

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 4:

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	2014
Cash	\$9,000	\$7,282	\$14,000
Short-term investments	48,600	20,000	71,632
Accounts receivable	351,200	632,160	878,000
Inventories	715,200	1,287,360	1,716,480
Total current assets	\$1,124,000	\$1,946,802	\$2,680,112
Gross fixed assets	491,000	1,202,950	1,220,000
Less: Accumulated depreciation	146,200	263,160	383,160
Net fixed assets	\$344,800	\$939,790	\$836,840
Total assets	\$1,468,800	\$2,886,592	\$3,516,952
Liabilities and Equity			
Accounts payable	\$145,600	\$324,000	\$359,800
Notes payable	200,000	720,000	300,000
Accruals	136,000	284,960	380,000
Total current liabilities	\$481,600	\$1,328,960	\$1,039,800
Long-term debt	323,432	1,000,000	500,000
Common stock (100,000 shares)	460,000	460,000	1,680,936
Retained earnings	203,768	97,632	296,216
Total equity	\$663,768	\$557,632	\$1,977,152
Total liabilities and equity	\$1,468,800	\$2,886,592	\$3,516,952

Income Statements	2012	2013	2014
Sales	\$3,432,000	\$5,834,400	\$7,035,600
Cost of goods sold except depr.	2,864,000	4,980,000	5,800,000
Depreciation and amortization	18,900	116,960	120,000
Other expenses	340,000	720,000	612,960
Total operating costs	\$3,222,900	\$5,816,960	\$6,532,960
EBIT	\$209,100	\$17,440	\$502,640
Interest expense	62,500	176,000	80,000
EBT	\$146,600	(\$158,560)	\$422,640
Taxes (40%)	58,640	-63,424	169,056
Net income	\$87,960	(\$95,136)	\$253,584

Other Data	2012	2013	2014
Stock price	\$8.50	\$6.00	\$12.17
Shares outstanding	100,000	100,000	250,000
EPS	\$0.88	(\$0.95)	\$1.104
DPS	\$0.22	0.11	0.22
Tax rate	40%	40%	40%
Book value per share	\$6.64	\$5.58	\$7.909
Lease payments	\$40,000	\$40,000	\$40,000

Ratio Analysis	2012	2013	Industry Average
Current	2.3	1.5	2.7
Quick	0.8	0.5	1.0
Inventory turnover	4	4	6.1
Days sales outstanding	37.3	39.6	32.0
Fixed assets turnover	10	6.2	7.0
Total assets turnover	2.3	2	2.5
Debt ratio	35.60%	59.60%	32.0%
Liabilities-to-assets ratio	54.80%	80.70%	50.0%
TIE	3.3	0.1	6.2
EBITDA coverage	2.6	0.8	8.0
Profit margin	2.60%	-1.6%	3.6%
Basic earning power	14.20%	0.60%	17.8%
ROA	6.00%	-3.3%	9.0%
ROE	13.30%	-17.1%	17.9%
Price/Earnings (P/E)	9.7	-6.3	16.2
Price/Cash flow	8	27.5	7.6
Market/Book	1.3	1.1	2.9

1. What is the free cash flow for 2014?
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 2014 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. Use the extended DuPont equation to provide a summary and overview of company's financial condition as projected for 2014. What are the firm's major strengths and weaknesses?