

## CHAPTER 2: THE BASIC FINANCIAL STATEMENTS

## Instructor's Manual Problem Set

1. Using the data presented below for Blue Sky Inc.:

	2011	2010
Sales	\$7,550,000	\$6,150,000
Cost of Goods	5,750,000	4,550,000
Depreciation	120,000	100,000
Selling and G&A Expenses	820,000	730,000
Fixed Expenses	200,000	200,000
Lease Expense	150,000	150,000
Interest Expense	350,000	300,000
Tax Rate	40.00%	40.00%
Shares Outstanding	100,000	80,000
Cash	108,000	50,000
Marketable Securities	150,000	100,000
Accounts Receivable	450,000	350,000
Inventory	1,250,000	850,000
Prepaid Expenses	120,000	40,000
Plant & Equipment	5,350,000	4,800,000
Accumulated Depreciation	410,000	290,000
Long Term Investments	450,000	360,000
Accounts Payable	420,000	380,000
Notes Payable	150,000	100,000
Accrued Expenses	150,000	100,000
Other Current Liabilities	200,000	180,000
Long-term Debt	2,900,000	2,500,000
Common Stock	2,500,000	2,000,000
Additional Paid-in-Capital	600,000	500,000
Retained Earnings	548,000	500,000

a. Make the Blue Sky's income statement and balance sheet using formulas wherever possible. Each statement should be on a separate worksheet. Improve the readability of the data by selecting the format explained on page 50, so that Excel will display the numbers as if they had been divided by 1,000. Make the appropriate note on the heading of each financial statement.

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Income Statement</b>		
3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
4		<i>2011</i>	<i>2010</i>
5	Sales	7,550.00	6,150.00
6	Cost of Goods Sold	5,750.00	4,550.00
7	<b>Gross Profit</b>	<b>1,800.00</b>	<b>1,600.00</b>
8	Selling and G&A Expenses	820.00	730.00
9	Fixed Expenses	200.00	200.00
10	Depreciation	120.00	100.00
11	Lease Expense	150.00	150.00
12	<b>EBIT</b>	<b>510.00</b>	<b>420.00</b>
13	Interest Expense	350.00	300.00
14	<b>Earnings Before Taxes</b>	<b>160.00</b>	<b>120.00</b>
15	Taxes	64.00	48.00
16	<b>Net Income</b>	<b>96.00</b>	<b>72.00</b>
17			
18	<b>Notes:</b>		
19	Tax Rate	40.00%	40.00%
20	Shares Outstanding	100,000	80,000
21	Earnings per Share	\$0.96	\$0.90
22	Dividends per Share	\$0.48	\$0.45
23	Addition to RE per Share	\$0.48	\$0.45

**Formulas:**

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Income Statement</b>		
3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
4		<i>2011</i>	<i>2010</i>
5	Sales	7550000	6150000
6	Cost of Goods Sold	5750000	4550000
7	<b>Gross Profit</b>	<b>=B5-B6</b>	<b>=C5-C6</b>
8	Selling and G&A Expenses	820000	730000
9	Fixed Expenses	200000	200000
10	Depreciation	120000	100000
11	Lease Expense	150000	150000
12	<b>EBIT</b>	<b>=B7-SUM(B8:B11)</b>	<b>=C7-SUM(C8:C11)</b>
13	Interest Expense	350000	300000
14	<b>Earnings Before Taxes</b>	<b>=B12-B13</b>	<b>=C12-C13</b>
15	Taxes	<b>=B14*B19</b>	<b>=C14*C19</b>
16	<b>Net Income</b>	<b>=B14-B15</b>	<b>=C14-C15</b>
17			
18	<b>Notes:</b>		
19	Tax Rate	0.4	0.4
20	Shares Outstanding	100000	80000
21	Earnings per Share	<b>=B16/B20</b>	<b>=C16/C20</b>
22	Dividends per Share	0.48	0.45
23	Addition to RE per Share	<b>=B21-B22</b>	<b>=C21-C22</b>

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Balance Sheet</b>		
3	<b>As of Dec. 31, 2011 (\$ in 000's)</b>		
4	<b>Assets</b>	<b>2011</b>	<b>2010</b>
5	Cash	108.00	50.00
6	Marketable Securities	150.00	100.00
7	Accounts Receivable	450.00	350.00
8	Inventory	1,250.00	850.00
9	Prepaid Expenses	120.00	40.00
10	<i>Total Current Assets</i>	<i>2,078.00</i>	<i>1,390.00</i>
11	Plant & Equipment	5,350.00	4,800.00
12	Accumulated Depreciation	410.00	290.00
13	<i>Net Fixed Assets</i>	<i>4,940.00</i>	<i>4,510.00</i>
14	Long-term Investments	450.00	360.00
15	<b>Total Assets</b>	<b>7,468.00</b>	<b>6,260.00</b>
16	<b>Liabilities and Owners' Equity</b>		
17	Accounts Payable	420.00	380.00
18	Notes Payable	150.00	100.00
19	Accrued Expenses	150.00	100.00
20	Other Current Liabilities	200.00	180.00
21	<i>Total Current Liabilities</i>	<i>920.00</i>	<i>760.00</i>
22	Long-term Debt	2,900.00	2,500.00
23	<i>Total Liabilities</i>	<i>3,820.00</i>	<i>3,260.00</i>
24	Common Stock (\$ 25par)	2,500.00	2,000.00
25	Additional Paid-in-Capital	600.00	500.00
26	Retained Earnings	548.00	500.00
27	<i>Total Shareholder's Equity</i>	<i>3,648.00</i>	<i>3,000.00</i>
28	<b>Total Liabilities and Owners' Equity</b>	<b>7,468.00</b>	<b>6,260.00</b>

**Formulas:**

	A	B	C
1		<b>Blue Sky Inc.</b>	
2		<b>Balance Sheet</b>	
3		<b>As of Dec. 31, 2011 (\$ in 000's)</b>	
4	<b>Assets</b>	<b>2011</b>	<b>2010</b>
5	Cash	108000	50000
6	Marketable Securities	150000	100000
7	Accounts Receivable	450000	350000
8	Inventory	1250000	850000
9	Prepaid Expenses	120000	40000
10	<i>Total Current Assets</i>	<i>=SUM(B5:B9)</i>	<i>=SUM(C5:C9)</i>
11	Plant & Equipment	5350000	4800000
12	Accumulated Depreciation	<i>=C12+'Problem 1 IS'!B10</i>	290000
13	<i>Net Fixed Assets</i>	<i>=B11-B12</i>	<i>=C11-C12</i>
14	Long-term Investments	450000	360000
15	<b>Total Assets</b>	<b><i>=B10+SUM(B13:B14)</i></b>	<b><i>=C10+SUM(C13:C14)</i></b>
16	<b>Liabilities and Owners' Equity</b>		
17	Accounts Payable	420000	380000
18	Notes Payable	150000	100000
19	Accrued Expenses	150000	100000
20	Other Current Liabilities	200000	180000
21	<i>Total Current Liabilities</i>	<i>=SUM(B17:B20)</i>	<i>=SUM(C17:C20)</i>
22	Long-term Debt	2900000	2500000
23	<i>Total Liabilities</i>	<i>=SUM(B21:B22)</i>	<i>=SUM(C21:C22)</i>
24	Common Stock (\$ 25par)	<i>='Problem 1 IS'!B20*25</i>	<i>='Problem 1 IS'!C20*25</i>
25	Additional Paid-in-Capital	600000	500000
26	Retained Earnings	<i>=C26+'Problem 1 IS'!B16/2</i>	500000
27	<i>Total Shareholder's Equity</i>	<i>=SUM(B24:B26)</i>	<i>=SUM(C24:C26)</i>
28	<b>Total Liabilities and Owners' Equity</b>	<b><i>=B23+B27</i></b>	<b><i>=C23+C27</i></b>

b. On another worksheet, create a statement of cash flows for 2011. All formulas should be linked directly to the source on previous worksheets.

