



## ASSIGNMENT

Finance and Accounting  
Senior Accountant Analysis

## DUE DATE

Week 5

## SHAUN'S CRITERIA

Hi Team,

I wanted to provide you some guidelines as you determine how we'll finance our expansion. Please give this careful consideration, as we need to get this right.

1. I estimate we'll need \$150,000 to increase capacity in order to stock the five additional pop-up stands
2. We'll need to make sure we have additional funds available to increase our marketing efforts to stimulate demand
3. Cash flow is going to be tight, so I'd like to minimize interest payments
4. I'd like to maintain or increase our profit margins
5. Since I don't have a lot of experience with big discount retailers, I'd like to add a thought partner with experience in this channel
6. If we're successful over the next two years, we'll likely seek additional capital to expand into more stores, so I'd like to do all we can now to enhance our credibility

We need to move on this quickly, so I'd like an answer by the end of the week.

-Shaun

# FINANCING OPTIONS

## Option 1: Equity

Raise \$150,000 from a venture capital firm in exchange for 30% of the company

## Option 2: Debt

Secure a loan of \$150,000 at a 10% annual interest rate, to be repaid over 7 years

## Option 3: Debt + Self-Financing

Secure a loan of \$100,000 at a 7% annual interest rate, to be repaid over 7 years, and self-finance the remaining \$50,000

# JUNIOR ACCOUNTANT EMAIL

Hi,

I'm working on expenses from the last quarter for the revised income statement, but I'm unsure of what to do next. I grouped similar transactions to compile the following list:

- inventory purchases
- marketing expenses
- payroll expenses
- interest expenses
- technology purchases
- office supplies expenses
- automotive maintenance cost
- travel expenses
- training and development costs
- office rent
- raw material purchases

How would you like me to proceed given where we are in the process? Thanks in advance for your guidance.

Best,

Jenna S.

**SUNSTRUCK SUNGLASSES**  
**INCOME STATEMENT**  
For Year Ended September 30, 2016

<b>REVENUES</b>	
Sales revenues	\$778,590
Other revenue	\$11,000
<b>Total revenue</b>	<b>\$789,590</b>
<b>COST OF GOODS SOLD (COGS)</b>	<b>(\$428,225)</b>
<b>GROSS PROFIT</b>	<b>\$361,366</b>
<b>EXPENSES</b>	
Depreciation and amortization	(\$18,820)
Selling, general and administrative expenses	(\$78,959)
Marketing and advertising expenses	(\$55,271)
<b>Total expenses</b>	<b>(\$153,050)</b>
<b>INCOME FROM OPERATIONS</b>	<b>\$208,315</b>
<b>OTHER EXPENSES</b>	
Interest expense	(\$51,000)
<b>PRETAX INCOME</b>	<b>\$157,315</b>
Income tax expense	(\$55,060)
<b>NET INCOME</b>	<b>\$102,255</b>

**SUNSTRUCK SUNGLASSES****BALANCE SHEET**

At September 30, 2016

<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$28,000	
Accounts receivable	\$55,220	
Merchandise inventories	\$62,280	
<b>Total current assets</b>		\$145,500
<b>LONG-TERM ASSETS</b>		
Property, truck and equipment		\$468,000
<b>TOTAL ASSETS</b>		\$613,500
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable		\$37,500
<b>LONG-TERM LIABILITIES</b>		
Truck loan	\$40,000	
B+M loan	\$360,000	
Operating loan	\$42,000	
<b>Total long-term liabilities</b>		\$442,000
<b>TOTAL LIABILITIES</b>		\$479,000
<b>SHAREHOLDERS' EQUITY</b>		
<b>CONTRIBUTED CAPITAL</b>	\$12,000	
<b>RETAINED EARNINGS</b>	\$122,000	
<b>TOTAL SHAREHOLDERS' EQUITY</b>		\$134,000
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		\$613,500

**SUNSTRUCK SUNGLASSES**  
**STATEMENT OF CASH FLOWS**  
For Year Ended September 30, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash collected from customers	\$733,780
Cash paid to suppliers and employees	(\$524,520)
Cash paid for interest	(\$55,060)
Cash paid for taxes	(\$55,060)
<b>Net cash provided by operating activities</b>	<u>\$99,139</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash paid on truck loans	(\$20,000)
Cash paid on B+M loans	(\$40,000)
<b>Net cash used for investing activities</b>	<u>(\$60,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Cash received from operating cash loan	\$12,000
<b>Net cash provided by financing activities</b>	<u>\$12,000</u>
<b>NET INCREASE IN CASH DURING YEAR</b>	\$51,139
<b>CASH AT BEGINNING OF YEAR</b>	(\$23,255)
<b>CASH AT THE END OF YEAR TO DATE</b>	\$28,000