

w10

E4-13

Analyzing Financial Statement Data
Presented below are summary financial data calculate the following ratios for Year 1 and Year 2:
calculate the following ratios for Year 1 and Year 2:

	Year 1	Year 2
Balance sheet		
Total assets	\$123,078	\$117,565
Shareholders' equity	68,278	65,627
Income statement		
Net sales	\$52,516	\$51,298
Net income	11,361	8,085

Round all answers to one decimal place.

	Year 1	Year 2
a. Return on equity		
b. Return on assets (levered)		
c. Return on sales (levered)		
d. Total asset turnover		
e. Financial leverage		

w10

E4-15

Analyzing Financial Risk
Presented below are summary financial data
Calculate the following liquidity and solvency ratios for Year 1 and Year 2.

	Year 1	Year 2
Balance sheet		
Cash and cash equivalents	\$3,680	\$3,050
Marketable securities	3,794	2,749
Accounts receivable (net)	4,373	3,378
Total current assets	14,801	12,283
Total assets	30,435	28,138
Current liabilities	9,843	6,890
Current portion of long-term debt	1,883	231
Long-term debt	8,463	8,364
Shareholders' equity	10,202	11,208
Income statement		
Interest expense	\$310	\$349
Net income before taxes	4,418	4,516

Round all answers to one decimal place.

	Year 1	Year 2
Liquidity		
Cash and marketable securities to total assets		
Quick ratio		
Current ratio		
Solvency		
Long-term debt to total assets		
Long-term debt to shareholders' equity		
Interest coverage ratio		

w10

P4-23A				P4-23B		
From the Below Financial Data - Calculate the % change in each account for the Balance Sheet and Income Statement. (Horizontal Analysis)				Create a Common Size Income Statement.		
			% Change	Income statement	Year 1	Year 2
Balance sheet	Year 1	Year 2		Net sales	\$19,380	\$19,207
Cash and cash equivalents	\$3,680	\$3,050		Cost of goods sold	5,989	5,928
Marketable securities	3,794	2,749		Interest expense	310	349
Accounts receivable (net)	4,373	3,378		Net income	2,388	3,000
Inventory	1,830	2,060		Net income before taxes	3,411	4,286
Other current assets	1,124	1,046				
Total current assets	14,801	12,283				
Total Long-Term Assets (net dep.)	15,634	15,855				
Total assets	30,435	28,138				
Current liabilities	9,843	6,890				
Noncurrent liabilities	10,390	10,040				
Shareholders' equity	10,202	11,208				
Total Liabilities & Shareholders Equity	30,435	28,138				
Income statement	Year 1	Year 2				
Net sales	\$19,380	\$19,207				
Cost of goods sold	5,989	5,928				
Interest expense	310	349				
Net income	2,388	3,000				
Net income before taxes	3,411	4,286				

w11

	Consolidated Statement of Earnings			Proforma Statement of Earnings	
	2010	2011	2012	2013	2014
Sales to customers	29,172	32,317	36,298		
Cost of Goods Sold	8,957	9,581	10,447		
Gross Profit	20,215	22,736	25,851		
SG&A Expenses	10,495	11,260	12,216		
Research Exp	3,105	3,591	3,957		
Purchased IN-Process R&D	66	105	189		
Interest income	(429)	(456)	(256)		
Interest Expense	204	153	160		
Other (income)expense, net	(94)	185	294		
TOTAL Expenses	13,347	14,838	16,560		
Earnings b/4 taxes	6,868	7,898	9,291		
Income Taxes	1,915	2,230	2,694		
Net Earnings	4,953	5,668	6,597		
Basic net earnings per share	1.65	1.87	2.20		
Diluted net earnings per share	1.61	1.84	2.16		