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Statement of Cash Flows</b>		
3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
4	<b>Cash Flows from Operations</b>		
5	Net income	96.00	
6	Depreciation Expense	120.00	
7	Change in Marketable Securities	-50.00	
8	Change in Accounts Receivables	-100.00	
9	Change in Inventories	-400.00	
10	Change in Prepaid Expenses	-80.00	
11	Change in Accounts Payable	40.00	
12	Change in Accrued Expenses	50.00	
13	Change in Other Current Liabilities	20.00	
14	<b>Total Cash Flows from Operations</b>		<b>-304.00</b>
15	<b>Cash Flows from Investing</b>		
16	Change in Plant & Equipment	-550.00	
17	Change in Long-term Investments	-90.00	
18	<b>Total cash Flows from Investing</b>		<b>-640.00</b>
19	<b>Cash Flows from Financing</b>		
20	Change in Short-term Notes Payables	50.00	
21	Change in Long-term Debt	400.00	
22	Change in Common Stock	500.00	
23	Change in Paid-in-Capital	100.00	
24	Cash Dividends Paid to Shareholders	-48.00	
25	<b>Total Cash Flows from Financing</b>		<b>1,002.00</b>
26	<b>Net Change in Cash Balance</b>		<b>58.00</b>
27			
28	<b>Check answer against Balance Sheet</b>		
29	Beginning Cash From Balance Sheet	108.00	
30	Ending Cash From Balance Sheet	50.00	
31	<b>Net Change in Cash Balance</b>		<b>58.00</b>

**Formulas:**

	A	B	C
1		<b>Blue Sky Inc.</b>	
2		<b>Statement of Cash Flows</b>	
3		<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>	
4	<b>Cash Flows from Operations</b>		
5	Net income	=Problem 1 IS!B16	
6	Depreciation Expense	=Problem 1 IS!B10	
7	Change in Marketable Securities	=Problem 1 BS!C6-Problem 1 BS!B6	
8	Change in Accounts Receivables	=Problem 1 BS!C7-Problem 1 BS!B7	
9	Change in Inventories	=Problem 1 BS!C8-Problem 1 BS!B8	
10	Change in Prepaid Expenses	=Problem 1 BS!C9-Problem 1 BS!B9	
11	Change in Accounts Payable	=Problem 1 BS!B17-Problem 1 BS!C17	
12	Change in Accrued Expenses	=Problem 1 BS!B19-Problem 1 BS!C19	
13	Change in Other Current Liabilities	=Problem 1 BS!B20-Problem 1 BS!C20	
14	<b>Total Cash Flows from Operations</b>		=SUM(B5:B13)
15	<b>Cash Flows from Investing</b>		
16	Change in Plant & Equipment	=Problem 1 BS!C11-Problem 1 BS!B11	
17	Change in Long-term Investments	=Problem 1 BS!C14-Problem 1 BS!B14	
18	<b>Total cash Flows from Investing</b>		=SUM(B16:B17)
19	<b>Cash Flows from Financing</b>		
20	Change in Short-term Notes Payables	=Problem 1 BS!B18-Problem 1 BS!C18	
21	Change in Long-term Debt	=Problem 1 BS!B22-Problem 1 BS!C22	
22	Change in Common Stock	=Problem 1 BS!B24-Problem 1 BS!C24	
23	Change in Paid-in-Capital	=Problem 1 BS!B25-Problem 1 BS!C25	
24	Cash Dividends Paid to Shareholders	=-(Problem 1 IS!B16-(Problem 1 BS!B26-Problem 1 BS!C26))	
25	<b>Total Cash Flows from Financing</b>		=SUM(B20:B24)
26	<b>Net Change in Cash Balance</b>		=SUM(C14:C25)
27			
28	<b>Check answer against Balance Sheet</b>		
29	Beginning Cash From Balance Sheet	=Problem 1 BS!B5	
30	Ending Cash From Balance Sheet	=Problem 1 BS!C5	
31	<b>Net Change in Cash Balance</b>		=B29-B30

c. Using Excel's outlining feature, create an outline on the balance sheet that, when collapsed, shows only the subtotals for each section.

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

1	2	A	B	C
	1	<b>Blue Sky Inc.</b>		
	2	<b>Statement of Cash Flows</b>		
	3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
	4	<b>Cash Flows from Operations</b>		
	5	Net income	96.00	
	6	Depreciation Expense	120.00	
	7	Change in Marketable Securities	-50.00	
	8	Change in Accounts Receivables	-100.00	
	9	Change in Inventories	-400.00	
	10	Change in Prepaid Expenses	-80.00	
	11	Change in Accounts Payable	40.00	
	12	Change in Accrued Expenses	50.00	
	13	Change in Other Current Liabilities	20.00	
	14	<b>Total Cash Flows from Operations</b>		<b>-304.00</b>
	15	<b>Cash Flows from Investing</b>		
	16	Change in Plant & Equipment	-550.00	
	17	Change in Long-term Investments	-90.00	
	18	<b>Total cash Flows from Investing</b>		<b>-640.00</b>
	19	<b>Cash Flows from Financing</b>		
	20	Change in Short-term Notes Payables	50.00	
	21	Change in Long-term Debt	400.00	
	22	Change in Common Stock	500.00	
	23	Change in Paid-in-Capital	100.00	
	24	Cash Dividends Paid to Shareholders	-48.00	
	25	<b>Total Cash Flows from Financing</b>		<b>1,002.00</b>
	26	<b>Net Change in Cash Balance</b>		<b>58.00</b>
	27			

**Collapsed Worksheet:**

1	2	A	B	C
	1	<b>Blue Sky Inc.</b>		
	2	<b>Statement of Cash Flows</b>		
	3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
	14	<b>Total Cash Flows from Operations</b>		<b>-304.00</b>
	18	<b>Total cash Flows from Investing</b>		<b>-640.00</b>
	25	<b>Total Cash Flows from Financing</b>		<b>1,002.00</b>
	26	<b>Net Change in Cash Balance</b>		<b>58.00</b>

2. Using the data from the previous problem:

a. Create a common-size income statement and balance sheet for 2011 and 2010. These statements should be created on a separate worksheet with all formulas linked directly to the income statement and balance sheet.

Worksheet:

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Income Statement</b>		
3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
4		<i>2011</i>	<i>2010</i>
5	Sales	100.00%	100.00%
6	Cost of Goods Sold	76.16%	73.98%
7	<b>Gross Profit</b>	<b>23.84%</b>	<b>26.02%</b>
8	Selling and G&A Expenses	10.86%	11.87%
9	Fixed Expenses	2.65%	3.25%
10	Depreciation	1.59%	1.63%
11	Lease Expense	1.99%	2.44%
12	<b>EBIT</b>	<b>6.75%</b>	<b>6.83%</b>
13	Interest Expense	4.64%	4.88%
14	<b>Earnings Before Taxes</b>	<b>2.12%</b>	<b>1.95%</b>
15	Taxes	0.85%	0.78%
16	<b>Net Income</b>	<b>1.27%</b>	<b>1.17%</b>

Formulas:

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Income Statement</b>		
3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>		
4		<i>2011</i>	<i>2010</i>
5	Sales	=1000000000/1000000000	=1000000000/1000000000
6	Cost of Goods Sold	=761600000/1000000000	=739800000/1000000000
7	<b>Gross Profit</b>	=238400000/1000000000	=260200000/1000000000
8	Selling and G&A Expenses	=108600000/1000000000	=118700000/1000000000
9	Fixed Expenses	=26500000/1000000000	=32500000/1000000000
10	Depreciation	=15900000/1000000000	=16300000/1000000000
11	Lease Expense	=19900000/1000000000	=24400000/1000000000
12	<b>EBIT</b>	=67500000/1000000000	=68300000/1000000000
13	Interest Expense	=46400000/1000000000	=48800000/1000000000
14	<b>Earnings Before Taxes</b>	=21200000/1000000000	=19500000/1000000000
15	Taxes	=8500000/1000000000	=7800000/1000000000
16	<b>Net Income</b>	=12700000/1000000000	=11700000/1000000000

