MGMT 370 – Corporate Finance

Chapter 2 – Introduction to Financial Statement Analysis

# Problem 1

In 10-K report, there are four financial statements: the balance sheet, the income statement, the statement of cash flows, and the statement of stockholders’ equity. Corporations are required to hire a neutral third party, known as an auditor, to check the annual financial statements.

# Problem 4

1. The cash in asset will decrease $20 million; the long-term debt in long-term liability will decrease $20 million; no change on the book value of equity.
2. The Net property, plant, and equipment in long-term assets will decrease $5 million; book value of equity will decrease $5 million.
3. The cash in asset will decrease $5 million; the long-term debt in long-term liability will increase $5 million; the Net property, plant, and equipment in long-term assets will increase $10 million; no change on the book value of equity.
4. Account receivable in current asset will decrease $3 million; book value of equity will decrease $3 million.
5. It doesn’t change anything as the new technology is not implemented during year of 2010. If it was implemented during 2010, it will increase the retained earnings and cash. The book value of equity may increase as well.
6. This may decrease the retained earnings and cash; book value of equity may decrease.

# Problem 5

Global’s book value of equity increased $1 million from 2009 to 2010. This increase is coming from the raise of retained earnings. Market value depends on how the public expectation of the future earnings. Increase in retained earnings can be a fair indication of positive trend, but is not the sole determinant of market value.

# Problem 8



# Problem 9

1. Apple has higher current ratio and quick ratio than Dell. Thus, Apple has less risk of experiencing a cash shortfall in the near future.

# Problem 10

2. GPS is a faster growth stock than ANF.

# Problem 12

# Problem 13

Gross margin stays the same; operating margin decreases 3%; net profit margin decreases 1.95%.

# Problem 14

Gross margin and operating margin stay the same; net profit margin decrease 5.2%

# Problem 17

# Problem 18

# Problem 20

1. $10 million increase in operating expensive will cause $6.5 million decrease in this year’s earning. It will have no effect on next year’s earnings.
2. $10 million expense in capital will not affect this year’s earnings. It will cause $1.3 million decrease in next year’s earnings.

# Problem 21