Task 2: Stockholder Report for “The Bike”

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A purple and green bike

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# Stockholder Report

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Attachments to Stockholder Report:

Cumulative Balance Scorecard

Conscious Scorecard Report

Final Balance Sheet

Final Income Statement

**Stockholder Report**

1. **Analyze four corporate strategic thrusts.**
2. First corporate strategic thrust that drove a financial decision.

**R&D strategic thrust involvement that drove a financial decision**. In the 5th quarter industry news indicated that the sales of rugged bike frames with standard carbon fiber resulted in injuries to mountain bikers. “The Bike” made an **immediate decision** action spending monies on R&D investments in carbon fiber material enriched lighter stronger which was implemented and produced the products during the 6th quarter; monies spent for R&D in the 5th quarter $1,033,612 and 6th quarter $545,688. In the 6th quarter all “The Bike” products were produced using carbon fiber enriched lighter stronger which were added and mentioned in the ad design. “The Bike” did not lose money but **affected performance** that made significant sales of more than one million which sales revenue in the 6th quarter of $6,889,207 with high demand for “The Bike” products of 5,642 with net income of $1,429,256 with EPS of 29.

1. Second corporate strategic thrust that drove a financial decision.

**Employee empowerment strategic thrust that drove a financial decision**. During the 5th quarter “The Bike” spent $100,000 to find ways to improve Operations. One of the results was that employees are happy to have a job but feel they could contribute more and make work more rewarding if given an opportunity. “The Bike” **decided to** improve employee involvement and productivity. During the 5th quarter $12,190 was spent on employee worker training and employee health, $58,000 for the clinic. The worker training in the 5th and 6th quarters involved cross-training employees to do multiple tasks within the department. Also, worker training in the 5th and 6th quarters involved having employees develop teamwork skills including interpersonal, community and negotiation skills. Also, during the 5th quarter “The Bike” in enhancing employee productivity raised wages for production workers $16,616 per year, production supervisor $24,805 per year, sales force workers $28,502 per year; along with expenditures for special sales force program for training, sales contest top third of salespeople $26,650 and lastly expenditure for sales force & service promotions for $12,600. “The Bike” decision to improve employee involvement and productivity as explained above resulted in **performance** in significant sales for more than one million in the 6th quarter of sales revenue $6,889,207 with net income of $1,429,256 with market high demand of 5,642.

1. Third corporate strategic thrust that drove a nonfinancial decision.

**Quality control strategic thrusts that drove a nonfinancial decision**. In the 4th, 5th, & 6th quarters quality inspections for the “The Bike” products were made for the bike frame, carbon fiber material, tires, brakes, and gears. Furthermore, in the 6th quarter quality control set up a statistical process control (SPC) program to monitor all materials, parts, and manufactured components. Also, in the 5th & 6th quarters quality control trained operators to detect errors and adjust machines so they produce within tolerance.

1. Fourth corporate strategic thrust that drove a nonfinancial decision.

**Strategic thrusts in environmental concerns that drove a nonfinancial decision.** “The Bike” has made a conscious **decision** to be involved in environmental concerns. During the 5th and 6th quarters the facility retrofitted the production facility with a system to collect, store, and dispose of all chemicals. During the 6th quarter “The Bike” did the following: separate employees from chemicals with respirators, protective clothing, and gloves, placed air filtering plants throughout the production facility, and on join a producer consortium to develop economical and environmentally friendly ways to recycle carbon fiber products. The conscious in environmental concerns affected **performance** in nonfinancial way in which decision involvement in providing health and safety concerns for employees and community environmental sustainability.

1. **Decisions**
2. What **two** decisions I would change and why?

1) **Would change decision competitive employees’ wages** in Qtr4 – Qtr6 – How? Need to change wages to be more competitive in the market as strategy for employee satisfaction to improve productivity. Benefits for competitive employees’ wages promote productivity with employee satisfaction in the workplace. **What I would have changed** starting in quarter 3 was to actively raise wages instead of delaying such changes until quarter 6. (See graph below)

**2) Would change to conduct employee reflection survey** in Qtr4 – Qtr6 – How? The survey amongst employees to determine what changes need to be done to improve employee morale. Employee satisfaction in the 2nd quarter was 68.5%; therefore, there is room for improvement. Benefits for conducting reflection surveys from employees would be getting data to substantiate for improvement in the workplace culture. **What I would have changed** starting in quarter 3 was to actively get feedback from employee surveys instead of delaying such changes until quarter 6. (See graph below)

A graph on a screen

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1. What **two** decisions had a positive effect, how, and examples?