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

	A	B	C
1	<b>Blue Sky Inc.</b>		
2	<b>Balance Sheet</b>		
3	<b>As of Dec. 31, 2011 (\$ in 000's)</b>		
4	<b>Assets</b>	<b>2011</b>	<b>2010</b>
5	Cash	1.45%	0.80%
6	Marketable Securities	2.01%	1.60%
7	Accounts Receivable	6.03%	5.59%
8	Inventory	16.74%	13.58%
9	Prepaid Expenses	1.61%	0.64%
10	<i>Total Current Assets</i>	<i>27.83%</i>	<i>22.20%</i>
11	Plant & Equipment	71.64%	76.68%
12	Accumulated Depreciation	5.49%	4.63%
13	<i>Net Fixed Assets</i>	<i>66.15%</i>	<i>72.04%</i>
14	Long-term Investments	6.03%	5.75%
15	<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>
16	<b>Liabilities and Owners' Equity</b>		
17	Accounts Payable	5.62%	6.07%
18	Notes Payable	2.01%	1.60%
19	Accrued Expenses	2.01%	1.60%
20	Other Current Liabilities	2.68%	2.88%
21	<i>Total Current Liabilities</i>	<i>12.32%</i>	<i>12.14%</i>
22	Long-term Debt	38.83%	39.94%
23	<i>Total Liabilities</i>	<i>51.15%</i>	<i>52.08%</i>
24	Common Stock (\$ 25par)	33.48%	31.95%
25	Additional Paid-in-Capital	8.03%	7.99%
26	Retained Earnings	7.34%	7.99%
27	<i>Total Shareholder's Equity</i>	<i>48.85%</i>	<i>47.92%</i>
28	<b>Total Liabilities and Owners' Equity</b>	<b>100.00%</b>	<b>100.00%</b>

Formulas:

	2011	2012
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b. Using the common-size income statement for 2011, create a pro-forma income statement for 2012 assuming that each item is expected to remain in the same proportion as in 2011. The forecasted sales for 2012 are \$8,500,000.

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

	A	B
1	<b>Blue Sky Inc.</b>	
2	<b>Income Statement</b>	
3	<b>the Year Ended Dec. 31, 2011 (\$ in 00</b>	
4	<b>2011</b>	
5	Sales	8,500.00
6	Cost of Goods Sold	6,473.51
7	<b>Gross Profit</b>	<b>2,026.49</b>
8	Selling and G&A Expenses	923.18
9	Fixed Expenses	225.17
10	Depreciation	135.10
11	Lease Expense	168.87
12	<b>EBIT</b>	<b>574.17</b>
13	Interest Expense	394.04
14	<b>Earnings Before Taxes</b>	<b>180.13</b>
15	Taxes	72.05
16	<b>Net Income</b>	<b>108.08</b>

**Formulas:**

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
**IM Problem Set & Solutions**

	A	B
1	<b>Blue Sky Inc.</b>	
2	<b>Income Statement</b>	
3	<b>For the Year Ended Dec. 31, 2011 (\$ in 000's)</b>	
4	<b>2011</b>	
5	Sales	8500000
6	Cost of Goods Sold	='Problem 2 Common-size IS'!B6*BS5
7	<b>Gross Profit</b>	=B5-B6
8	Selling and G&A Expenses	='Problem 2 Common-size IS'!B8*BS5
9	Fixed Expenses	='Problem 2 Common-size IS'!B9*BS5
10	Depreciation	='Problem 2 Common-size IS'!B10*BS5
11	Lease Expense	='Problem 2 Common-size IS'!B11*BS5
12	<b>EBIT</b>	=B7-SUM(B8:B11)
13	Interest Expense	='Problem 2 Common-size IS'!B13*BS5
14	<b>Earnings Before Taxes</b>	=B12-B13
15	Taxes	=B14*B19
16	<b>Net Income</b>	=B14-B15
17		
18	<b>Notes:</b>	
19	Tax Rate	0.4

3. Using the data presented below:

	A	B	C
1	<b>Expense Corp.</b>		
2	<b>Income Statement</b>		
3	<b>For the Year Ended Dec. 31</b>		
4		<b>2009</b>	<b>2010</b>
5	Sales	\$20,000,000	\$21,000,000
6	Cost of Goods Sold	(4,000,000)	(4,500,000)
7	Gross Profit	?	?
8	Selling and Administrative Expenses	2,000,000	2,200,000
9	Depreciation	?	2,000,000
10	Interest	500,000	?
11	Income Tax Expense	?	1,000,000
12	Income Before Income Taxes	3,500,000	?
13	Taxes	?	?
14	Net Income	3,000,000	?
15			
16	Dividends		
17	Retained Earnings		
18	Shareholders' Equity		
19	Preferred Stock		
20	Dividend Payable		
21	Common Stock		
22	Retained Earnings		
23	Liabilities and Owners' Equity		
24	Accounts Payable		
25	Notes Payable		
26	Accounts Receivable		
27	Inventory		
28	Prepaid Insurance		
29	Plant Assets		
30	Accumulated Depreciation		
31	Long-Term Debt		
32	Short-Term Debt		
33	Current Assets		
34	Current Liabilities		
35	Long-Term Assets		
36	Long-Term Liabilities		
37	Assets		
38	Liabilities		
39	Equity		
40			
41			
42			
43			
44			

	A	B	C
1	<b>Expense Corp.</b>		
2	<b>Balance Sheet</b>		
3	<b>As of Dec. 31</b>		
4		<b>2009</b>	<b>2010</b>
5	Assets		
6	Current Assets	\$12,000,000	\$12,000,000
7	Inventory	2,000,000	2,000,000
8	Plant Assets	?	?
9	Accumulated Depreciation	(2,000,000)	(2,000,000)
10	Long-Term Assets	?	?
11	Assets	?	?
12	Liabilities and Owners' Equity		
13	Accounts Payable	400,000	500,000
14	Notes Payable	1,000,000	1,000,000
15	Accounts Receivable	?	?
16	Inventory	2,000,000	2,000,000
17	Plant Assets	?	?
18	Accumulated Depreciation	(2,000,000)	(2,000,000)
19	Long-Term Debt	2,000,000	2,000,000
20	Short-Term Debt	?	?
21	Current Liabilities	3,400,000	3,500,000
22	Long-Term Liabilities	?	?
23	Liabilities	?	?
24	Equity	?	?

a. Recreate the income statement and balance sheet by filling in the question marks with formulas wherever is possible. Each statement should be on a separate worksheet. Try to duplicate the formatting exactly. Note that the dividend policy in 2010 was based on a dividend payout ratio of 60%. In other words, 60 percent of earnings were paid to shareholders as dividends.

Worksheet:

	A	B	C
1	Egmont Corp.		
2	Income Statement		
3	For the Year Ended Dec. 31, 2011		
4		2011	2010
5	Sales	1,500,000	1,300,000
6	Cost of Goods Sold	1,000,000	900,000
7	Gross Profit	500,000	400,000
8	Selling and Administrative Expenses	200,000	180,000
9	Depreciation	100,000	120,000
10	SG&A	300,000	300,000
11	Operating Income	200,000	100,000
12	Interest Expense	100,000	200,000
13	Income	100,000	100,000
14	Income Tax Expense	200,000	200,000
15			
16	Net Income		
17	Total Assets	1,000,000	1,000,000
18	Shareholders' Equity	1,000,000	1,000,000
19	Long-term Debt	100,000	100,000
20	Current Liabilities	100,000	100,000
21	Retained Earnings	100,000	100,000

Formulas:

	A	B	C
1	Egmont Corp.		
2	Income Statement		
3	For the Year Ended Dec. 31, 2011		
4		2011	2010
5	Sales	1500000	1300000
6	Cost of Goods Sold	1000000	900000
7	Gross Profit	=B5-B6	=C5-C6
8	Selling and Administrative Expenses	200000	180000
9	Depreciation	=B8-B9	=C8-C9
10	SG&A	300000	=C8+C9
11	Operating Income	=B7-B10	100000
12	Interest Expense	100000	200000
13	Income	=B11-B12	=C11-C12
14	Income Tax Expense	100000	100000
15			
16	Net Income		
17	Total Assets	=B13+B14	=C13+C14
18	Shareholders' Equity	1000000	1000000
19	Long-term Debt	=B17-B18	=C17-C18
20	Current Liabilities	=B17-B19	=C17-C20
21	Retained Earnings	=B18-B20	=C18-C21
22	Retained Earnings	=B21-B22	=C21-C22

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
*IM Problem Set & Solutions*

