of company’s stock is $18
All sales are on account

Part 1:
1. Gross margin percentage: Gross Margin ÷ Sales = $27,000 ÷ $79,000 = 34.2%
2. EPS = (Net Income – Preferred Dividends) ÷ Average # Shares
   Common Stock = ($3,540 - $120) ÷ 800 = $4.28/share
3. PE Ratio = Market Price of Stock ÷ EPS = $18 ÷ $4.28 = 4.2 times
4. Dividend Payout Ratio = Dividends per share ÷ EPS = $0.25 ÷ $4.28 = 5.8%
5. Dividend Yield Ratio = Dividends per share ÷ Market price of stock = $0.25 ÷ $18.00 = 1.4%
6. Return on Total Assets = (Net Income + [Interest Expense x (1-Tax Rate)]) ÷ Average Total Assets.
   Average Total Assets = (Beginning Balance + Ending Balance) ÷ 2
   = ($45,960 + $50,280) ÷ 2 = $48,120
   Return on Total Assets = ($3,540 + [$600 x (1 – 0.40)]) ÷ $48,120
   = ($3,540 + $360) ÷ $48,120 = 8.1%

7. Return on Common Stockholders’ Equity = (Net Income – Preferred Dividends) ÷ Average Common Stockholders’ Equity
   Average Common Stockholders’ Equity = Average SHE – Average Preferred SHE = (Beginning SHE + Ending SHE) ÷ 2
   Preferred SHE = ([$31,660 + $34,880] ÷ 2 - $2,000 = $31,270
   Return on Common Stockholders’ Equity = ($3,540 - $120) ÷ $31,270 = 10.9%
8. Book Value Per Share = (Total Stockholders’ Equity – Preferred Stock) ÷ Number of Shares of Common Stock Outstanding = ($34,880 - $2,000) ÷ 800 shares = $41.10/share