**1) Decision to Improve Advertising Design Ad** – How? Need to modify ads for Comfort Bike, Rugged Bike, and XL Rugged Bike for more visibility amongst competitors advertising in Qtr4 – Qtr6. Benefits from improving advertising design ad would increase the demand for the products of the "The Bike”. Planned budget for advertising for each quarter Qtr4 to Qtr6 is $45,588. Internet Marketing expense for each quarter Qtr4 to Qtr6 is $15,500. **A positive effect** for this decision to improve advertising design ad was that during the 6th quarter “The Bike” had high demand of 5,642 with significant sales of more than one million for sales revenue in 6th quarter of $6,889,207.

**2) Decision to Improve Major Media Placement** – How? Need to increase inserts for magazines to be noticed by potential customers in Qtr4 – Qtr6. Benefits from improving major media placement would increase demand by potential customers in the market for “The Bike” products. The tactical plan for projected demand in the following quarters is the following: 4th quarter projected demand 2,784, 5th quarter projected demand 5,220 and 6th quarter projected demand of 8,004. A **positive effect** was that during the 6th quarter there was an increase for inserts for magazines to be noticed by potential customers in quarter 6 with 60 inserts generating a high demand for “The Bike” products for demand of 5,642 with significant sales of more than one million for sales revenue in 6th quarter of $6,889,207.

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1. **Discussions of financial projections and valuation.**
2. **Valuation of “The Bike” with key components.**

What was the justification for the multiplier of “10”? The process involved analyzing data in the following financial statements which are factors that increase the valuation multiple. The first point involved a high Cumulative Balanced Scorecard above the norm in the 6th quarter of 0.499 with Cumulative Financial Performance of 24.21. The second point involved the highest Balanced Scorecard in industry “The Bike” improving in quarters 4 through 6th showing the Balanced Scorecard in the 6th quarter for Total Performance 9.608 with Financial Performance 68.791. The third point “The Bike” Reputation Score from Stakeholder Survey in 6th quarter score of 71 improvements from 5th quarter 66 score and 4th quarter score of 58. The fourth point “The Bike” in the Conscious Scorecard in quarters 4 through 6 showed that Quality Inspections were made, addressed environmentally concerns in quarters 5 & 6, working training addressed to improve productivity, R&D further improvements to the bike product in the 6th quarter, and health concerns for employees addressed in the 6th quarter. On the fifth point the Market Share in the 6th quarter showed 15.74% with high market demand of 5,642. The sixth point there were significant sales of more than one million which reflected Sales Revenue in the 6th quarter of $6,889,207. The seventh point was that the Income Statement showed at least a million in profits in the 6th quarter net income of $1,429,256 with EPS of 29. The eighth point Cash Flow Cash Balance showed significant ending balance numbers with 4th quarter $3,811,025, 5th quarter $3,481,633 & 6th quarter $4,060, 890. The ninth point shown in the Balance Sheet with balances in the 4th quarter $6,131,025, 5th quarter $6,901,633 & 6th quarter $7,330,890. And lastly the tenth point in the 6th quarter was Operating Capacity 88%, Production Productivity without overtime of 82.7% and Fixed Capacity 99.17%, showing improvements from the 4th and 5th quarters of at least 25%. The “10” point valuation multiplier shows excellent income sales growth with market capitalization with excellent results shown in the quarter 6 Cumulative Balanced Scorecard in the Total Performance and Financial Performance justification for the high multiplier.