**Worksheet:**

	A	B	C
1	<b>Square Corp.</b>		
2	<b>Balance Sheet</b>		
3	<b>As of Dec. 31,</b>		
4	<b>Assets</b>	<b>2011</b>	<b>2010</b>
5	Cash	149,970	100,000
6	Accounts Receivable	370,000	347,000
7	Inventory	870,000	515,000
8	<i>Total Current Assets</i>	<i>1,389,970</i>	<i>962,000</i>
9	Plant & Equipment	6,570,000	5,010,000
10	Accumulated Depreciation	1,930,000	1,380,000
11	<i>Net Fixed Assets</i>	<i>4,640,000</i>	<i>3,630,000</i>
12	<b>Total Assets</b>	<b>6,029,970</b>	<b>4,592,000</b>
13	<b>Liabilities and Owners' Equity</b>		
14	Accounts Payable	420,000	321,440
15	Notes Payable	100,000	22,960
16	<i>Total Current Liabilities</i>	<i>520,000</i>	<i>344,400</i>
17	Long-term Debt	1,350,000	918,400
18	<i>Total Liabilities</i>	<i>1,870,000</i>	<i>1,262,800</i>
19	Common Stock	2,520,000	2,043,440
20	Additional Paid-in-Capital	772,000	551,040
21	Retained Earnings	801,345	734,720
22	<i>Total Shareholder's Equity</i>	<i>4,093,345</i>	<i>3,329,200</i>
23	<b>Total Liabilities and Owners' Equity</b>	<b>5,963,345</b>	<b>4,592,000</b>

**Formulas:**

	A	B	C
1		<b>Square Corp.</b>	
2		<b>Balance Sheet</b>	
3		<b>As of Dec. 31,</b>	
4	<b>Assets</b>	<b>2011</b>	<b>2010</b>
5	Cash	149970	100000
6	Accounts Receivable	370000	347000
7	Inventory	870000	515000
8	<i>Total Current Assets</i>	<i>=SUM(B5:B7)</i>	<i>=SUM(C5:C7)</i>
9	Plant & Equipment	6570000	5010000
10	Accumulated Depreciation	1930000	1380000
11	<i>Net Fixed Assets</i>	<i>=B9-B10</i>	<i>=C9-C10</i>
12	<b>Total Assets</b>	<b>=B8+SUM(B11:B11)</b>	<b>=C8+SUM(C11:C11)</b>
13	<b>Liabilities and Owners' Equity</b>		
14	Accounts Payable	420000	321440
15	Notes Payable	100000	22960
16	<i>Total Current Liabilities</i>	<i>=SUM(B14:B15)</i>	<i>=SUM(C14:C15)</i>
17	Long-term Debt	1350000	918400
18	<i>Total Liabilities</i>	<i>=SUM(B16:B17)</i>	<i>=SUM(C16:C17)</i>
19	Common Stock	2520000	2043440
20	Additional Paid-in-Capital	772000	551040
21	Retained Earnings	=C21+'Problem 3 IS'!B14/2	734720
22	<i>Total Shareholder's Equity</i>	<i>=SUM(B19:B21)</i>	<i>=SUM(C19:C21)</i>
23	<b>Total Liabilities and Owners' Equity</b>	<b>=B18+B22</b>	<b>=C18+C22</b>

b. On another worksheet, create a statement of cash flows for 2011. Use formulas linked directly to the source on previous worksheets instead of numbers.

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
*IM Problem Set & Solutions*

**Worksheet:**

	A	B	C
2	<b>Statement of Cash Flows</b>		
3	<b>For the Year Ended Dec. 31, 2011</b>		
4	<b>Cash Flows from Operations</b>		
5	Net income	133,250	
6	Depreciation Expense	550,000	
7	Change in Accounts Receivables	-23,000	
8	Change in Inventories	-355,000	
9	Change in Accounts Payable	98,560	
10	<b>Total Cash Flows from Operations</b>		403,810
11	<b>Cash Flows from Investing</b>		
12	Change in Plant & Equipment	-1,560,000	
13	<b>Total cash Flows from Investing</b>		-1,560,000
14	<b>Cash Flows from Financing</b>		
15	Change in Notes Payables	77,040	
16	Change in Long-term Debt	431,600	
17	Change in Common Stock	476,560	
18	Change in Paid-in-Capital	220,960	
19	Cash Dividends Paid to Shareholders	-66,625	
20	<b>Total Cash Flows from Financing</b>		1,139,535
21	<b>Net Change in Cash Balance</b>		-16,655
22	<b>Check answer against Balance Sheet</b>		
23	Beginning Cash From Balance Sheet	100.00	
24	Ending Cash From Balance Sheet	149.97	
25	<b>Net Change in Cash Balance</b>		49.97

**Formulas:**

	A	B	C
2	<b>Statement of Cash Flows</b>		
3	<b>For the Year Ended Dec. 31, 2011</b>		
4	<b>Cash Flows from Operations</b>		
5	Net income	=Problem 3 IS!B14	
6	Depreciation Expense	=Problem 3 IS!B9	
7	Change in Accounts Receivables	=Problem 3 BS!F6-Problem 3 BS!E6	
8	Change in Inventories	=Problem 3 BS!F7-Problem 3 BS!E7	
9	Change in Accounts Payable	=Problem 3 BS!E14-Problem 3 BS!F14	
10	<b>Total Cash Flows from Operations</b>		=SUM(B5:B9)
11	<b>Cash Flows from Investing</b>		
12	Change in Plant & Equipment	=Problem 3 BS!F9-Problem 3 BS!E9	
13	<b>Total cash Flows from Investing</b>		=SUM(B12:B12)
14	<b>Cash Flows from Financing</b>		
15	Change in Notes Payables	=Problem 3 BS!E15-Problem 3 BS!F15	
16	Change in Long-term Debt	=Problem 3 BS!E17-Problem 3 BS!F17	
17	Change in Common Stock	=Problem 3 BS!E19-Problem 3 BS!F19	
18	Change in Paid-in-Capital	=Problem 3 BS!E20-Problem 3 BS!F20	
19	Cash Dividends Paid to Shareholders	=-(Problem 3 IS!E14-(Problem 3 BS!E21-Problem 3 BS!F21))	
20	<b>Total Cash Flows from Financing</b>		=SUM(B15:B19)
21	<b>Net Change in Cash Balance</b>		=SUM(C10:C20)
22	<b>Check answer against Balance Sheet</b>		
23	Beginning Cash From Balance Sheet	=Problem 3 BS!C5	
24	Ending Cash From Balance Sheet	=Problem 3 BS!B5	
25	<b>Net Change in Cash Balance</b>		=B24-B23

c. Create a common-size income statement and balance sheet for 2011 and 2010. These statements should be created on a separate worksheet with all formulas linked directly to the income statement and balance sheet.

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
*IM Problem Set & Solutions*

**Worksheet:**

	A	B	C
1	<b>Square Corp.</b>		
2	<b>Income Statement</b>		
3	<b>For the Year Ended Dec. 31</b>		
4		<i>2011</i>	<i>2010</i>
5	Sales	100.00%	100.00%
6	Cost of Goods Sold	74.48%	78.96%
7	<b>Gross Profit</b>	<b>25.52%</b>	<b>21.04%</b>
8	Selling and G&A Expenses	13.31%	9.36%
9	Depreciation	7.59%	8.15%
10	<b>EBIT</b>	<b>4.62%</b>	<b>3.53%</b>
11	Interest Expense	1.79%	1.63%
12	<b>Earnings Before Taxes</b>	<b>2.83%</b>	<b>1.90%</b>
13	Taxes	0.99%	0.72%
14	<b>Net Income</b>	<b>1.84%</b>	<b>1.17%</b>

**Formulas:**

	A	B	C
1		<b>Square Corp.</b>	
2		<b>Income Statement</b>	
3		<b>For the Year Ended Dec. 31</b>	
4		<i>2011</i>	<i>2010</i>
5	Sales	=Sales/100	=Sales/100
6	Cost of Goods Sold	=COGS/100	=COGS/100
7	Gross Profit	=Sales-COGS	=Sales-COGS
8	Selling and G&A Expenses	=SellingExp/100	=SellingExp/100
9	Depreciation	=Depreciation/100	=Depreciation/100
10	EBIT	=GrossProfit-SellingExp-Depreciation	=GrossProfit-SellingExp-Depreciation
11	Interest Expense	=InterestExp/100	=InterestExp/100
12	Earnings Before Taxes	=EBIT-InterestExp	=EBIT-InterestExp
13	Taxes	=EarningsBeforeTaxes*TaxRate	=EarningsBeforeTaxes*TaxRate
14	Net Income	=EarningsBeforeTaxes-Taxes	=EarningsBeforeTaxes-Taxes

