**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 = **$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 = **$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