The steps in calculating the valuation involved using the multiplier as discussed above of “10”. Calculate the EPS to the outstanding shares of stock for “The Bike” assuming in the valuation that all net income from quarter 6 would be available for distribution to shareholders. The valuation multiplier of “10” was chosen based on the points discussed above showing a very promising estimate of current and potential business performance. In this discussion “The Bike**”** EPS of 29 for the 6th quarter multiplied by the price multiplier of “10” and this will be the estimated market value of each owner’s stock share. Since “The Bike” has a positive Q6 Earnings Per Share (EPS) we will use the **Simple Multiplier Method**. Then copy information from the Stock History Excel spreadsheet for Quarter 6. Note the total shares and total amount (Initial Value of Investment Amount for ROI). Then Multiply the fair market value per share of stock from step 3, will get calculated value is your Estimated Value of the Firm.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a. Step One:** | | List Q6 EPS | | $ 29 |
| **b. Step Two:** | | Pick a multiple between 5-10 (10 is the highest) | | 10 |
|  |  |  |  |  |
| **c. Step Three** | | Multiply Q6 EPS by the Multiplier | | $ 290 |
|  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **d. Step 4 Stock History** |  |  |  |  |  |
| **Stock Type** | **Name of Owner** | **Shares** | **Price Per Share** | **Total Amount** | **Quarter** |
| Common Stock | Executive Team | 15,000 | 100 | 1,500,000 | 1 |
| Common Stock | Executive Team | 5,000 | 100 | 500,000 | 2 |
| Common Stock | Executive Team | 5,000 | 100 | 500,000 | 3 |
| Common Stock | Venture Capitalists | 25,000 | 100 | 2,500,000 | 4 |
| Total |  | 50,000 |  | 5,000,000 |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total Shares |  | 50,000 |  |  |
| Total Amount (Initial Value of Investment Amount for ROI) | |  |  | $ 5,000,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **e. Step Five:** Multiply the fair market value per share of stock from step 3 | | | | $ 290 |
|  | by the Total Shares found in Step Four: | | | 50,000 |
|  | **This calculated value is the Estimated Value of the Firm** | | | $ 14,500,000 |
|  |  |  |  |  |

1. **ROI – Return of Investment Quarter 6.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Return on Investment ROI Calculation: | | | |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 1. The basic formula for any ROI calculation will be:   ((final value of investment - initial value of investment)/initial value of investment) \*100 = ROI   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 1. The needed information from the **Simple Valuation Method** from above: | | | | |  |  | |  |  |  |  |  |  |  | | 1. Remember, the final value of investment is the estimated fair market value of the firm: $14,500,000 | | | | |  |  | |  |  |  |  |  |  |  | | 1. Also remember, the initial value of the investment is the initial paid in capital (Q1-Q4): $5,000,000  |  |  |  |  |  | | --- | --- | --- | --- | --- | | 1. Now let's do the math: | | |  |  | |  |  |  |  |  | |  |  |  | $14,500,000 - $5,000,000 = | $ 9,500,000 | |  |  |  |  |  | |  |  |  | $9,500,000/$5,000,000 | 1.9 | |  |  |  |  |  | |  |  |  | multiply 1.9 by 100 to get **our ROI** | 190% |   **Discussion:** What does ROI mean? Return on investment (ROI) is a measure of how much money an investor has earned or lost on an investment relative to the amount of money that was initially invested. It is a key performance indicator used to measure the efficiency and profitability of an investment. or investors, choosing a company with a good return on investment is important because a high ROI means that the firm is successful at using the investment to generate high returns**. “The Bike”** ROI of 190% is very good. Therefore, for example if your ROI is 100%, you've doubled your initial investment. A higher positive ROI is a good thing because it indicates a more lucrative investment. A higher ROI implies that there have been exceptional outcomes in different fields such as cost management, effective asset utilization, selling price strategy, marketing, and promotional strategy, The following are examples that “**The Bike**” has demonstrated in the data analysis of financial statements. There were significant sales, more than one million, which reflected Sales Revenue in the 6th quarter of $6,889,207. The Income Statement showed at least a million in profits in the 6th quarter net income of $1,429,256 with **EPS of 29**. The Cash Flow Cash Balance showed significant ending balance numbers with 4th quarter $3,811,025, 5th quarter $3,481,633 & 6th quarter $4,060, 890. The Balance Sheet with balances in the 4th quarter $6,131,025, 5th quarter $6,901,633 & 6th quarter $7,330,890. And lastly in the 6th quarter was Operating Capacity 88%, Production Productivity without overtime of 82.7% and Fixed Capacity 99.17%, showing improvements from the 4th and 5th quarters of at least 25%. The “10” point valuation multiplier shows excellent income sales growth with market capitalization with excellent results shown in the quarter 6 Cumulative Balanced Scorecard in the Total Performance and Financial Performance justification for the high multiplier. | | | | |  |  | | | | | | | | |