**Worksheet:**

	A	B	C
1	<b>Square Corp.</b>		
2	<b>Balance Sheet</b>		
3	<b>As of Dec. 31,</b>		
4	<b>Assets</b>	<b>2011</b>	<b>2010</b>
5	Cash	2.49%	2.18%
6	Accounts Receivable	6.14%	7.56%
7	Inventory	14.43%	11.22%
8	<i>Total Current Assets</i>	<i>23.05%</i>	<i>20.95%</i>
9	Plant & Equipment	108.96%	109.10%
10	Accumulated Depreciation	32.01%	30.05%
11	<i>Net Fixed Assets</i>	<i>76.95%</i>	<i>79.05%</i>
12	<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>
13	<b>Liabilities and Owners' Equity</b>		
14	Accounts Payable	6.97%	7.00%
15	Notes Payable	1.66%	0.50%
16	<i>Total Current Liabilities</i>	<i>8.62%</i>	<i>7.50%</i>
17	Long-term Debt	22.39%	20.00%
18	<i>Total Liabilities</i>	<i>31.01%</i>	<i>27.50%</i>
19	Common Stock	41.79%	44.50%
20	Additional Paid-in-Capital	12.80%	12.00%
21	Retained Earnings	13.29%	16.00%
22	<i>Total Shareholder's Equity</i>	<i>67.88%</i>	<i>72.50%</i>
23	<b>Total Liabilities and Owners' Equity</b>	<b>98.90%</b>	<b>100.00%</b>

Formulas:

	A	B	C
1		Equity/Share	
2		Equity/Share	
3		See also Item 30,	
4	Assets	Liab.	Equity
5	CA	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
6	Current Assets	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
7	Inventory	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
8	Net Receivables	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
9	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
10	Accumulated Depreciation	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
11	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
12	Net Liab.	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
13	Total Assets and Liabilities		
14	Current Liab.	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
15	Long Term Liab.	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
16	Net Receivables	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
17	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
18	Current Liab.	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
19	Long Term Liab.	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
20	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
21	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
22	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE
23	Net PPE	=Equation 3: CA = CL + CE	=Equation 1: CA = CL + CE

4. Dragon Telecommunications Inc. wants to estimate forecasted financial statements for 2012 based on its accounting data in 2011. In 2011 total revenue was \$1,550,000; cost of goods sold was \$1,250,000; selling and G&A expenses were \$110,000; depreciation expense was \$15,000; interest expense was \$25,000; the average tax rate was 35 percent, and the number of shares outstanding was 80,000. Also, in 2011 Dragon has cash for \$20,000; accounts receivable of \$120,000; inventory of \$220,000; plant & equipment of \$1,150,000 with an accumulated depreciation of \$250,000. In 2011, accounts payable, notes payable, long-term debt, common stock, additional paid-in-capital, and retained earnings represented 7, ½, 20, 44.5, 12, and 16 percent of total assets respectively. For 2012, Reptile expects a 25% increase in total revenue, while cost of goods sold and selling and G&A expenses are expected to remain in the same proportion of total revenue as in 2011. Also for 2012, total plant and equipment will increase in 12 percent as well as the total annual depreciation expense. Similarly, long-term debt is forecasted to increase by 20 percent as well as the total annual interest expense, but the tax rate and the number of shares outstanding will remain constant. Additionally in 2012, accounts receivable, inventory, accounts payable, and notes payable are expected to increase 15 percent, while common stocks and paid-in-capital will increase by 25 percent. The dividend policy in 2012 will be based on a dividend payout ratio of 50 percent. In other words, 50 percent of forecasted earnings will be paid to shareholders as dividends. Using all these projections, create the forecasted 2012 income statement, balance sheet, and statement of cash flows for Dragon Telecommunications Inc. Each statement should be on a separate worksheet.

**Worksheet:**

	2011	2012
Sales	1550000	1937500
Cost of Goods Sold	1250000	1562500
Gross Profit	300000	375000
Selling & G&A Expenses	110000	137500
Operating Expenses	125000	156250
Depreciation	15000	16500
Interest Expense	25000	30000
Income Before Taxes	285000	356250
Taxes	99750	124687.5
Net Income	185250	231562.5
Dividend Payout	92625	115781.25
Retained Earnings	92625	115781.25

**Formulas:**

	2011	2012
Sales	=C5*1.25	1937500
Cost of Goods Sold	=C5*(1250000/1550000)	1562500
Gross Profit	=C5-C6	375000
Selling & G&A Expenses	=C5*(110000/1550000)	137500
Operating Expenses	=C5*(125000/1550000)	156250
Depreciation	=C5*(15000/1550000)	16500
Interest Expense	=C5*(25000/1550000)	30000
Income Before Taxes	=C7-C8-C9-C10-C11	356250
Taxes	=C12*0.35	124687.5
Net Income	=C13-C14	231562.5
Dividend Payout	=C15*0.5	115781.25
Retained Earnings	=C15-C16	115781.25

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
*IM Problem Set & Solutions*

**Worksheet:**

	A	B	C
1	<b>Dragon Telecommunications Inc.</b>		
2	<b>Pro-Forma Balance Sheet</b>		
3	<b>As of Dec. 31</b>		
4	<b>Assets</b>	<b>2012</b>	<b>2011</b>
5	Cash	152,328	20,000
6	Accounts Receivable	138,000	120,000
7	Inventory	253,000	220,000
8	<i>Total Current Assets</i>	<i>543,328</i>	<i>360,000</i>
9	Plant & Equipment	1,288,000	1,150,000
10	Accumulated Depreciation	266,800	250,000
11	<i>Net Fixed Assets</i>	<i>1,021,200</i>	<i>900,000</i>
12	<b>Total Assets</b>	<b>1,564,528</b>	<b>1,260,000</b>
13	<b>Liabilities and Owners' Equity</b>		
14	Accounts Payable	101,430	88,200
15	Notes Payable	7,245	6,300
16	<i>Total Current Liabilities</i>	<i>108,675</i>	<i>94,500</i>
17	Long-term Debt	302,400	252,000
18	<i>Total Liabilities</i>	<i>411,075</i>	<i>346,500</i>
19	Common Stock	700,875	560,700
20	Additional Paid-in-Capital	189,000	151,200
21	Retained Earnings	263,578	201,600
22	<i>Total Shareholder's Equity</i>	<i>1,153,453</i>	<i>913,500</i>
23	<b>Total Liabilities and Owners' Equity</b>	<b>1,564,528</b>	<b>1,260,000</b>

**Formulas:**

	A	B	C
1	<b>Dragon Telecommunications Inc.</b>		
2	<b>Pro-Forma Balance Sheet</b>		
3	<b>As of Dec. 31</b>		
4	<b>Assets</b>	<b>2012</b>	<b>2011</b>
5	Cash	=C5+'Problem 4 SCF'!C21	20000
6	Accounts Receivable	=1.15*C6	120000
7	Inventory	=1.15*C7	220000
8	<i>Total Current Assets</i>	=SUM(B5:B7)	=SUM(C5:C7)
9	Plant & Equipment	=C9*1.12	1150000
10	Accumulated Depreciation	=C10+'Problem 4 IS'!B9	250000
11	<i>Net Fixed Assets</i>	=B9-B10	=C9-C10
12	<b>Total Assets</b>	=B8+SUM(B11:B11)	=C8+SUM(C11:C11)
13	<b>Liabilities and Owners' Equity</b>		
14	Accounts Payable	=1.15*C14	=0.07*C12
15	Notes Payable	=1.15*C15	=0.005*C12
16	<i>Total Current Liabilities</i>	=SUM(B14:B15)	=SUM(C14:C15)
17	Long-term Debt	=C17*1.2	=0.2*C12
18	<i>Total Liabilities</i>	=SUM(B16:B17)	=SUM(C16:C17)
19	Common Stock	=C19*1.25	=0.445*C12
20	Additional Paid-in-Capital	=C20*1.25	=0.12*C12
21	Retained Earnings	=C21+('Problem 4 IS'!B14*0.5)	=0.16*C12
22	<i>Total Shareholder's Equity</i>	=SUM(B19:B21)	=SUM(C19:C21)
23	<b>Total Liabilities and Owners' Equity</b>	=B18+B22	=C18+C22

