

B-16.04

Liz Marett is the chief financial officer for Fulton Construction. She delivered the following comments in a recent conference call with analysts that follow the company:

"20X5 was another excellent year. Net income was a record setting \$10,000,000. We maintained our overall net profit on sales at the historic 10% level. This occurred despite an increase in raw material costs that lowered our gross margin to 60%. We are proud that we continue to maintain a healthy balance sheet that is free of any liabilities. All of our financing continues to be provided by our common and preferred shareholders. Our beginning of year equity of \$75,000,000 was sufficient to fund our capital needs, and no additional shares were issued this year. Our "5% preferred shareholders" have again received their full \$2,000,000 in dividends for the year. The remaining earnings have been reinvested in the company."

- (a) Use profitability ratios to determine Fulton's sales, cost of goods sold, gross profit, and net income.
- (b) Calculate Fulton's return on assets and return on equity. Which is higher, and why?