The financial statements for Timberhut Company

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Institutional Affiliation

Course Name& Code

Instructor

Date

The financial statements for Timberhut Company

Financial Planning: The financial statements for Timberhut Company for the most recent year (2001) are given below

Balance sheets ($ millions)

|  |  |
| --- | --- |
|  | **December 31, 2001** |
| Cash | 5.0 |
| Accounts Receivable | 60.0 |
| Inventories | 90.0 |
| **Total current assets** | 155.0 |
| Net property, plant and equipment | 123.0 |
| **Total assets** | 278.0 |
|  |  |
| Accounts payable | 10.0 |
| Accruals | 20.0 |
| Notes payable | 13.0 |
| **Total current liabilities** | 43.0 |
| Long-term debt | 100.0 |
| **Total liabilities** | 143.0 |
| Common stock | 44.0 |
| Retained earnings | 91.0 |
| **Total shareholder's equity** | 135.0 |
| **Total liabilities and shareholder's equity** | 278.0 |

The Timberhut Company, Income Statement ($ millions)

|  |  |
| --- | --- |
|  | **December 31, 2001** |
| **Sales** | 500.0 |
| Cost of sales | 410.0 |
| **Gross profit** | 90.0 |
| Selling, general and administrative expenses | 32.0 |
| Depreciation | 16.0 |
| **Operating income** | 42.0 |
| Interest expense | 12.0 |
| Income before income taxes | 30.0 |
| Provision for income taxes at the rate of 40% | 12.0 |
| **Net Income** | 18.0 |
| Dividend | 10.0 |
| Retained earnings | 8.0 |

Sales are projected to increase by 12% next year.  Cost of sales, and selling, general and administrative expenses are also expected to increase by 12%.  The firm is currently operating at full capacity.  The sales increase will therefore require a 12% increase in plant and equipment, and in depreciation.  Cash, inventories, receivables, payables and accruals are also expected to register a 12% increase.  The firm has 10 million shares outstanding which are currently trading at $30 per share.  The firm just paid out a dividend of $1.00 a share.  The firm expects to pay the same dividend per share next year.  The tax rate for the firm is 40%.  You may round off all numbers to two decimal places.

1. **Forecast next year's income statement.**

Increase in Cost of sales 12%

112/100 x 410 = 459.20

Sales 12%

112/100 x 500 = 560

**Gross profit**

sales – cost of sales

560 – 459.20 = 100.80

General and administrative expenses 12%

112/100 x 32 = 35.84

Depreciation 12%

112/100 x 16 = 17.92

1. **Forecast next year's balance sheet.**

12% increase in plant and equipment

112/100 x 123 = 137.76

12% Cash

112/100 X 5 = 5.60

12% inventories

112/100 X 90 = 100.80

12% receivables

112/100 X 60 = 67.20

**Total current assets**

5.60 + 100.80 + 67.20 = 173.60

**Total assets**

Total current assets + increase in plant and equipment

173.60 + 137.76 = 311.36

12% Account payable

112/100 x 10 = 11.20

12% Notes payable

112/100 x 13 = 14.56

12% accruals

112/100 x 20 = 22.40

**Total current liabilities**

Account payable + Notes payable + accruals

11.20 + 14.56 + 22.40 = 48.16

1. **Determine the additional funds needed next year.**

$5.60 + $100.80 + 67.20 = $173.60

$5.60 (cash) + $100.80 (Inventories) + 67.20 (accruals) = $173.60

These are shown on the bottom line, which is a sum of the three lines above it in the same format as explained  in A-B-C above, with a minus sign to show that these funds are less than first year's current assets of 311.36

$5.60 (cash) + $100.80 (Inventories) – 173.60 (current assets) = – 66.16

The firm would need to raise an additional sum of $66,000 next year ... rounded off to the nearest hundred ... which is needed to finance the expansion of operations next year to meet higher demand and rising cost pressures