**CHAPTER 2: THE BASIC FINANCIAL STATEMENTS**  
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**Worksheet:**

	A	B	C
1	<b>Dragon Telecommunications Inc.</b>		
2	<b>Pro-Forma Statement of Cash Flows</b>		
3	<b>For the Year Ended Dec. 31, 2012</b>		
4	<b>Cash Flows from Operations</b>		
5	Net income	123,955	
6	Depreciation Expense	16,800	
7	Change in Accounts Receivables	-18,000	
8	Change in Inventory	-33,000	
9	Change in Accounts Payable	13,230	
10	<b>Total Cash Flows from Operations</b>		<b>102,985</b>
11	<b>Cash Flows from Investing</b>		
12	Change in Plant & Equipment	-138,000	
13	<b>Total cash Flows from Investing</b>		<b>-138,000</b>
14	<b>Cash Flows from Financing</b>		
15	Change in Notes Payables	945	
16	Change in Long-term Debt	50,400	
17	Change in Common Stock	140,175	
18	Change in Paid-in-Capital	37,800	
19	Cash Dividends Paid to Shareholders	-61,978	
20	<b>Total Cash Flows from Financing</b>		<b>167,343</b>
21	<b>Net Change in Cash Balance</b>		<b>132,328</b>
22	<b>Check answer against Balance Sheet</b>		
23	Beginning Cash From Balance Sheet	20,000	
24	Ending Cash From Balance Sheet	152,328	
25	<b>Net Change in Cash Balance</b>		<b>132,328</b>

Formulas:

1		Depreciation Expense	
2		Less: Accumulated Depreciation	
3		For the Period Ended Dec. 31, 2012	
4	<b>Net Income from Operations</b>		
5	Amortization	- Number 1 10000	
6	Depreciation Expense	- Number 1 10000	
7	Change in Accounts Receivable	- Number 4 10000 - Number 1 10000	
8	Change in Inventory	- Number 4 10000 - Number 1 10000	
9	Change in Accounts Payable	- Number 1 10000 - Number 4 10000	
10	Net Change in Non-Cash Operating Assets		- 10000
11	<b>Operating Activities</b>		
12	Change in Cash and Cash Equivalents	- Number 4 10000 - Number 1 10000	
13	Net Change in Cash and Cash Equivalents		- 10000
14	<b>Investing Activities</b>		
15	Change in Prepaid Expenses	- Number 4 10000 - Number 1 10000	
16	Change in Long-Term Debt	- Number 1 10000 - Number 4 10000	
17	Change in Cash and Cash Equivalents	- Number 1 10000 - Number 4 10000	
18	Change in Cash and Cash Equivalents	- Number 4 10000 - Number 1 10000	
19	Cash and Cash Equivalents at the Beginning	- Number 1 10000 - Number 4 10000 - Number 1 10000	
20	Net Change in Cash and Cash Equivalents		- 10000
21	Less: Change in Cash and Cash Equivalents		- 10000
22	Change in Cash and Cash Equivalents		
23	Change in Cash and Cash Equivalents	- Number 4 10000	
24	Change in Cash and Cash Equivalents	- Number 4 10000	
25	Net Change in Cash and Cash Equivalents		- 10000

**Test Bank**

1. What custom category was used to format cell A2 using the data on cell A1?

	A
1	123456789.1
2	123,456.79

- a. #,##0.00,
- b. #,##0.00
- c. #,###.00
- d. #,##0,
- e. #,##0

*Solution: a.*

2. How would look cell A1 after being formatted as “#,###.000,?”

	A
1	1234

- a. 1.23
- b. 1,234.56
- c. 1.235
- d. 1
- e. 1,235

*Solution: c.*

3. Which cells have the wrong formula to calculate some items associated with the cash flows from operations?

- I. cell B8
- II. cell B9
- III. cell B10
- IV. cell B11
- a. I and III
- b. II and IV
- c. I, II, and III
- d. II, III, and IV
- e. I, II, III, and IV

*Solution: b.*

	A	B	C
1	<b>Assets</b>	<b>2012</b>	<b>2011</b>
2	Accounts Receivable	277000	463200
3	Inventory	527000	633400
4	<b>Liabilities and Owners' Equity</b>		
5	Accounts Payable	235800	187500
6	Other Current Liabilities	127400	97500
7	<b>Cash Flows from Operations</b>		
8	Change in Accounts Receivables	=C2-B2	
9	Change in Inventories	=B3-C3	
10	Change in Accounts Payable	=B5-C5	
11	Change in Other Current Liabilities	=C6-B6	

IM Problem Set & Solutions

4. Which of the following are the correct formulas to calculate the change in accounts receivable, inventories, accounts payable, and other current liabilities for cells B8, B9, B10, and B11 respectively?

- a. =C2-B2, =C3-B3, =C5-B5, and =C6-B6
- b. =C2-B2, =B3-C3, =B5-C5, and =C6-B6
- c. =B2-C2, =B3-C3, =B5-C5, and =B6-C6
- d. =C2-B2, =C3-B3, =B5-C5, and =B6-C6
- e. =B2-C2, =C3-B3, =C5-B5, and =B6-C6

Solution: d.

	A	B	C
1	<b>Assets</b>	<b>2012</b>	<b>2011</b>
2	Accounts Receivable	277.00	463.20
3	Inventory	527.00	633.40
4	<b>Liabilities and Owners' Equity</b>		
5	Accounts Payable	235.80	187.50
6	Other Current Liabilities	127.40	97.50
7	<b>Cash Flows from Operations</b>		
8	Change in Accounts Receivable	?	
9	Change in Inventories	?	
10	Change in Accounts Payable	?	
11	Change in Other Current Liabilities	?	

5. Which of the following is the correct formula for cell B8 to calculate the cash dividends paid to shareholders?

- a. =-(B2+(B5-C5))
- b. =-(B2-(B6-C6))
- c. =B2-(B5-C5)
- d. =-B2-(B5-C5)
- e. =-(B2-(B5-C5))

Solution: e.

	A	B	C
1		<b>2012</b>	<b>2011</b>
2	<b>Net Income</b>	<b>44.22</b>	<b>87.96</b>
3	<b>Liabilities and Owners' Equity</b>		
4	Common Stock	460.00	460.00
5	Retained Earnings	225.99	203.77
6	<b>Total Shareholder's Equity</b>	<b>685.99</b>	<b>663.77</b>
7	<b>Cash Flows from Financing</b>		
8	Cash Dividends Paid to Shareholders	?	

6. In the following worksheet of an income statement, which cell has an error?

- a. B4
- b. B8
- c. B10
- d. B12
- e. None

	A	B
1		<b>2012</b>
2	Sales	2900000
3	Cost of Goods	2030000
4	<b>Gross Profit</b>	<b>=B2-B3</b>
5	Depreciation	62000
6	Selling & Admin. Expense	425000

*Solution: b.*

7. In the following worksheet of a balance sheet, which cell has an error?

- a. B10
- b. B11
- c. B15
- d. B17
- e. B21

*Solution: d.*

	A	B
1		<b>2012</b>
2	<b>Assets</b>	
3	Cash	72000
4	Marketable Securities	15000
5	Accounts Receivable	440000
6	Inventory	535000
7	<i>Total Current Assets</i>	=SUM(B3:B6)
8	Gross Fixed Assets	2720000
9	Accumulated Depreciation	568000
10	<i>Net Plant &amp; Equipment</i>	=B8-B9
11	<b>Total Assets</b>	=B7+B10
12	<b>Liabilities &amp; Owner's Equity</b>	
13	Accounts Payable	535000
14	Accrued Expenses	25000
15	<i>Total Current Liabilities</i>	=SUM(B13:B14)
16	Long-term Debt	1268100
17	<i>Total Liabilities</i>	=SUM(B15:B16)
18	Common Stock (\$2 par)	86000
19	Additional Paid-in-Capital	641000
20	Retained Earnings	658900
21	<i>Total Owner's Equity</i>	=SUM(B17:B20)
22	<b>Total Liab. &amp; Owner's Equity</b>	=B17+B21

8. Which of the following is the correct formula for cell B5 to calculate the earnings per share?

- a. =B2-B3\*B2/B4
- b. =(B2-B3)/B4
- c. =B2\*(1-B3)/B4
- d. =(B2+B3\*B2)/B4
- e. =B2\*(1+B3)/B4

*Solution: c.*

	A	B
1		<b>2012</b>
2	Earnings Before Taxes	\$520,000
3	Tax Rate	30.0%
4	Shares Outstanding	70,000
5	Earnings per Share	?