1. **Business Analysis (Quarters 4 – 6)**

|  |  |  |  |
| --- | --- | --- | --- |
| Ratios for "The Bike" | Q4 | Q5 | Q6 |
| Quick Liquidity Test Ratio | 1.36 | 0.71 | 1.04 |
| Fixed Asset Turnover | 0.34 | 0.81 | 2.11 |
| Debt Ratio | 45.67 | 71 | 53.20 |
| Return on Paid-In Capital | -32.42 | -66.42 | 41.66 |

1. Liquidity Ratios – **Quick Liquidity Test Ratio**: \*

Definition and calculation for Quick Liquidity Test Ratio marketplace measures equals (Cash plus three-month Certificate of Deposit divided by Conventional Bank Loan plus Emergency loan) measures a company's short-term liquidity against its short-term obligations. Therefore, the ratio seeks to figure out if “The Bike” has enough liquid assets (cash or things that can easily be converted into cash) to cover its current liabilities and impending debts. In the 6th quarter “The Bike” had a 1.04 Quick Liquidity Test Ratio; therefore, “The Bike” had a sufficient $1.04 worth of liquid assets on hand to cover every $1 of current obligations -**comparable which is the same** to current industry average of 1.04, high 1.04 & low 1.04; “The Bike” with Balance Sheet data of Cash $4,060,890 and Conventional Loan $3,900,000 in the 6th quarter. In the 5th quarter “The Bike” had a Quick Liquidity Test Ratio of 0.71 **comparable which is the same t**o the 5th quarter industry average of 0.71, high 0.71, & low 0.71; therefore, “The Bike” had $.71 worth of liquid assets not sufficient to cover every $1 of current obligations with Balance Sheet data of Cash $3,481,522 and Conventional Loan $4,900,000. In the 4th quarter “The Bike” had a Quick Liquidity Test Ratio of 1.36 the same **comparable which is the same** as the industry average of 1.36, high 1.36 & low 1.36 which indicated that “The Bike” had $1.36 worth of liquid assets sufficient to cover every $1 of current obligations with Balance Sheet data Cash $3,811,025 and Conventional Loan $2,800,000. “The Bike” during the 6th and 4th quarters was sufficient in meeting the company's short-term liquidity against its short-term obligations. (See Balance Sheet and Income Statement attachments)

1. Activity Ratios – \* **Fixed Asset Turnover: \***

Definition and calculation for Fixed Asset Turnover marketplace measures equals (Revenues divided by Net Fixed Assets) reveals how efficient a company is at generating sales from its existing fixed assets. In the 6th quarter “The Bike” had a 2.11 Fixed Asset Turnover Ratio which means higher the asset turnover ratio, the more efficient a company is at generating revenue from its assets in relation to the **comparable** current industry average 2.64, high 3.35, & low 2.11 in comparison to competitors “The Bike” is 20% lower in Fixed Assets; the corresponding Income Statement data of Revenues of $6,889,207 and Balance Sheet data for Net Fixed Assets of $3,270,000 for quarter 6 indicated that “The Bike” sufficient in generating revenue from its assets. Conversely, if a company has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate sales. In the 5th quarter “The Bike” had 0.81 Fixed Asset Turnover Ratio comparable to industry average of 1.56, high 2.39, & low 0.81 in comparison to competitors “The Bike” is 48% lower in Fixed Assets; with corresponding Income Statement data of Revenues of $2,779,100 and Balance Sheet data for Net Fixed Assets of $3,420,000 for quarter 5 indicated that “The Bike” insufficient in generating revenue from its assets not efficiently using its assets to generate sales. In the 4th quarter “The Bike” had Fixed Asset Turnover Ratio of 0.34 comparable to industry average of 0.66, high 1.10, & low 0.34 in comparison to competitors “The Bike” is 48% lower in Fixed Assets; with corresponding Income Statement data of Revenues of $787,175 and Balance Sheet data for Net Fixed Assets of $2,320,000 for quarter 4 indicated that “The Bike” insufficient in generating revenue from its assets not efficiently using its assets to generate sales. “The Bike” in quarters 5 to 4 was not utilizing Fixed Assets in generating sales revenue efficiently. (See Balance Sheet and Income Statement attachments)

