

The Balance Sheet

- 3-11. (Related to Checkpoint 3.2 on page 54) (Working with the balance sheet)** The Caraway Seed Company grows heirloom tomatoes and sells their seeds. The heirloom tomato plants are preferred by many growers for their superior flavor. At the end of the most recent year the firm had current assets of \$50,000, net fixed assets of \$250,000, current liabilities of \$30,000, and long-term debt of \$100,000.
- Calculate Caraway's stockholders' equity.
 - What is the firm's net working capital?
 - If Caraway's current liabilities consist of \$20,000 in accounts payable and \$10,000 in short-term debt (notes payable), what is the firm's net working capital?
- 3-12. (Related to Checkpoint 3.2 on page 54) (Review of financial statements)** A scrambled list of accounts from the income statement and balance sheet of Belmond, Inc. is as follows:

Inventory	\$ 6,500
Common stock	45,000
Cash	16,550
Operating expenses	1,350
Short-term notes payable	600
Interest expense	900
Depreciation expense	500
Sales	12,800
Accounts receivable	9,600
Accounts payable	4,800
Long-term debt	55,000
Cost of goods sold	5,750
Buildings and equipment	122,000
Accumulated depreciation	34,000
Taxes	1,440
General and administrative expense	850
Retained earnings	?

- How much is the firm's net working capital?
 - Complete an income statement and a balance sheet for Belmond.
 - If you were asked to respond to complete parts a. and b. as part of a training exercise, what could you tell your boss about the company's financial condition based on your answers?
- 3-13. (Review of financial statements)** Prepare a balance sheet and income statement for the Warner Company from the following scrambled list of items:

Depreciation expense	\$ 66,000
Cash	225,000
Long-term debt	334,000
Sales	573,000
Accounts payable	102,000
General and administrative expense	79,000
Buildings and equipment	895,000
Notes payable	75,000
Accounts receivable	167,500
Interest expense	4,750
Accrued expenses	7,900
Common stock	289,000
Cost of goods sold	297,000
Inventory	99,300
Taxes	50,500
Accumulated depreciation	263,000
Taxes payable	53,000
Retained earnings	262,900

- Prepare an income statement for the Warner Company.
- Prepare a balance sheet for the Warner Company.
- What can you say about the firm's financial condition based on these financial statements?

Cash Flow Statement

3-14. (Related to Checkpoint 3.3 on page 64) (Analyzing the cash flow statement)


Goggle, Inc. is an Internet firm that has experienced a period of very rapid growth in revenues over the period 2007–2010. The cash flow statements for Goggle, Inc. spanning the period are as follows:

In Millions of U.S. Dollars	12 Months Ending			
	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Net income	\$ 4,000	\$ 3,000	\$ 1,500	\$ 400
Depreciation expense	1,000	600	300	150
Changes in working capital	600	50	50	(250)
Cash from operating activities	<u>\$ 5,600</u>	<u>\$ 3,650</u>	<u>\$ 1,850</u>	<u>\$ 300</u>
Capital expenditures	\$(3,600)	\$(7,000)	\$(3,300)	\$(2,000)
Cash from investing activities	<u>\$(3,600)</u>	<u>\$(7,000)</u>	<u>\$(3,300)</u>	<u>\$(2,000)</u>
Interest and financing cash flow items	\$ 400	\$ 600	\$ 0	\$ 5
Total cash dividends paid	0	0	0	0
Issuance (retirement) of stock	24	2,400	4,400	1,200
Issuance (retirement) of debt	0	0	(2)	(5)
Cash from financing activities	<u>\$ 424</u>	<u>\$ 3,000</u>	<u>\$ 4,398</u>	<u>\$ 1,200</u>
Net change in cash	\$ 2,424	\$ (350)	\$ 2,948	\$ (500)

Answer the following questions using the information found in these statements:

- Is Goggle generating positive cash flow from its operations?
 - How much did Goggle invest in new capital expenditures over the last four years?
 - Describe Goggle's sources of financing in the financial markets over the last four years.
 - Based solely on the cash flow statements for 2007 through 2010, write a brief narrative that describes the major activities of Goggle's management team over the last four years.
- 3-15. (Analyzing the cash flow statement) The cash flow statements for retailing giant BigBox, Inc. spanning the period 2010–2013 are as follows:

In Millions of U.S. Dollars	12 Months Ending			
	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Net income	\$ 13,000	\$ 12,000	\$ 11,000	\$ 10,000
Depreciation expense	6,500	6,300	5,000	4,000
Changes in working capital	1,200	2,300	2,400	1,000
Cash from operating activities	<u>\$ 20,700</u>	<u>\$ 20,600</u>	<u>\$ 18,400</u>	<u>\$ 15,000</u>
Capital expenditures	\$(16,000)	\$(14,500)	\$(14,000)	\$(12,300)
Cash from investing activities	<u>\$(16,000)</u>	<u>\$(14,500)</u>	<u>\$(14,000)</u>	<u>\$(12,300)</u>
Interest and financing cash flow items	\$ (350)	\$ (250)	\$ (350)	\$ 100
Total cash dividends paid	(3,600)	(2,800)	(2,500)	(2,200)
Issuance (retirement) of stock	(8,000)	(1,500)	(3,600)	(4,500)
Issuance (retirement) of debt	1,500	(100)	4,000	4,100
Cash from financing activities	<u>\$ (10,450)</u>	<u>\$ (4,650)</u>	<u>\$ (2,450)</u>	<u>\$ (2,500)</u>
Net change in cash	\$ (5,750)	\$ 1,450	\$ 1,950	\$ 200

- 4-21. (Market value analysis)** The balance sheet for Larry Underwood Motors shows a book value of stockholders' equity (book value per share \times total shares outstanding) of \$1,300,000. Furthermore, the firm's income statement for the year just ended has a net income of \$500,000, which is \$0.25 per share of common stock outstanding. The price-earnings ratio for firms similar to Underwood Motors is 20.
- What price would you expect Underwood Motors shares to sell for?
 - What is the book value per share for Underwood's shares?
- 4-22. (Market value analysis)** Lei Materials' balance sheet lists total assets of \$1 billion, \$100 million in current liabilities, \$400 million in long-term debt, \$500 million in common equity, and 50 million shares of common stock. If Lei's current stock price is \$50, what is the firm's market-to-book ratio?
- 4-23. (Liquidity analysis)** The Mitchem Marble Company has a target current ratio of 2.0 but has experienced some difficulties financing its expanding sales in the past few months. At present, the firm has a current ratio of 2.5 and current assets of \$2.5 million. If Mitchem expands its receivables and inventories using its short-term line of credit, how much additional short-term funding can it borrow before its current ratio standard is reached?
- 4-24. (Liquidity analysis)** When firms enter into loan agreements with their banks, it is very common for the agreement to have a restriction on the minimum current ratio the firm has to maintain. So, it is important that the firm be aware of the effects of its decisions on the current ratio. Consider the situation of Advanced Autoparts (AAP) in 2009. The firm had total current assets of \$1,807,626,000 and current liabilities of \$1,364,994,000.
- What is the firm's current ratio?
 - If the firm were to expand its investment in inventory and finance the expansion by increasing accounts payable, how much could it increase its inventory without reducing the current ratio below 1.2?
 - If the company needed to raise its current ratio to 1.5 by reducing its investment in current assets and simultaneously reducing accounts payable and short-term debt, how much would it have to reduce current assets to accomplish this goal?
-  **4-25. (Calculating financial ratios)** The balance sheet and income statement for the J. P. Robard Mfg. Company are as follows:

J. P. Robard Mfg., Inc.	
Balance Sheet (\$000)	
Cash	\$ 500
Accounts receivable	2,000
Inventories	1,000
Current assets	<u>3,500</u>
Net fixed assets	4,500
Total assets	<u>\$8,000</u>
Accounts payable	\$1,100
Accrued expenses	600
Short-term notes payable	300
Current liabilities	<u>\$2,000</u>
Long-term debt	2,000
Owners' equity	4,000
Total liabilities and owners' equity	<u>\$8,000</u>