Comparative statement data for P Company and Q Company—competitors—appear on the following page. All balance sheet data are as of December 31, 2002 and December 31, 2001.

	P Company		Q Company	
	2003	**2002**	**2003**	**2002**
Net sales	$100,000		$80,000	
Gross profit	30,000		30,000	
Operating expenses	15,000		20,000	
Amortization expense	1,000		1,500	
Interest expense	400		500	
Income tax expense	1,000		2,000	
Net income	12,600		6,000	
Cash	1,000	1,000	4,000	0
Accounts receivable	10,000	11,000	24,000	22,000
Other current assets	40,000	30,000	8,000	7,000
Capital assets (net)	62,600	110,000	20,000	21,000
Current liabilities	30,000	92,000	4,000	5,000
Long-term liabilities	21,000	10,000	28,000	27,000
Common stock	40,000	40,000	1,000	1,000
Retained earnings	22,600	10,000	23,000	17,000

Instructions

(a) Prepare a vertical analysis of the 2003 income statement data for P and Q.
(b) Compute the return on common shareholders' equity for both companies for 2003.
(c) Compare receivable collections between the two companies for 2003.
(d) Compare the short-term liquidity of the two companies for 2003.

Action Plan

- A vertical analysis of the income statement requires that each component of income be divided by net sales.
- Use average balances for turnover ratios such as the asset turnover.
- Short-term liquidity will involve the current and quick ratios