9. Which of the following is the correct formula for cell B9 to calculate the net income?

- a. =B2-(B3-B4-B5-B6)-B7-B8
- b. =B2+(B3-B4-B5-B6)-B7-B8
- c. =B2-B3-B4-B5-B6-B7+B8
- d. =B2-SUM(B2:B8)
- e. =B2-SUM(B3:B8)

*Solution: c.*

	A	B
1		<b>2012</b>
2	Sales	\$11,203,160
3	Cost of Goods Sold	1,853,780
4	Selling/General/Admin.	117,710
5	Fuel Expense	4,947,980
6	Other Expenses	2,766,750
7	Interest Expense	112,000
8	Taxes	72,100
9	Net Income	?

10. Using only the information provided in the following worksheet, what is the correct formula to calculate the total cash flows from financing?

- a. =(B2-C2)-(B4+(B3-C3))
- b. =(B2-C2)+(B4-(B3-C3))
- c. =(B3-C3)-(B4-(B2-C2))
- d. =(B2-C2)-(B4-(B3-C3))
- e. =(B2+C2)-(B4+(B3+C3))

*Solution: d.*

	A	B	C
1		<b>2012</b>	<b>2011</b>
2	Common Stock	1,235,000	1,079,000
3	Retained Earnings	572,000	487,000
4	Net Income	798,000	
5	Total Cash Flows from Financing	?	

11. Which is the correct formula to determine depreciation on cell B9?

- a. =(B5+B6)-(B8-B10)
- b. =(B5-B6)-B8-B10
- c. =(B5+B6)-(B8+B10)
- d. (B5-B6)+(B8-B10)
- e. =B5-B6-B8+B10

*Solution: b.*

	A	B
5	Sales	\$7,250,000
6	Cost of Goods Sold	5,400,000
7	<b>Gross Profit</b>	?
8	Selling and G&A Expenses	965,000
9	Depreciation	?

12. Which is the correct formula to determine taxes on cell B14?

- a. =(B10+B11)+B14
- b. =(B10+B11)-B14
- c. =(B10-B11)-B14
- d. =(B10-B11)+B14
- e. None of the above

	A	B
10	<b>EBIT</b>	<b>335,000</b>
11	Interest Expense	130,000
12	<b>Earnings Before Taxes</b>	?
13	Taxes	?
14	<b>Net Income</b>	<b>133,250</b>

*Solution: c.*

13. Which is the correct formula to determine the average tax rate on cell B15?

- a.  $=(B10-B11-B14)/(B10-B11)$
- b.  $=(B10+B11+B14)/(B10-B11)$
- c.  $=(B10-B11-B14)/(B10+B11)$
- d.  $=(B10+B11+B14)/(B10-B11)$
- e.  $=(B10-B11-B14)/B10-B11$

*Solution: a.*

	A	B
10	<b>EBIT</b>	335,000
11	Interest Expense	130,000
12	<b>Earnings Before Taxes</b>	?
13	Taxes	?
14	<b>Net Income</b>	133,250
15	Tax Rate	?

14. Which is the correct formula to determine the net income on cell B14?

- a.  $=(B10+B11)*(1+B15)$
- b.  $=(B10-B11)*(1+B15)$
- c.  $=(B10+B11)*(1-B15)$
- d.  $=(B10-B11)*(1-B15)$
- e.  $=(B10-B11)/(1-B15)$

*Solution: d.*

	A	B
10	<b>EBIT</b>	335,000
11	Interest Expense	130,000
12	<b>Earnings Before Taxes</b>	?
13	Taxes	?
14	<b>Net Income</b>	133,250
15	Tax Rate	?

15. Which is the correct formula to determine the EPS on cell B16?

- a.  $=(B10+B11)*(1+B25)/B15$
- b.  $=(B10-B11)*(1-B25)/B15$
- c.  $=(B10-B11)/(1-B25)*B15$
- d.  $=(B10+B11)*(1-B25)/B15$
- e.  $=(B10-B11)*(1+B25)/B15$

*Solution: b.*

	A	B
10	<b>EBIT</b>	335,000
11	Interest Expense	130,000
12	<b>Earnings Before Taxes</b>	?
13	Taxes	31,750
14	<b>Net Income</b>	?
15	<b>Dividend Payout Ratio</b>	21.00%
16	<b>Share Repurchases</b>	?

**Blue Sky Inc.**  
**Income Statement**  
**For the Year Ended Dec. 31, 2011 (\$ in 000's)**

	<i>2011</i>	<i>2010</i>
Sales	7,550.00	6,150.00
Cost of Goods Sold	5,750.00	4,550.00
<b>Gross Profit</b>	<b>1,800.00</b>	<b>1,600.00</b>
Selling and G&A Expenses	820.00	730.00
Fixed Expenses	200.00	200.00
Depreciation	120.00	100.00
Lease Expense	150.00	150.00
<b>EBIT</b>	<b>510.00</b>	<b>420.00</b>
Interest Expense	350.00	300.00
<b>Earnings Before Taxes</b>	<b>160.00</b>	<b>120.00</b>
Taxes	64.00	48.00
<b>Net Income</b>	<b>96.00</b>	<b>72.00</b>

**Notes:**

Tax Rate	40.00%	40.00%
Shares Outstanding	100,000	80,000
Earnings per Share	\$0.96	\$0.90
Dividends per Share	\$0.48	\$0.45
Addition to RE per Share	\$0.48	\$0.45

**Blue Sky Inc.**  
**Balance Sheet**  
**As of Dec. 31, 2011 (\$ in 000's)**

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash	108.00	50.00
Marketable Securities	150.00	100.00
Accounts Receivable	450.00	350.00
Inventory	1,250.00	850.00
Prepaid Expenses	120.00	40.00
<i>Total Current Assets</i>	<i>2,078.00</i>	<i>1,390.00</i>
Plant & Equipment	5,350.00	4,800.00
Accumulated Depreciation	410.00	290.00
<i>Net Fixed Assets</i>	<i>4,940.00</i>	<i>4,510.00</i>
Long-term Investments	450.00	360.00
<b>Total Assets</b>	<b>7,468.00</b>	<b>6,260.00</b>
<b>Liabilities and Owners' Equity</b>		
Accounts Payable	420.00	380.00
Notes Payable	150.00	100.00
Accrued Expenses	150.00	100.00
Other Current Liabilities	200.00	180.00
<i>Total Current Liabilities</i>	<i>920.00</i>	<i>760.00</i>
Long-term Debt	2,900.00	2,500.00
<i>Total Liabilities</i>	<i>3,820.00</i>	<i>3,260.00</i>
Common Stock (\$ 25par)	2,500.00	2,000.00
Additional Paid-in-Capital	600.00	500.00
Retained Earnings	548.00	500.00
<i>Total Shareholder's Equity</i>	<i>3,648.00</i>	<i>3,000.00</i>
<b>Total Liabilities and Owners' Equity</b>	<b>7,468.00</b>	<b>6,260.00</b>

**Blue Sky Inc.**  
**Statement of Cash Flows**  
**For the Year Ended Dec. 31, 2011 (\$ in 000's)**

<b>Cash Flows from Operations</b>	
Net income	96.00
Depreciation Expense	120.00
Change in Marketable Securities	-50.00
Change in Accounts Receivables	-100.00
Change in Inventories	-400.00
Change in Prepaid Expenses	-80.00
Change in Accounts Payable	40.00
Change in Accrued Expenses	50.00
Change in Other Current Liabilities	20.00
<b>Total Cash Flows from Operations</b>	<b>-304.00</b>
<b>Cash Flows from Investing</b>	
Change in Plant & Equipment	-550.00
Change in Long-term Investments	-90.00
<b>Total cash Flows from Investing</b>	<b>-640.00</b>
<b>Cash Flows from Financing</b>	
Change in Short-term Notes Payables	50.00
Change in Long-term Debt	400.00
Change in Common Stock	500.00
Change in Paid-in-Capital	100.00
Cash Dividends Paid to Shareholders	-48.00
<b>Total Cash Flows from Financing</b>	<b>1,002.00</b>
<b>Net Change in Cash Balance</b>	<b>58.00</b>

**Check answer against Balance Sheet**

Beginning Cash From Balance Sheet	108.00	
Ending Cash From Balance Sheet	50.00	
<b>Net Change in Cash Balance</b>		<b>58.00</b>