You are the manager of the marketing department of a company that imports products and wholesales them to retailers.
You have a staff of six professionals and are responsible for an annual budget of approximately \$2M dollars. You report to the Senior VP of Sales and Marketing.
Because of your prior background in Finance the CEO of the company has asked for your help in providing an analysis for the past two years of budgeted dollars to actual results.
Your boss is concerned about your past and the current year results and has requested that you provide to her an analysis of the prior two years and a projection of where you will land at the end of the current year.
She also wants to see a preliminary budget for your department for next year.
Company Income Statements are provided for the prior two years that show the budgeted dollars and actual results for your company by department, and the current year budget with the first six months of actual operational results are available.
A breakdown of your departmental budget is provided for the prior two years that show the budgeted dollars and actual results by budget code. The current year budget with the first six months of actual results is also available.
Analysis Questions to answer for the CEO for Year One.
1.) In year one the company was over-budget in every category, including sales revenue, except Net Profit. Provide three reasons (excluding Corporate Executive) why this occurred.
2.) Why would Corporate Executive budget be 30% over budgeted amounts?
3.) With sales revenue \$1.5M dollars over budget projection, did the increase in revenue help or hurt the company overall and explain your answer?
Analysis Questions to answer for the CEO for Year Two.
1.) In year two, one of the company's largest suppliers had quality issues with their product and one of their bigger clients went bankrupt, causing sales revenue to drop significantly.
List three areas that did a good job of controlling cost to off-set the revenue decrease and some plausible reasons as to how or why these areas were successful.
2.) Why would it seem like the I/T department did not decrease their spend in line with the other departments?
3.) Was year one or year two a better over-all year for the company and explain your answer?
Analysis Questions to answer for the Senior VP of Sales and Marketing.
1.) In year one your department was approximately 10% over-budget. Justify why this occurred.
2.) Your department was over budget two consecutive years in Software and Licensing, please provide an explanation.
3.) Explain what you did in year two to hold cost down.
4.) In the current year it looks like you are going to be a little over \$300,000 over budget (15%). What are your plans to get this under control?
Information for next year's budget
· Revenue is projected to be \$24,150,000 based on expanding into the West Coast
· A regional office is to be opened on the West Coast and the CEO expects all managers to spend time in the office as well as have a full time marketing employee at the office.
1.) Prepare next year's budget based on the above information and past years' experience.
2.) You must provide an explanation / justification for each line item in the budget and salaries can be considered one line item.

Income Statement				Income Statement			
YEAR ONE				YEAR TWO			
	Budgeted	Actual	VARIANCE + under budget (-)) over budget		Budgeted	Actual	VARIANCE + under budget (-)) over budget
Sales Revenue	\$ 21,000,000	\$ 22,500,000	\$ (1,500,000)	Sales Revenue	\$ 23,250,000	\$ 20,450,000	2,800,000
Cost of Goods Sold	12,600,000	13,950,000	-1,350,000	Cost of Goods Sold	14,298,750	12,679,000	1,619,750
Gross Profit	8,400,000	8,550,000	-150,000	Gross Profit	8,951,250	7,771,000	1,180,250
SG&A Expense by Department (including salaries)				SG&A Expense by Department (including salaries)			
Sales	2,310,000	2,410,000	-100,000	Sales	2,441,250	2,351,750	89,500
Marketing	1,933,940	2,123,885	-189,945	Marketing	1,963,159	1,883,619	79,540
I/T	315,000	318,000	-3,000	I/T	327,600	325,000	2,600
Warehouse & Shipping	1,050,000	1,275,000	-225,000	Warehouse & Shipping	1,278,750	1,022,500	256,250
Corporate Executives	950,000	1,250,000	-300,000	Corporate Executives	997,500	975,500	22,000
TOTAL SG&A Expense	6,558,940	7,376,885	-817,945	TOTAL SG&A Expense	7,008,259	6,558,369	449,890
Net Operating Profit	1,841,060	1,173,115	667,945	Net Operating Profit	1,942,991	1,212,631	730,360
Profit Margin	9%	5%		Profit Margin	8%	16%	
Income Statement				Income Statement			
CURRENT YEAR JAN - JUN							
	Full Year Budget	Jan - Jun Actual Results					
Sales Revenue	\$ 23,000,000	\$ 12,250,000					
Cost of Goods Sold	14,490,000	7,533,750					
Gross Profit	8,510,000	4,716,250					
SG&A Expense by Department (including salaries)				SG&A Expense by Department (including salaries)			
Sales	2,300,000	1,286,250					
Marketing	2,322,390	1,329,236					
I/T	330,000	168,300					
Warehouse & Shipping	1,150,000	551,250					
Corporate Executives	1,027,425	436,656					
TOTAL SG&A Expense	7,129,815	3,771,692					
Net Operating Profit	1,380,185	944,558					
Profit Margin	6%	8%					

