

Directions: Answer the following questions on a separate document. Explain how you reached the answer or show your work if a mathematical calculation is needed, or both. Submit your assignment using the assignment link in the course shell. This homework assignment is worth 100 points.

Use the following information for Questions 1 through 8:

Assume that you recently graduated and have just reported to work as an investment advisor at the one of the firms on Wall Street. You have been presented and asked to review the following Income Statement and Balance Sheets of one of the firm's clients. Your boss has developed the following set of questions you must answer.

Income Statements and Balance Sheet

Balance Sheet	2012	2013
Cash	\$9,000	\$7,282
Short-term investments	48,600	20,000
Accounts receivable	351,200	632,160
Inventories	715,200	1,287,360
Total current assets	\$1,124,000	\$1,946,802
Gross fixed assets	491,000	1,202,950
Less: Accumulated depreciation	146,200	263,160
Net fixed assets	\$344,800	\$939,790
Total assets	\$1,468,800	\$2,886,592
Liabilities and Equity		
Accounts payable	\$145,600	\$324,000
Notes payable	200,000	720,000
Accruals	136,000	284,960
Total current liabilities	\$481,600	\$1,328,960
Long-term debt	323,432	1,000,000
Common stock (100,000 shares)	460,000	460,000
Retained earnings	203,768	97,632
Total equity	\$663,768	\$557,632
Total liabilities and equity	\$1,468,800	\$2,886,592

Income Statements	2012	2013
Sales	\$3,432,000	\$5,834,400
Cost of goods sold except depr.	2,864,000	4,980,000
Depreciation and amortization	18,900	116,960
Other expenses	340,000	720,000
Total operating costs	\$3,222,900	\$5,816,960
EBIT	\$209,100	\$17,440
Interest expense	62,500	176,000
EBT	\$146,600	(\$158,560)
Taxes (40%)	58,640	-63,424
Net income	\$87,960	(\$95,136)

Other Data	2012	2013
Stock price	\$8.50	\$6.00
Shares outstanding	100,000	100,000
EPS	\$0.88	(\$0.95)
DPS	\$0.22	0.11
Tax rate	40%	40%
Book value per share	\$6.64	\$5.58
Lease payments	\$40,000	\$40,000

Ratio Analysis	2012	2013
Current	2.3	1.5
Quick	0.8	0.5
Inventory turnover	4	4
Days sales outstanding	37.3	39.6
Fixed assets turnover	10	6.2
Total assets turnover	2.3	2
Debt ratio	35.60%	59.60%
Liabilities-to-assets ratio	54.80%	80.70%
TIE	3.3	0.1
EBITDA coverage	2.6	0.8
Profit margin	2.60%	-1.6%
Basic earning power	14.20%	0.60%
ROA	6.00%	-3.3%
ROE	13.30%	-17.1%
Price/Earnings (P/E)	9.7	-6.3
Price/Cash flow	8	27.5
Market/Book	1.3	1.1

1. What is the free cash flow for 2013?
2. Suppose Congress changed the tax laws so that Berndt's depreciation expenses doubled. No changes in operations occurred. What would happen to reported profit and to net cash flow?
3. Calculate the 2013 current and quick ratios based on the projected balance sheet and income statement data. What can you say about the company's liquidity position in 2013?
4. Calculate the 2013 inventory turnover, days sales outstanding (DSO), fixed assets turnover, and total assets turnover.
5. Calculate the 2013 debt ratio, liabilities-to-assets ratio, times-interest-earned, and EBITDA coverage ratios. What can you conclude from these ratios?
6. Calculate the 2013 profit margin, basic earning power (BEP), return on assets (ROA), and return on equity (ROE). What can you say about these ratios?
7. Calculate the 2013 price / earnings ratio, price / cash flow ratio, and market / book ratio.

8. Use the extended DuPont equation to provide a summary and overview of company's financial condition as projected for 2013. What are the firm's major strengths and weaknesses?