Assignment 1
Financial Management I (ACC 2364)

This assignment is worth 20 percent of the Final Grade. It consists of **4 questions** that are each worth **5 percent** each. These questions will involve doing calculations, and will require written explanations of the answer derived from these calculations. You must **show your calculations** and **how you came up with your answers in order to receive marks**.

Question 1.

A firm has the following financial statements and paid a $1,000 dividend during the year.

Balance Sheets

ASSETS	Ending	Beginning
Cash	$ 2,000	$ 1,600
Accounts receivable	12,000	5,200
Inventory	14,000	15,600
Current Assets	$28,000	$22,400
Gross Capital assets	$27,000	$20,000
Accumulated amortization	(16,000)	(14,400)
Net capital assets	11,000	5,600
Total assets	$39,000	$28,000
LIABILITIES		
Accounts payable	$ 3,000	$ 2,500
Accruals	1,000	1,500
Current Liabilities	$ 4,000	$ 4,000
Long term Debt	10,000	5,000
Equity	25,000	19,000
Total liabilities & equity	$39,000	$28,000

Income Statement	
Sales	$100,000
COGS	80,000
Gross Margin	$ 20,000
Cash Expenses	$ 8,000
Amortization	1,600
EBIT	$ 10,400
Interest	800
EBT	$ 9,600
Tax	2,600
Net Income	$ 7,000

a. Calculate cash from operating activities showing the current account changes separately.
b. Calculate cash from financing activities.
c. Calculate cash from investing activities.
d. Develop a statement of cash flows including a reconciliation with the cash account.

Question 2.

Emperor Corporation's financial statements for the last year are shown below. All figures are in thousands ($000). The firm paid a $1,000 dividend to its shareholders during the year. Two million common shares are outstanding. The shares are currently trading at a price of $50. There were no sales of new common shares. Lease payments totalling $400 are included in cost and expense.

BALANCE SHEET

ASSETS	
Cash	$ 2,000
Accounts receivable	12,000
Inventory	14,000
Current Assets	$28,000
Gross Capital assets	$27,000
Accumulated amortization	(16,000)
Net capital assets	11,000

INCOME STATEMENT	
Sales	$100,000
COGS	80,000
Gross Margin	$ 20,000
Cash Expenses	$ 8,000
Amortization	1,600
EBIT	$ 10,400
Interest	800

Total assets	$39,000	EBT	$ 9,600
LIABILITIES		Tax	2,600
Accounts payable	$ 3,000	Net Income	$ 7,000
Accruals	1,000		
Current Liabilities	$ 4,000		
Long term Debt	10,000		
Equity	25,000		
Total liabilities & equity	$39,000		

Develop Emperor's:
Current Ratio
Quick Ratio
Average Collection Period (ACP)
Inventory Turnover
Capital Asset Turnover
Total Asset Turnover
Debt Ratio
Debt to Equity ratio
Times Interest Earned (TIE)
Cash Coverage
Fixed Charge Coverage
Return on Sales (ROS)
Return on Assets (ROA)
Return on Equity (ROE)
Price Earnings Ratio (P/E)
Market to Book Value Ratio

Question 3.

Baxter Inc. is in a fast growing industry, but doesn't seem to be able to match its competitors' growth rates. Selected financial information for Baxter is as follows ($000):

Sales	$20,000
NI	$1,000
Total Assets	$10,000
Equity	$8,000
Annual dividend	$700

Research has revealed that the average firm in Baxter's industry pays out 10% of its earnings in dividends, earns 4 cents after tax on every sales dollar, has an equity multiplier of 3.0, and a total asset turnover of 1.9.

a. Use a sustainable growth rate analysis in the following table to determine the source(s) of Baxter's growth problems.

	g_s =	Retention Ratio ×	Return on Sales ×	Total Asset Turnover ×	Equity Multiplier
Industry					
Baxter					

b. What negatives might be associated with fixing the problems revealed by the analysis?

Question 4.

The Winthrop Company expects to finish the current year with the financial results indicated on the worksheet on the next page. Develop next year's income statement and ending balance sheet using that information and the following planning assumptions and facts. Work to the nearest thousand dollars.

PLANNING ASSUMPTIONS and FACTS

Income Statement Items

1. Revenue will grow by 20%.
2. The cost ratio will improve by 2%.
3. Spending in the Marketing Department will be held to 20% of revenue.
4. Finance and Engineering expenses will each increase by 10%.
5. The combined income tax rate will be 40%.
6. Interest on all long term borrowing will be 10%.

Balance Sheet Items

7. Cash balances will remain constant.
8. The ACP will be 35 days. (Use ending balances.)
9. The Inventory Turnover Ratio based on COGS will be 4.5X. (Use ending balances.)
10. Capital spending is expected to be $5M. The average amortization life of the assets to be acquired is 5 years and straight-line amortization is used. Amortization expense for old assets will be $1.5M.
11. Accounts payable is expected to be 30% of inventory.
12. Accruals will not change.
13. No dividends will be paid and no new shares will be sold.

WINTHROP COMPANY
INCOME STATEMENT
($000)

	THIS YEAR		NEXT YEAR	
	$	%	$	%
Revenue	$73,820	100.0		100.0
COGS	31,743	43.0		
Gross Margin	$42,077	57.0		
Expenses:				
Marketing	$17,422	23.6		
Engineering	7,087	9.6		
Fin & Admin	7,603	10.3		
Total Exp	$32,112	43.5		
EBIT	$ 9,965	13.5		
Interest	2,805	3.8		
EBT	$ 7,160	9.7		
Income Tax	$ 3,007	4.1		
NI	$ 4,153	5.6		

WINTHROP COMPANY
BALANCE SHEET
($000)

ASSETS	THIS	NEXT	LIABILITIES & EQUITY	THIS	NEXT
Cash	$ 8,940		Accts Pay	$1,984	
Accts Rec	12,303		Accruals	860	
Inventory	7,054		Curr Liabilities	$2,844	
Curr Assets	$28,297				
Capital Assets			L/T Debt	$22,630	
Gross	$65,223		Equity	44,059	
Accum Amort	($23,987)		Tot Cap	$66,689	
Net	$41,236				
Tot Assets	$69,533		Tot L&E	69,533	