

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	4,000,000	4,800,000
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	500,000	550,000
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)	794,500	1,106,000
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	1,000,000	670,000	Accrued Liabilities	500,000	520,000
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	5,000,000	7,000,000	Stockholder's Equity		
	20,000,000	22,000,000	Common Stock at Par	100,000	100,000
Depreciation	500,000	1,050,000	Paid in Capital	9,900,000	9,900,000
Net PP&E	19,500,000	20,950,000	Retained Earnings	500,000	2,554,000
			Total Stockholder's Equity	10,500,000	12,554,000
Total Assets	26,000,000	29,574,000	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	
Adjustments	
Depreciation and amortization	
Cash Provided by Operating Assets and Liabilities	
Accounts Receivable	
Inventories	
Pre-paid expenses	
Accounts payable	
Accrued liabilities	
Net Cash provided (used) by operating activities	
Cash Provided from Investing Activities	
Additions to property, plant and equipment	
Net Cash provided (used) by investing activities	
Cash Provided from Financing Activities	
Additions to long term borrowing	
Addition to short term borrowing	
Net Cash provided (used) by financing activities	
Net Cash Flow	

2. (6 Points)

Calculate the following ratios for XYZ Plumbing 2014:

	2014
Current Ratio	
Accounts Receivable turnover	
Inventory turnover	
Revenue to Cash	
Return on Assets	
Return on Equity	

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:

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

	2015E
Revenue	
CGS	
Gross Profit	
SG&A	
R&D	
Deprec & Amort	
Total Op. Expense	
Operating Profit	
Interest cost	600,000
Interest income	150,000
Pre-Tax	
Tax (35% rate)	
Net Income	
EPS - Basic	
EPS - Diluted	