1. Leverage Ratios – \* **Debt Ratio: \***

Definition and calculation for Debt Ratio marketplace measures equals (Loans divided by Total Assets multiplied by 100) therefore; a debt ratio of greater than 1.0 or 100% means a company has more debt than assets while a debt ratio of less than 100% indicates that a company has more assets than debt. In the 6th quarter “The Bike” had a 53.2% ratio in relation to the comparable current industry average of 10.64, high 53.20, & low 0 comparison to competitors “The Bike” was 5 times the industry average; for The Bike” this means that for each $1 owned by “The Bike” owes in debt $.53 cents indicating sufficient assets: with corresponding Balance Sheet data Total Assets of $7,330,000 and Conventional Loan $3,900,000 in quarter 6. In the 5th quarter “The Bike” had a 71.0% Debt ratio in relation to the comparable industry average of 14.20, high 71.0 & low 0 comparison to competitors “The Bike” was 5 times the industry average, which means that for each $1 owned by “The Bike” owes in debt $.71 cents indicating sufficient assets: with corresponding Balance Sheet data Total Assets of $6,901,633 and Conventional Loan $4,900,000 in 5th quarter. In the 4th quarter “The Bike” had a 45.67% Debt ratio in relation to the comparable industry average of 9.13, high 45.67, & low 0 comparison to competitors “The Bike” was 5 times the industry average, which means that for each $1 owned by “The Bike” owes in debt $.46 cents indicating sufficient assets: with corresponding Balance Sheet data Total Assets of $6,131,025 and Conventional Loan $2,800,000. “The Bike” in quarters 4 to 6 was successful in utilizing enough Debt to offset Total Assets in strategic planning thrusts in growth for the company. (See Balance Sheet and Income Statement attachments)

