

The Regina Company, Inc.

The Regina Company, Inc. ("Regina") was engaged in the manufacture and marketing of various household equipment, such as vacuum cleaners and whirlpools.

Regina's financial statements are on the following two pages. Use these financial statements to answer the following questions:

1. Prepare a vertical analysis on the financial statements.

2. Based on the results of question #1, what relationships appear to be out of alignment?

3. Is the relationship between sales and cost of goods sold linear?

4. Should the relationship between sales and cost of goods sold be linear?
 - a. If so, why?
 - b. If not, why not?

5. Can you identify the potential fraud?
 - a. If so, how did you determine there was a potential fraud?
 - b. If not, what other information would help determine if there is a potential fraud?

The Regina Company, Inc.

STATEMENT OF INCOME (In Thousands)	12/31/86 <u>(Audited)</u>	12/31/87 <u>(Audited)</u>	12/31/88 <u>(Audited)</u>
Net Sales	\$76,144	\$128,234	\$181,123
Costs of Goods Sold	<u>46,213</u>	<u>70,756</u>	<u>94,934</u>
Gross Margin	29,931	57,478	86,189
General Expenses	<u>20,105</u>	<u>42,600</u>	<u>64,285</u>
Operating Income	9,826	14,878	21,904
Interest Expense	1,930	1,584	3,189
Income Taxes	<u>3,807</u>	<u>6,189</u>	<u>7,761</u>
Net Income	<u>4,089</u>	<u>7,105</u>	<u>10,954</u>
Earnings Per Share	<u>0.46</u>	<u>0.78</u>	<u>1.21</u>

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BALANCE SHEET (In Thousands)	12/31/86 <u>(Audited)</u>	12/31/87 <u>(Audited)</u>	12/31/88 <u>(Audited)</u>
ASSETS			
Cash	\$ 63	\$ 514	\$ 885
Accounts Receivable	14,402	27,801	51,076
Inventories	9,762	19,577	39,135
Other Current Assets	<u>708</u>	<u>1,449</u>	<u>3,015</u>
Total Current Assets	24,935	49,341	94,111
Fixed Assets	19,523	19,736	27,884
Accum Depreciation	(3,140)	(4,948)	(6,336)
Other Assets	<u>1,884</u>	<u>1,112</u>	<u>2,481</u>
TOTAL ASSETS	<u>\$43,202</u>	<u>\$65,241</u>	<u>\$118,140</u>
LIABILITIES & EQUITY			
Lines of Credit	2,707	0	0
Cur Portion-L/T Debt	0	900	1,250
Accounts Payable	7,344	15,072	13,288
Accrued Liabilities	3,127	5,468	4,710
Income Taxes Payable	<u>1,554</u>	<u>2,619</u>	<u>3,782</u>
Total Current Liabilities	14,732	24,059	23,030
Bonds Payable	14,800	13,900	14,625
Bank Debt	0	5,941	47,432
Deferred Income Taxes	<u>685</u>	<u>1,254</u>	<u>1,881</u>
TOTAL LIABILITIES	30,217	45,154	86,968
Common Stock	1	1	1
Add'l Paid in Capital	8,010	8,018	8,023
Retained Earnings	5,210	12,315	23,269
Currency Adjustments	0	0	126
Treasury Stock	<u>(236)</u>	<u>(247)</u>	<u>(247)</u>
TOTAL LIABILITIES & EQUITY	<u>\$43,202</u>	<u>\$65,241</u>	<u>\$118,140</u>