

B-16.02

Billy Covington is a loan analyst for DotBanc. DotBanc accepts online business loan applications. The data are stored in a spreadsheet ("data set"). Billy imports this data into an analysis spreadsheet and calculates the debt to total assets ratio, debt to stockholders' equity ratio, and times interest earned ratio. The calculated ratios are used to screen applicants for further evaluation. To qualify, a company must have a debt to total assets ratio of less than 0.5, debt to total equity of less than 1.0, and a times interest earned ratio of at least 5.

In calculating the ratios, DotBanc makes certain assumptions as follows:

Total equity is the sum of paid-in capital and retained earnings.

Total assets equal total equity plus total liabilities.

Total interest cost is 7% of total liabilities.

Use the accompanying data set to calculate the indicated ratios. Identify companies that meet the preliminary screening.



DATA SET

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DATA SET

<u>Applicant</u>	<u>Total Liabilities</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Net Income for Past Year</u>	<u>Taxes for Past Year</u>
Berkley	5,000,000	2,000,000	2,000,000	1,000,000	250,000
Costnor	2,500,000	1,000,000	500,000	400,000	100,000
Dalia	3,000,000	400,000	5,200,000	500,000	110,000
Ferguson	500,000	700,000	3,500,000	800,000	90,000
Hernandez	2,000,000	200,000	700,000	600,000	75,000
Indio	1,600,000	1,200,000	8,000,000	250,000	50,000
Jordanson	4,400,000	5,000,000	(400,000)	(60,000)	-
Kervin	3,000,000	1,500,000	1,800,000	10,000	1,000
Lensmire	600,000	500,000	500,000	250,000	60,000