

## AUSTIN'S CYCLE SHOP - ANSWER KEY & EXPLANATIONS

### INCOME STATEMENT

*In a one-minute look at a P&L, what three measures should you consider? Choose the best answer.*

The correct answer is: Sales, Net Income, and Net Profit Margin. If you only have a minute, you want to see growth in the Top Line and the Bottom Line, and you want to know what your Net Income was as a percentage of your Sales.

*A mature company generally wants to grow its bottom line (Net Income) faster than its top line (Net Revenues). In 2013, which company achieved this goal?*

The correct answer is: Austin's: Top Line Growth = 10.7%; Bottom Line Growth = 42.8%. Austin's is growing its bottom line faster than its top line.

*In 2013, Austin's Net Revenues grew 10.7%. Which of the following costs declined the most in 2013, relative to Net Revenues?*

The correct answer is: Depreciation and Amortization. For 2013, Austin's costs increased as follows: Cost of Goods Sold +7.9%, Depreciation and Amortization +7.3%, General Expenses +8.3%, and Income Taxes +33.8%.

*Because Earnings Per Share (EPS) is important to shareholders and increasing EPS can help increase stock price, Austin's would like its EPS to be higher. What can Austin's do to attempt to increase its Earnings Per Share?*

The correct answer is: Negotiating better prices with suppliers, raising prices to customers, and buying back stock. Each of these things result in either an increase in net income or a decrease in the number of shares – two levers that increase EPS.

***If you still have questions about the quiz, or have a different question you would like answered, please visit the discussion board for this lecture and let me know!***