

Financial Statement Analysis

MG 770

Final Exam – Winter 2015

Part 2 - Problem Solving –

All Answers to be submitted on Excel Answer Sheet

(show work or use formulas when appropriate)

Use the following information about XYZ Plumbing (FY=12/31), a public company with the most recent closing stock price of **\$5.00**, to answer the following three problems -

Income Statement

	2013	2014
Revenue	\$ 10,000,000	\$ 12,000,000
CGS	<u>4,000,000</u>	<u>4,800,000</u>
Gross Profit	\$ 6,000,000	\$ 7,200,000
SG&A	1,800,000	2,000,000
R&D	1,000,000	1,000,000
Deprec & Amort	<u>500,000</u>	<u>550,000</u>
Total Op. Expense	3,300,000	3,550,000
Operating Profit	\$ 2,700,000	\$ 3,650,000
Interest cost	520,000	600,000
Interest income	90,000	110,000
Pre-Tax	\$ 2,270,000	\$ 3,160,000
Tax (35% rate)	<u>794,500</u>	<u>1,106,000</u>
Net Income	\$ 1,475,500	\$ 2,054,000
EPS - Basic	\$ 0.15	\$ 0.21
Average Shares Outstanding	10,000,000	10,000,000

Balance Sheet

	2013	2014		2013	2014
ASSETS			LIABILITIES		
Cash	2,500,000	4,154,000	Accounts Payable	500,000	500,000
A/R	1,000,000	1,500,000	Notes Payable	1,500,000	1,000,000
Inventory	2,000,000	2,300,000	Current portion of LTD	1,000,000	1,000,000
Pre-paid expenses	<u>1,000,000</u>	<u>670,000</u>	Accrued Liabilities	<u>500,000</u>	<u>520,000</u>
Total Current Assets	6,500,000	8,624,000	Total Current Liabilities	3,500,000	3,020,000
Building and Improvements	15,000,000	15,000,000	Long-Term Debt	12,000,000	14,000,000
Equipment	<u>5,000,000</u>	<u>7,000,000</u>	Stockholder's Equity		
	20,000,000	22,000,000	Common Stock at Par	100,000	100,000
Depreciation	<u>500,000</u>	<u>1,050,000</u>	Paid in Capital	9,900,000	9,900,000
Net PP&E	19,500,000	20,950,000	Retained Earnings	<u>500,000</u>	<u>2,554,000</u>
Total Assets	26,000,000	29,574,000	Total Stockholder's Equity	10,500,000	12,554,000
			Total Liabilities + Equity	26,000,000	29,574,000

1. (26 Points)

Complete the following cash Flow Statement for XYZ Plumbing for 2014

Statement of Cash Flows		2014
Net Income		<input type="text"/>
Adjustments		<input type="text"/>
Depreciation and amortization		<input type="text"/>
Cash Provided by Operating Assets and Liabilities		
Accounts Receivable		<input type="text"/>
Inventories		<input type="text"/>
Pre-paid expenses		<input type="text"/>
Accounts payable		<input type="text"/>
Accrued liabilities		<input type="text"/>
Net Cash provided (used) by operating activities		<input type="text"/>
Cash Provided from Investing Activities		
Additions to property, plant and equipment		<input type="text"/>
Net Cash provided (used) by investing activities		<input type="text"/>
Cash Provided from Financing Activities		
Additions to long term borrowing		<input type="text"/>
Addition to short term borrowing		<input type="text"/>
Net Cash provided (used) by financing activities		<input type="text"/>
Net Cash Flow		<input type="text"/>

2. (6 Points)

Calculate the following ratios for XYZ Plumbing 2014:

	2014
Current Ratio	<input type="text"/>
Accounts Receivable turnover	<input type="text"/>
Inventory turnover	<input type="text"/>
Revenue to Cash	<input type="text"/>
Return on Assets	<input type="text"/>
Return on Equity	<input type="text"/>

3. (18 Points, 1 point for each correct box except diluted shares - 6 points)

3.) Fill in the projections for XYZ Plumbing for 2015, based on the following assumptions:

1. Revenue grows by 25% between 2014 and 2015.
2. Gross **Margins** remain at 2014 levels.
3. SG&A improves by 1% (as a % of revenue)
4. R&D increases by 20%.
5. Depreciation and Amortization costs do not change between 2014 and 2015.
6. Interest costs and expenses are given in the table below.
7. The tax rate remains constant.
8. The Average Shares Outstanding is the same as it was in 2014.
9. Options and Warrants are listed in the following table:

Options	Amount	Exercise Price	Public Warrants	Amount	Exercise Price
Officers and Directors	2,000,000	\$2.00	Shareholders	4,000,000	\$3.00