1. Profitability Ratios **– \* Return on Paid-In Capital: \***

Definition and calculation for Return on Paid-In Capital marketplace measures equals (Net Income divided by Common Stock plus Retained Earnings multiplied by 100) therefore; measures how good a business is at generating profits from capital a larger chunk of profits can be invested back into the company for the benefit of shareholders. In the 6th quarter “The Bike” had a 41.66% ratio comparable to current industry average of 38.32, high 41.66, & low 33.17 comparison to competitors “The Bike” had a higher Return by 9% compared to competitors which indicates that most seasoned investors would choose to invest in a company with higher Return on Paid-In Capital compared to a company with lower ratios; therefore with corresponding Income Statement data of Net Income $1,429,256 and Balance Sheet Data of Common Stock $5,000,000 with Retained Earning of ($1,569,110) in the 6th quarter which is more than sufficient for “The Bike” profit investment return for the investors. In the 5th quarter “The Bike” had a (66.42)% ratio comparable to current industry average of 2.21, high 34.03, & low (66.42) comparison to competitors “The Bike” had a lower Return of (66.42)% to competitors which indicates that most seasoned investors would choose to invest in a company with higher Return on Paid-In Capital compared to a company with lower ratios; therefore with corresponding Income Statement data of Net Income $1,329,391 and Balance Sheet Data of Common Stock $5,000,000 with Retained Earning of ($2,998,367) in the 5th quarter which was insufficient for “The Bike” profit investment return for the investors. In the 4th quarter “The Bike” had a (32.42)% ratio comparable to current industry average of (66.12), high (32.42), & low (96.86) comparison to competitors “The Bike” had a lower Return of approximately 2 times industry comparison which indicates that most seasoned investors would choose to invest in a company with higher Return on Paid-In Capital compared to a company with lower ratios; therefore with corresponding Income Statement data of Net Income ($1,079,960) and Balance Sheet Data of Common Stock $5,000,000 with Retained Earning of ($1,668,975) in the 4th quarter which is insufficient for “The Bike” profit investment return for the investors. The data analysis shows that “The Bike” during the 6th quarter financial performance was generating profits from capital a larger chunk of profits can be invested back into the company for the benefit of shareholders also indicating achieving higher profits than its competitors an over achiever in the marketplace. (See Balance Sheet and Income Statement attachments)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **6th Quarter Industry Financial \* for “The Bike” Ratios** |  |  |  |  |
| **Ratio** | **Low** | **High** | **Ave** | **The Bike** |
| **Liquidity Ratios** | | | | |
| Quick Liquidity Test Ratio | 1.04 | 1.04 | 1.04 | 1.04 |
| **Activity Ratios** | | | | |
| Fixed Assets Turnover | 2.11 | 3.35 | 2.64 | 2.11 |
| Total Assets Turnover | 0.94 | 1.23 | 1.11 | 0.94 |
| **Leverage Ratios** | | | | |
| Debt Ratio | 0.00 | 53.20 | 10.64 | 53.20 |
| Debt to Paid-In Capital | 0.00 | 113.67 | 22.73 | 113.67 |
| **Profitability Ratios** | | | | |
| Gross Profit Margin | 58.45 | 65.39 | 62.25 | 58.45 |
| Net Profit Margin | 20.75 | 36.34 | 30.33 | 20.75 |
| Return on Assets | 19.50 | 41.02 | 33.89 | 19.50 |
| Return on Paid-In Capital | 33.17 | 41.66 | 38.32 | 41.66 |
| **Financial Statement Highlights** | | | | |
| Revenues | 4,960,430 | 6,889,207 | 6,117,418 | 6,889,207 |
| Gross Profit | 3,118,102 | 4,261,635 | 3,803,149 | 4,026,662 |
| Net Income | 1,429,256 | 2,257,056 | 1,831,758 | 1,429,256 |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **5th Quarter Industry Financial Ratios** |  |  |  |  | | **Ratio** | **Low** | **High** | **Ave** | **The Bike** | | **Liquidity Ratios** | | | | | | Quick Liquidity Test Ratio | 0.71 | 0.71 | 0.71 | 0.71 | | **Activity Ratios** | | | | | | Fixed Assets Turnover | 0.81 | 2.39 | 1.56 | 0.81 | | Total Assets Turnover | 0.40 | 1.28 | 1.00 | 0.40 | | **Leverage Ratios** | | | | | | Debt Ratio | 0.00 | 71.00 | 14.20 | 71.00 | | Debt to Paid-In Capital | 0.00 | 244.80 | 48.96 | 244.80 | | **Profitability Ratios** | | | | | | Gross Profit Margin | 54.71 | 66.45 | 62.11 | 59.88 | | Net Profit Margin | -47.84 | 30.46 | 4.28 | -47.84 | | Return on Assets | -19.26 | 34.03 | 11.64 | -19.26 | | Return on Paid-In Capital | -66.42 | 34.03 | 2.21 | -66.42 | | **Financial Statement Highlights** | | | | | | Revenues | 2,779,100 | 4,212,547 | 3,516,864 | 2,779,100 | | Gross Profit | 1,664,000 | 2,643,401 | 2,180,299 | 1,664,000 | | Net Income | -1,329,391 | 1,225,766 | 241,305 | -1,329,391 |  |  |  |  |  |  | | --- | --- | --- | --- | --- | | **4th Quarter Industry Financial Ratios** |  |  |  |  | | **Ratio** | **Low** | **High** | **Ave** | **The Bike** | | **Liquidity Ratios** | | | | | | Quick Liquidity Test Ratio | 1.36 | 1.36 | 1.36 | 1.36 | | **Activity Ratios** | | | | | | Fixed Assets Turnover | 0.34 | 1.10 | 0.66 | 0.34 | | Total Assets Turnover | 0.13 | 0.67 | 0.42 | 0.13 | | **Leverage Ratios** | | | | | | Debt Ratio | 0.00 | 45.67 | 9.13 | 45.67 | | Debt to Paid-In Capital | 0.00 | 84.06 | 16.81 | 84.06 | | **Profitability Ratios** | | | | | | Gross Profit Margin | 49.50 | 73.52 | 61.92 | 62.43 | | Net Profit Margin | -271.27 | -90.49 | -167.68 | -137.19 | | Return on Assets | -96.86 | -17.61 | -63.16 | -17.61 | | Return on Paid-In Capital | -96.86 | -32.42 | -66.12 | -32.42 | | **Financial Statement Highlights** | | | | | | Revenues | 756,200 | 1,851,350 | 1,201,342 | 787,175 | | Gross Profit | 491,420 | 1,094,047 | 713,613 | 491,420 | | Net Income | -2,115,370 | -1,079,960 | -1,711,655 | -1,079,960 | |  |  |  |  |

1. Analysis of the beginning and ending cash positions from **Statement of Cash flows** from 7th Quarter:
2. **Cash from operating activities during 7th quarter:** \*\*

