

**OTHER GAINS (LOSSES).** The following chart provides further details about the other gains (losses) that Microline recognized during 2011 and 2010.

	2011	2010
Rent revenue	\$2,400	\$1,600
Inventory write-down		(750)
Realized gains on short-term equity securities	400	
Unrealized gains on short-term equity securities	100	
Gain on sale of land	1,500	
Foreign exchange gain	500	
Income from affiliate	1,250	400
Loss on sale of machinery	(900)	
Total	<u>\$5,250</u>	<u>\$1,250</u>

**EXCHANGE GAIN.** On December 3, 2011, Microline sold goods to a customer in Canada and agreed to accept 4,000 Canadian dollars in payment. The receivable was still outstanding as of December 31, 2011, at which time the exchange rate of Canadian to U.S. dollars was 1.6/1. No other transactions were conducted outside U.S. borders during 2010 or 2011.

**SHORT-AND LONG-TERM DEBT.** On November 15, 2011, Microline signed a 90-day note payable in the amount of \$4,000. As of December 31, 2011, this note was classified as long term because Microline intends to refinance it indefinitely. Microline also signed a long-term note in the amount of \$3,000. This ten-year note includes an interest rate of 8 percent and requires that Microline maintain a current ratio of greater than 1.0 over the ten-year life.

**INCOME TAXES.** Microline's effective income tax rate is 34 percent.

**EXECUTIVE COMPENSATION.** At the end of each year, Microline's executives share equally in a bonus, which is equal to 25 percent of the dollar amount by which the corporation's net income exceeds 10 percent of the shareholders' equity dollar amount at the beginning of the year.

**REVENUE RECOGNITION.** All sales made by Microline are on credit, and Microline recognizes revenue when goods are shipped.

### CASE 3: TECHNIC ENTERPRISES AND SONAR-SUN INC.

You are an investment analyst for Timken Brothers, a small brokerage firm. Recent developments in the medical equipment industry have caused a number of Timken's customers to inquire about two particular companies, Technic Enterprises and Sonar-Sun Incorporated. You have been asked to analyze the financial statements of these two companies and—on that basis only—rate them on a scale from 1 (very weak) to 10 (very strong) with respect to (1) solvency position, (2) earning power and persistence, and (3) earnings quality. In addition to the ratings, you have been asked to provide a memo stating why the ratings on these three dimensions do (or do not) differ between the two companies. The ratings and the memo will comprise part of a report that will be used by Timken's brokers to guide their buy/sell recommendations. The financial statements of Technic Enterprises and Sonar-Sun Inc. follow.

#### Technic Enterprises

The financial statements of Technic Enterprises and selected additional information are provided on the following pages. Dollar amounts are in thousands.