

1. BALANCE SHEET The assets of Dallas & Associates consist entirely of current assets and net plant and equipment, and the firm has no excess cash. The firm has total assets of \$2.5 million and net plant and equipment equals \$2.0 million. It has notes payable of \$150,000, long-term debt of \$750,000, and total common equity of \$1.5 million. The firm **does** have accounts payable and accruals on its balance sheet. The firm only finances with debt and common equity, so it has no preferred stock on its balance sheet. Hint: draw a balance sheet and fill in what you know. You can subtract to get what you do not know (the line item A/P + accruals). The you can answer the following questions.

- a. What is the company's total debt? **\$900,000**
- b. What is the amount of total liabilities and equity that appears on the firm's balance sheet? **\$2,500,000**
- c. What is the balance of current assets on the firm's balance sheet? **\$500,000**
- d. What is the balance of current liabilities on the firm's balance sheet? **\$250,000**
- e. What is the amount of accounts payable and accruals on its balance sheet? **\$100,000** (*Hint: Consider this as a single line item on the firm's balance sheet.*)
- f. What is the firm's net working capital? **\$250,000**

Balance Sheet:

Assets

Net Plant and Equipment: \$2,000,000

Current Assets: \$500,000

Total Assets: 2,500,000

Liabilities and Equity

Notes Payable: \$150,000

Long Term Debt: \$750,000

Total Common Equity: \$1,500,000

Total Liabilities and Equity: \$1,500,000

Means Accounts Payable is: \$100,000

Total Liabilities and Equity: \$2,500,000

Total Debt

Notes Payable: 150,000

Long term Debt: \$750,000

2. INCOME STATEMENT Byron Books Inc. recently reported \$15 million of net income. Its EBIT was \$20.8 million, and its tax rate was 25%. What was its interest expense? (*Hint: Write out the headings for an income statement, and fill in the known values. Then divide of net income by $(1 - T$ or 0.75 where T = tax rate) to find the pretax income. The difference between EBIT and taxable income must be interest expense. Use this same procedure to complete similar problems.*)

Net Income: \$15,000,000

EBIT: \$20,800,000 , TAX RATE: 25%

$$15,000,000 / (1-.25) = 20,000,000$$

$$20,800,000 - 20,000,000 = 800,000$$

Interest Expense equals **\$800,000**

3. STATEMENT OF CASH FLOWS Hampton Industries had \$39,000 in cash at year-end 2020 and \$11,000 in cash at year-end 2021. The firm invested in property, plant, and equipment totaling \$210,000—the majority having a useful life greater than 20 years and falling under the alternative depreciation system. Cash flow from financing activities totaled +\$120,000.

1. What was the cash flow from operating activities? $11000 - 39000 = -28000$
 $-28000 + 210000 - 120000 = \mathbf{\underline{\$62,000}}$

Cash Flow: \$62,000

2. If accruals increased by \$15,000, receivables and inventories increased by \$50,000, and depreciation and amortization totaled \$25,000, what was the firm's net income?

$$62000 - 25000 + 50000 - 15000 = \mathbf{\underline{\$72,000}}$$

Net Income: **\$72,000**

4. Arlington Corporation's financial statements (dollars and shares are in millions) are provided here. Please construct Arlington's Statement of Cash Flows for 2021. Note: you are only given net plant and equipment, which increased \$2,000. However, if you look at the income statement, the firm had depreciation and amortization of \$6,000. This means the firm actually spent \$8,000 on gross PP&E.

Arlington's Statement of Cash Flows

Cash flow from Operating Activities

Net Income: \$28,988

Depreciation: \$6,000

Increase in Accruals: \$2,000

Increase in Accounts Payable: \$1,100

Decrease in Accounts Receivable: -\$5,000

Decrease in Inventories: -\$6,320

Net Cash: \$26,769

Cash flow from Investing Activities

PP&E: -\$8,000

Net Cash from Investing Activities: -\$8,000

Cash flow from Financing Activities

Net Increase in Notes Payable: \$1,950

Dividends Paid: -\$19,718

Net Cash Provided by Financing Activities: -\$17,768

Net Increase in Cash: \$1,000

Cash and Cash Equivalents at the Beginning of the Year: \$14,000

Cash and Cash Equivalents at the End of the Year: \$15,000

Balance Sheets as of December 31

	2021	2020
<i>Assets</i>		
Cash and equivalents	\$ 15,000	\$ 14,000
Accounts receivable	35,000	30,000
Inventories	33,320	27,000
Total current assets	\$ 83,320	\$ 71,000
Net plant and equipment	48,000	46,000
Total assets	<u>\$131,320</u>	<u>\$ 117,000</u>
<i>Liabilities and Equity</i>		
Accounts payable	\$ 10,100	\$ 9,000
Accruals	8,000	6,000
Notes payable	7,000	5,050
Total current liabilities	\$ 25,100	\$ 20,050
Long-term bonds	20,000	20,000
Total liabilities	\$ 45,100	\$ 40,050
Common stock (4,000 shares)	40,000	40,000
Retained earnings	46,220	36,950
Common equity	\$ 86,220	\$ 76,950
Total liabilities and equity	<u>\$131,320</u>	<u>\$ 117,000</u>

Income Statement for Year Ending December 31, 2021

Sales	\$210,000
Operating costs excluding depreciation and amortization	160,000
EBITDA	\$ 50,000
Depreciation and amortization	6,000
EBIT	\$ 44,000
Interest	5,350
EBT	\$ 38,650
Taxes (25%)	9,663
Net income	<u>\$ 28,988</u>
Dividends paid	<u>\$ 19,718</u>