Operating Cash Flows using the Direct Method

The direct method, in which “The Bike” records all transactions on a cash basis and displays the information using actual cash inflows and outflows during the 6th quarter accounting period. Operating expense items included in the presentation of the direct method of operating cash flow for the “The Bike” include:

|  |  |
| --- | --- |
| - Rebates | 79,500 |
| - Production | 2,783,045 |
| - Research and Development | 545,685 |
| - Quality Costs | 200,069 |
| - System Improvement Costs | 490,090 |
| - Advertising | 453,510 |
| - Internet Marketing Expenses | 47,000 |
| - Sales Force Expense | 355,104 |
| - Store Expense | 74,000 |
| - Marketing Research | 15,000 |
| - Shipping | 61,770 |
| - Excess Capacity Cost | 58,927 |
| - Income Taxes | 0 |
| + Interest Income | 0 |
| - Interest Charges | 146,250 |
| + Other Income | 0 |
| - Other Expenses | 0 |

Total operating expense cash outflow $5,309,950

Total operating revenue cash inflow $6,889,207

**Operating Cash Flow during 7th quarter**  $1,579,256

This method is simpler than the indirect method because there are fewer factors to consider. However, it only accounts for cash revenues and expenses. It is calculated with the formula:

**OCF = Cash Revenue — Operating Expenses Paid in Cash**

**OCF of $1,579,256 = Cash Revenue inflow of $6,889,207 – Operating expense cash outflow of $5,309,950**

1. **Cash from investing activities:** \*\*

Cash flow from investing activities for “The Bike” is a section of the cash flow statement that shows the cash generated or spent relating to investment activities. Investing activities include purchases of physical assets, investments in securities, or the sale of securities or assets. The Investing cash flow statement for “The Bike” is as follows:

**Investing Activities:**

No cash inflows $0

No cash outflows $0

**Cash generated by Investing Activities**  $0

1. **Cash from financing activities:** \*\*

“The Bike” cash flow from financing activities a section of cash flow statement, which shows the net flows of cash that are used to fund the company. Financing activities include transactions involving debt, equity, and dividends.

**Financing Activities:**

Cash outflows repay Conventional Loan $1,000,000

Cash inflows $0

**Cash generated by Financing Activities**  ($1,000,000)

1. **Final analysis for Statement of Cash Flows during the 7th quarter for “The Bike”**

**Beginning Cash Balance 6th quarter $3,481,634**

**Operating Cash Flow during 7th quarter $1,579,256**

**Cash generated by Investing Activities 7th quarter $ 0**

**Cash generated by Financing Activities 7th quarter ($1,000,000)**

**Ending Cash Balance 7th quarter $4,060,890**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cash Flow \*\*** |  |  |  |  |  |  |
| **Report Item** | **Quarter 1** | **Quarter 2** | **Quarter 3** | **Quarter 4** | **Quarter 5** | **Quarter 6** |
| **Beginning Cash Balance** | **0** | **1,116,000** | **1,211,040** | **740,985** | **3,811,025** | **3,481,634** |
| **Receipts and Disbursements from Operating Activities** | | | | | | |
| Revenues | 0 | 133,480 | 135,550 | 787,175 | 2,779,100 | 6,889,207 |
| - Rebates | 0 | 5,200 | 4,025 | 0 | 52,600 | 79,500 |
| - Production | 0 | 69,417 | 69,878 | 295,755 | 1,062,500 | 2,783,045 |
| - Research and Development | 60,000 | 60,000 | 30,000 | 787,249 | 1,033,612 | 545,685 |
| - Quality Costs | 0 | 31,462 | 20,131 | 43,125 | 114,478 | 200,069 |
| - System Improvement Costs | 0 | 5,000 | 0 | 100,000 | 610,100 | 490,090 |
| - Advertising | 0 | 35,000 | 31,500 | 45,588 | 324,398 | 453,510 |
| - Internet Marketing Expenses | 0 | 2,000 | 3,000 | 15,500 | 22,500 | 47,000 |
| - Sales Force Expense | 0 | 32,339 | 33,540 | 146,778 | 350,334 | 355,104 |
| - Store Expense | 84,000 | 13,000 | 103,000 | 166,000 | 74,000 | 74,000 |
| - Marketing Research | 0 | 15,000 | 0 | 15,000 | 15,000 | 15,000 |
| - Shipping | 0 | 2,073 | 2,878 | 10,404 | 30,230 | 61,770 |
| - Excess Capacity Cost | 0 | 27,949 | 87,653 | 88,035 | 134,989 | 58,927 |
| - Income Taxes | 0 | 0 | 0 | 0 | 0 | 0 |
| + Interest Income | 0 | 0 | 0 | 0 | 0 | 0 |
| - Interest Charges | 0 | 0 | 0 | 103,701 | 183,750 | 146,250 |
| + Other Income | 0 | 0 | 0 | 0 | 0 | 0 |
| - Other Expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| **= Net Operating Cash Flow** | **-144,000** | **-164,960** | **-250,055** | **-1,029,960** | **-1,229,391** | **1,579,256** |
| **Investing Activities** | | | | | | |
| Fixed Production Capacity | 240,000 | 240,000 | 720,000 | 1,200,000 | 1,200,000 | 0 |
| **= Total Investing Activities** | **240,000** | **240,000** | **720,000** | **1,200,000** | **1,200,000** | **0** |
| **Financing Activities** | | | | | | |
| Increase in Common Stock | 1,500,000 | 500,000 | 500,000 | 2,500,000 | 0 | 0 |
| + Borrow Conventional Loan | 0 | 0 | 0 | 2,800,000 | 2,100,000 | 0 |
| - Repay Conventional Loan | 0 | 0 | 0 | 0 | 0 | 1,000,000 |
| + Borrow Emergency Loan | 0 | 0 | 0 | 0 | 0 | 0 |
| - Repay Emergency Loan | 0 | 0 | 0 | 0 | 0 | 0 |
| - Deposit 3 Month Certificate | 0 | 0 | 0 | 0 | 0 | 0 |
| + Withdraw 3 Month Certificate | 0 | 0 | 0 | 0 | 0 | 0 |
| **= Total Financing Activities** | **1,500,000** | **500,000** | **500,000** | **5,300,000** | **2,100,000** | **-1,000,000** |
| **Cash Balance, End of Period** | **1,116,000** | **1,211,040** | **740,985** | **3,811,025** | **3,481,633** | **4,060,890** |