	ACTUAL RESULTS				Current Year Budget	Current Year Actuals			
	YEAR ONE	VARIANCE + under budget (-) over budget	YEAR TWO	VARIANCE + under budget (-) over budget	Jan - Dec 20xx	January - June			
SALARIES									
Marketing Manager (You)	120,000		123,500		125,000	57,250			
Sr. Market Analyst	95,000		98,000		102,000	46,000			
Sr. Market Analyst	80,000		85,000		87,000	43,000			
Advertising Buyer	68,000		72,000		74,500	35,000			
Creative Writer (1)	56,000		63,000		65,500	33,200			
Graphic Designer (2)	23,500		56,000		57,500	21,200			
Administrative Assistant (3)	45,000		48,000		49,250	26,500			
TOTAL SALARIES	487,500	54,500	545,500	-15,470	560,750	262,150			
Salary Burden	131,625	14,715	147,285	-4,177	154,206	72,091			
Head Count Overhead	67,500	8,100	79,800	-	81,900	39,000			
Salary Burden is calculated at 27% of salaries in year 1 and year 2 - increases to 27.5% in current operating year and will be 28% the budget year									
Salary Burden includes all local, state and federal taxes; company portion of medical and life insurance; and company match of 401K plan									
Head Count Overhead is the allocation of the company's fixed cost to each department on a monthly basis.									
it is calculated by the number of employees you have each month x \$900 in year 1, \$950 in year 2 and \$975 in current operating year.									
The allocation will be held at \$975 for the budget year									
Bonuses earned are included in the actual and budgeted salaries.									
Bonuses earned are in the same year they are awarded, paid out on the last check of the current operating year									
You can earn up to 15% of your base salary each year									
The Sr. Market Analyst can earn from 5% to 8% of their base salary									
The Ad buyer, creative writer and graphic designer can earn 3% to 5% of their base salary									
The administrative assistant is on a quarterly bonuses plan and earns 1.5% to 3% of their quarterly salary									
ALL BONUSUS ARE PRO-RATED BASED ON THE NUMBER OF MONTHS EMPLOYEEED FOR THE YEAR									
(1) Creative Writer was hired in September of year one									
(2) Graphic Designer was hired in July of year one and quit in April of current operating year									
(3) Your admin. assistant informed you that she will be retiring at the end of the year after 25 years of service to the company									

Bonus % Paid Out		% Budgeted	% to Budget
Year 1	Year 2	Current Year	Budget Year
15.0%	11.0%	12.5%	12.5%
8.0%	6.0%	7.5%	7.5%
5.0%	3.5%	4.5%	4.5%
3.0%	3.0%	3.0%	3.0%

	ACTUAL RESULTS				Current Year Budget	Current Year Actuals
	YEAR ONE	VARIANCE + under budget (-) over budget	YEAR TWO	VARIANCE + under budget (-) over budget	Jan - Dec 20xx	January - June
Radio Ad Buys	731,250	-101,250	664,625	32,875	805,000	490,000
Newspaper Ad Buys	450,000	-135,000	306,750	42,000	460,000	306,250
Mailers and Flyers	82,500	-2,500	76,000	9,000	83,000	48,500
Conference Pamphlets	72,000	-4,000	64,750	9,750	76,400	65,000
Postage	43,260	-6,260	38,706	1,169	44,632	30,645
Travel	23,500	-3,500	19,500	4,750	32,000	12,000
Professional License	5,000	-	5,500	-500	5,500	2,500
Office Supplies	8,500	1,500	7,300	2,700	11,500	1,100
Software & License	21,250	-16,250	7,500	-2,500	7,500	-
ACTUAL SG&A EXPENSE	1,437,260	-267,260	1,190,631	99,244	1,525,532	955,995