Yıldız Technical University - Department of Industrial Engineering

Name-Surname: **Student ID:**

Financial Management – END 4661
Fall, 2022- Take Home II. Midterm Exam

QUESTIONS

1. The Brown Company is trying to plan for the ***next year***. Using the current income statement and balance sheet given, and the additional information provided, ***prepare the company's pro forma income statement and proforma balance sheet. What will be the amount of external financing required?***

- Sales are projected to increase by 15 percent.
- Total of $75,000 in dividend will be paid.
- A minimum cash balance of $650,000 is desired.
- A new asset for $50,000 will be purchased.
- Depreciation expense for next year is $50,000.
- Marketable securities will remain the same.
- Accounts receivable, inventory, accounts payable, notes payable, and accruals will increase by 15 percent.
- $30,000 new issue of bond will be sold.
- No new stock will be issued.

Brown Company Balance Sheet

Assets		
Current assets		
Cash		$ 625,000
Marketable securities		298,000
Accounts receivable		580,000
Inventories		496,000
Total current assets		$1,999,000
Land and building	$625,000	
Machinery & equip	765,000	
Fixtures & Furn	110,000	
Total gross fixed assets		$1,500,000
Less: Accumulated Depreciation		30,000
Net fixed assets		$1,470,000
Total assets		$3,469,000
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable		$ 267,000
Notes payable		135,000
Accruals		288,000
Total current liabilities		$ 690,000
Total Long-term debt		1,200,000
Total liabilities		$1,890,000
Stockholders' equity		
Preferred stock		79,000
Common stock		750,000
Paid-in-capital		601,000
Retained earnings		149,000
Total stockholders' equity		$1,579,000
Total liabilities and stockholders equity		$3,469,000

Brown Company Income Statement

Sales revenue	$3,028,500
Less: Cost of goods sold	
Fixed costs	1,350,000
Variable costs	1,260,600
Gross profits	$ 417,900
Less: Operating expenses	
Fixed expenses	4,500
Variable expenses	85,840
Operating profits	$ 327,560
Less: Interest expense	82,150
Net profits before taxes	$ 245,410
Less: Taxes (40%)	98,164
Net profits after taxes	$ 147,246
Less: Dividend	50,000
Increased retained earnings	$ 97,246

2. Yellow company wants to prepare a cash budget for months of September through December. Using the following information, ***prepare the cash budget schedule and interpret the results***.

·Sales were $50,000 in June and $60,000 in July. Sales have been forecasted to be $65,000, $72,000, $63,000, $59,000, and $56,000 for months of August, September, October, November, and December, respectively. In the past, 10 percent of sales were on cash basis, and the collection were 50 percent in the first month, 30 percent in the second month, and 10 percent in the third month following the sales.
·Every four months (three times a year) $500 of dividends from investments are expected. The first dividend payment was received in January.
·Purchases are 60 percent of sales, 15 percent of which are paid in cash, 65 percent are paid one month later, and the rest is paid two months after purchase.
·$8,000 dividends are paid twice a year (in March and September).
·The monthly rent is $2,000.
·Taxes are $6,500 payable in December.
·A new hamburger press will be purchased in October for $2,300.
·$1,500 interest will be paid in November.
·$1,000 loan payments are paid every month.
·Wages and salaries are $1,000 plus 5 percent of sales in each month.
·August's ending cash balance is $3,000.
·The firm would like to maintain a minimum cash balance of $10,000.

3. Fortuna Footwear wishes to assess the value of its Active Shoe Division. This division has debt with a market value of $ 12,500,000 and no preferred stock. Its weighted average cost of Capital (WACC) is 10 %. The Active Shoe Division's estimated free cash flow each year from 2016 through 2019 is given in the following table. Beyond 2019 to infinity, the firm expects its free cash flow to grow at 4 % annually. ***Use the free cash flow valuation model to estimate the value of Fortuna's entire Active Shoe Division.***

Year (t)	FCF (t)
2016	$ 800,000
2017	1,200,000
2018	1,400,000
2019	1,500,000

4. *Complete the balance sheet* for Green, Inc. based on the following financial data.

Key Financial Data (2015)
1. Sales totaled $720,000.
2. The gross profit margin was 38.7 percent.
3. Inventory turned 6 times.
4. Assume 360 days in a year.
5. The average collection period was 31 days.
6. The current ratio was 2.35.
7. The total asset turnover was 2.81.
8. The debt ratio was 49.4 percent.
9. Total current assets equal $159,565

Assets	
Cash	$ 8,005
Marketable securities	—
Accounts receivable	—
Inventories	—
Total current assets	—
Gross fixed assets	—
Less: Accumulated depreciation	$50,000
Net fixed assets	—
Total assets	—

Liabilities and Stockholders' Equity	
Accounts payable	$28,800
Notes payable	—
Accruals	$18,800
Total current liabilities	—
Long-term debts	—
Total liabilities	—
Stockholders' equity	
Preferred stock	2,451
Common stock at par	30,000
Paid-in capital in excess of par	6,400
Retained earnings	90,800
Total stockholders' equity	—
Total liabilities and stockholders' equity	—

5. Please provide information about the books you read or the movies you watched about financial management during this semester.

Good Luck! ***Assoc. Prof. Ozlem KUTLU FURTUNA***