1. Explanation on how **three** decisions made and are shown on **conscious scorecard** affected the company’s performance. (See attachment)
2. **First Decision that affected performance:**

In the 5th quarter industry news indicated that the sales of rugged bike frames with standard carbon fiber resulted in injuries to mountain bikers. “The Bike” made an **immediate decision** action spending monies on R&D investments in carbon fiber material enriched lighter stronger which was implemented and produced the products during the 6th quarter; monies spent for R&D in the 5th quarter $1,033,612 and 6th quarter $545,688. In the 6th quarter all “The Bike” products were produced using carbon fiber enriched lighter stronger which were added and mentioned in the ad design. “The Bike” did not lose money but **affected performance** that made significant sales of more than one million which sales revenue in the 6th quarter of $6,889,207 with high demand for “The Bike” products of 5,642 with net income of $1,429,256 with EPS of 29.

1. **Second Decision that affected performance:**

During the 5th quarter “The Bike” spent $100,000 to find ways to improve Operations. One of the results was that employees are happy to have a job but feel they could contribute more and make work more rewarding if given an opportunity. “The Bike” **decided to** improve employee involvement and productivity. During the 5th quarter $12,190 was spent on employee worker training and employee health, $58,000 for the clinic. The worker training in the 5th and 6th quarters involved cross-training employees to do multiple tasks within the department. Also, worker training in the 5th and 6th quarters involved having employees develop teamwork skills including interpersonal, community and negotiation skills. Also, during the 5th quarter “The Bike” in enhancing employee productivity raised wages for production workers $16,616 per year, production supervisor $24,805 per year, sales force workers $28,502 per year; along with expenditures for special sales force program for training, sales contest top third of salespeople $26,650 and lastly expenditure for sales force & service promotions for $12,600. “The Bike” decision to improve employee involvement and productivity as explained above resulted in **performance** in significant sales for more than one million in the 6th quarter of sales revenue $6,889,207 with net income of $1,429,256 with market high demand of 5,642.

1. **Third Decision that affected performance:**

“The Bike” has made a conscious **decision** to be involved in environmental concerns. During the 5th and 6th quarters the facility retrofitted the production facility with a system to collect, store, and dispose of all chemicals. During the 6th quarter “The Bike” did the following: separate employees from chemicals with respirators, protective clothing, and gloves, placed air filtering plants throughout the production facility, and on join a producer consortium to develop economical and environmentally friendly ways to recycle carbon fiber products. The conscious in environmental concerns affected **performance** in nonfinancial way in which decision involvement in providing health and safety concerns for employees and community environmental sustainability.

“The Bike” mission statement is as follows: The Bike's mission is "we're in business to tour our safe home planet." Its core value contain building the best product, cause no unnecessary harm, use business to protect nature without bounding by convention.