

ENG 111 Homework 1

Spring 2021, Due: April 11, 11pm, PDT

Mel Bulu-Taciroglu

1. (20 points) AGENCY PROBLEM

After reading the following short article, answer the subsequent question with one or two sentences:

<http://www.forbes.com/sites/timworstall/2013/03/01/solving-the-principal-agent-problem-apple-insists-that-executives-must-hold-company-stock/#1a1501227728>

Why were stock options introduced?

2. (20 points) FINANCIAL STATEMENTS

Publicly traded companies file their financial statements with SEC (Securities Exchange Commission) periodically. 10K report refers to their annual filings and 10Q refers to their quarterly filings. You can access this information from company webpage, usually via a link such as “investor relations”, “legal”, or “company information”.

Every publicly traded company has such a link for investors on their webpage where they have their filed financial statements. Additionally you can find financial information on aggregator sites such as yahoo.finance, marketwatch.com as well as on stock exchange websites such as nyse.com and nasdaq.com. Using APPLE and GAMESTOP's Balance Sheet for years ending 2018 and 2019, fill out the following table:

	<i>Current Assets</i>	<i>Current Liabilities</i>	<i>Equity</i>	<i>Net Working Capital</i>
<i>AAPL 2018</i>				
<i>AAPL 2019</i>				
<i>% Change</i>				
<i>GME 2018</i>				
<i>GME 2019</i>				
<i>% Change</i>				

Identify the percentage change in these accounts from 2018 to 2019.

What can you say about the financial health of these companies ONLY based on the above information?

3. (20 points) Use the following information for Company COLTIB to create the Balance Sheet for 2018 and 2019. Tax rate is 30% for both 2018 and 2019.

	2018	2019
Accumulated Depreciation as of Dec 31 st	2,500	3,000
Cash as of Dec 31 st	300	800
Accounts Receivable as of Dec 31 st	250	310
Short-term Notes Payable as of Dec 31 st	450	317
Long-term Debt as of Dec 31 st	1,800	2,000
Total Gross Fixed Assets as of Dec 31 st	8,000	8,000
Accounts Payable as of Dec 31 st	500	300
Inventory as of Dec 31 st	600	640
Accumulated Retained Earnings	You should find it, given that this is the only non-zero account under Equity!	

4. (20 points) Balance Sheet of the Green Co. for the end of 2020 year is given below. Company is planning on making a profit of \$120,000 in year 2021. Assume that the operations of the company will unfold in such a way to keep the short term assets and the liabilities accounts the same at the end of year 2021. If Green Co. wants to keep its Net Working Capital as before and does not want to buy any fixed assets, what are the options open to the company given that there will be no dividends distributed in 2021. Please clearly state your assumptions and provide the projected Balance Sheet for the end of 2021.

ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
Current assets		Current liabilities	
Cash and cash equivalents	\$ 100,000	Accounts payable	\$ 30,000
Accounts receivable	20,000	Notes payable	10,000
Inventory	15,000	Accrued expenses	5,000
Prepaid expense	4,000	Deferred revenue	2,000
Investments	10,000	Total current liabilities	47,000
Total current assets	149,000		
Property and equipment		Long-term debt	200,000
Land	24,300	Total liabilities	247,000
Buildings and improvements	250,000	Shareholders' Equity	
Equipment	50,000	Common stock	10,000
Less accumulated depreciation	(5,000)	Additional paid-in capital	20,000
Other assets		Retained earnings	197,100
Intangible assets	4,000	Treasury stock	(2,000)
Less accumulated amortization	(200)	Total liabilities and shareholders' equity	\$ 472,100
Total assets	\$ 472,100		

5. (20 points) Balance Sheet and Income Statement of the Performance Corporation are given as of the end of 2100. If the company wants to have its operations so as to have the same Income Statement and Cash Account at the end of 2101 and does not want to distribute any dividends, what are the options open to Performance. You do not need to reproduce the financial statements. It is enough to enumerate the options available to the company.

PERFORMANCE CORPORATION
Income Statement
For the Year Ended December 31, 2100

Revenues:		
Sales	\$180,000	
Services	<u>52,000</u>	
Total revenues		\$232,000
Expenses:		
Cost of goods sold	\$ 90,000	
Selling expenses	25,000	
Depreciation expense	12,000	
Salaries and wages	<u>62,000</u>	
Total expenses (excluding income tax)		<u>189,000</u>
Pretax income	43,000	
Income tax expense (25% x \$43,000)		<u>10,750</u>
Net income		<u>\$32,250</u>

PERFORMANCE CORPORATION
Balance Sheet
At December 31, 2100

Assets		
Cash		\$ 32,000
Accounts receivable (from customers)		13,000
Merchandise inventory (for resale)	42,000	
Supplies inventory (for use in rendering services)	15,000	
Service vehicles	\$50,000	
Less accumulated depreciation	<u>(12,000)</u>	<u>38,000</u>
Total assets		<u>\$140,000</u>
Liabilities		
Accounts payable (to suppliers)		\$17,750
Note payable (to bank)		<u>25,000</u>
Total liabilities		42,750
Stockholders' equity		
Common stock, 6,500 shares	\$65,000	
Retained earnings	<u>32,250</u>	
Total stockholders' equity		<u>97,250</u>
Total liabilities and stockholders' equity		<u>\$140,000</u>