**Blue Sky Inc.**  
**Income Statement**

**For the Year Ended Dec. 31, 2011 (\$ in 000's)**

	<i>2011</i>	<i>2010</i>
Sales	100.00%	100.00%
Cost of Goods Sold	76.16%	73.98%
<b>Gross Profit</b>	<b>23.84%</b>	<b>26.02%</b>
Selling and G&A Expenses	10.86%	11.87%
Fixed Expenses	2.65%	3.25%
Depreciation	1.59%	1.63%
Lease Expense	1.99%	2.44%
<b>EBIT</b>	<b>6.75%</b>	<b>6.83%</b>
Interest Expense	4.64%	4.88%
<b>Earnings Before Taxes</b>	<b>2.12%</b>	<b>1.95%</b>
Taxes	0.85%	0.78%
<b>Net Income</b>	<b>1.27%</b>	<b>1.17%</b>

**Notes:**

Tax Rate	40.00%	40.00%
Shares Outstanding	100,000	80,000
Earnings per Share	\$0.00	\$0.00
Dividends per Share	\$0.48	\$0.45
Addition to RE per Share	(\$0.48)	(\$0.45)

**Blue Sky Inc.**  
**Balance Sheet**  
**As of Dec. 31, 2011 (\$ in 000's)**

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash	1.45%	0.80%
Marketable Securities	2.01%	1.60%
Accounts Receivable	6.03%	5.59%
Inventory	16.74%	13.58%
Prepaid Expenses	1.61%	0.64%
<i>Total Current Assets</i>	<i>27.83%</i>	<i>22.20%</i>
Plant & Equipment	71.64%	76.68%
Accumulated Depreciation	5.49%	4.63%
<i>Net Fixed Assets</i>	<i>66.15%</i>	<i>72.04%</i>
Long-term Investments	6.03%	5.75%
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Liabilities and Owners' Equity</b>		
Accounts Payable	5.62%	6.07%
Notes Payable	2.01%	1.60%
Accrued Expenses	2.01%	1.60%
Other Current Liabilities	2.68%	2.88%
<i>Total Current Liabilities</i>	<i>12.32%</i>	<i>12.14%</i>
Long-term Debt	38.83%	39.94%
<i>Total Liabilities</i>	<i>51.15%</i>	<i>52.08%</i>
Common Stock (\$ 25par)	33.48%	31.95%
Additional Paid-in-Capital	8.03%	7.99%
Retained Earnings	7.34%	7.99%
<i>Total Shareholder's Equity</i>	<i>48.85%</i>	<i>47.92%</i>
<b>Total Liabilities and Owners' Equity</b>	<b>100.00%</b>	<b>100.00%</b>

**Blue Sky Inc.**  
**Income Statement**  
**For the Year Ended Dec. 31, 2011 (\$ in 000's)**

<b>2011</b>	
Sales	8500000
Cost of Goods Sold	= 'Problem 2 Common-size IS'!B6*B\$5
<b>Gross Profit</b>	<b>=B5-B6</b>
Selling and G&A Expenses	= 'Problem 2 Common-size IS'!B8*B\$5
Fixed Expenses	= 'Problem 2 Common-size IS'!B9*B\$5
Depreciation	= 'Problem 2 Common-size IS'!B10*B\$5
Lease Expense	= 'Problem 2 Common-size IS'!B11*B\$5
<b>EBIT</b>	<b>=B7-SUM(B8:B11)</b>
Interest Expense	= 'Problem 2 Common-size IS'!B13*B\$5
<b>Earnings Before Taxes</b>	<b>=B12-B13</b>
Taxes	=B14*B19
<b>Net Income</b>	<b>=B14-B15</b>

**Notes:**

Tax Rate	0.4
Shares Outstanding	100000
Earnings per Share	=B16/B20
Dividends per Share	0.48
Addition to RE per Share	=B21-B22

**Square Corp.**  
**Income Statement**  
**For the Year Ended Dec. 31**

	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Sales	7,250,000	6,750,000	\$ 7,250,000	\$ 6,750,000
Cost of Goods Sold	5,400,000	5,330,000	5,400,000	5,330,000
<b>Gross Profit</b>	<b>1,850,000</b>	<b>1,420,000</b>	?	?
Selling and G&A Expenses	965,000	632,000	965,000	632,000
Depreciation	550,000	550,000	?	550,000
<b>EBIT</b>	<b>335,000</b>	<b>238,000</b>	<b>335,000</b>	?
Interest Expense	130,000	110,000	?	110,000
<b>Earnings Before Taxes</b>	<b>205,000</b>	<b>128,000</b>	<b>205,000</b>	?
Taxes	71,750	48,900	?	?
<b>Net Income</b>	<b>133,250</b>	<b>79,100</b>	<b>133,250</b>	<b>79,100</b>

**Notes:**

Tax Rate	35.00%	38.20%	?	?
Shares Outstanding	75,000	65,000	75,000	65,000
Earnings per Share	\$1.78	\$1.22	?	?
Dividends per Share	\$0.89	\$0.73	?	?
Addition to RE per Share	\$0.89	\$0.49	?	?

**Square Corp.**  
**Balance Sheet**  
**As of Dec. 31,**

<b>Assets</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Cash	149,970	100,000	64,000	100,000
Accounts Receivable	370,000	347,000	370,000	347,000
Inventory	870,000	515,000	870,000	515,000
<i>Total Current Assets</i>	<i>1,389,970</i>	<i>962,000</i>	?	?
Plant & Equipment	6,570,000	5,010,000	6,570,000	5,010,000
Accumulated Depreciation	1,930,000	1,380,000	1,930,000	1,380,000
<i>Net Fixed Assets</i>	<i>4,640,000</i>	<i>3,630,000</i>	?	?
<b>Total Assets</b>	<b>6,029,970</b>	<b>4,592,000</b>	?	?
<b>Liabilities and Owners' Equity</b>				
Accounts Payable	420,000	321,440	420,000	321,440
Notes Payable	100,000	22,960	100,000	22,960
<i>Total Current Liabilities</i>	<i>520,000</i>	<i>344,400</i>	?	?
Long-term Debt	1,350,000	918,400	1,350,000	918,400
<i>Total Liabilities</i>	<i>1,870,000</i>	<i>1,262,800</i>	?	?
Common Stock	2,520,000	2,043,440	2,520,000	2,043,440
Additional Paid-in-Capital	772,000	551,040	772,000	551,040
Retained Earnings	801,345	734,720	801,345	734,720
<i>Total Shareholder's Equity</i>	<i>4,093,345</i>	<i>3,329,200</i>	?	?
<b>Total Liabilities and Owners' Equity</b>	<b>5,963,345</b>	<b>4,592,000</b>	?	?

**Triangle Corp.**  
**Statement of Cash Flows**  
**For the Year Ended Dec. 31, 2011**

<b>Cash Flows from Operations</b>	
Net income	=Problem 3 IS!B14
Depreciation Expense	=Problem 3 IS!B9
Change in Accounts Receivables	=Problem 3 BS!F6-'Problem 3 BS!E6
Change in Inventories	=Problem 3 BS!F7-'Problem 3 BS!E7
Change in Accounts Payable	=Problem 3 BS!E14-'Problem 3 BS!F14
<b>Total Cash Flows from Operations</b>	
<b>Cash Flows from Investing</b>	
Change in Plant & Equipment	=Problem 3 BS!F9-'Problem 3 BS!E9
<b>Total cash Flows from Investing</b>	
<b>Cash Flows from Financing</b>	
Change in Notes Payables	=Problem 3 BS!E15-'Problem 3 BS!F15
Change in Long-term Debt	=Problem 3 BS!E17-'Problem 3 BS!F17
Change in Common Stock	=Problem 3 BS!E19-'Problem 3 BS!F19
Change in Paid-in-Capital	=Problem 3 BS!E20-'Problem 3 BS!F20
Cash Dividends Paid to Shareholders	=-(Problem 3 IS!E14-(Problem 3 BS!E21-
<b>Total Cash Flows from Financing</b>	
<b>Net Change in Cash Balance</b>	
<b>Check answer against Balance Sheet</b>	
Beginning Cash From Balance Sheet	=Problem 3 BS!C5
Ending Cash From Balance Sheet	=Problem 3 BS!B5
<b>Net Change in Cash Balance</b>	



**Square Corp.**  
**Income Statement**  
**For the Year Ended Dec. 31**

	<i>2011</i>	<i>2010</i>
Sales	100.00%	100.00%
Cost of Goods Sold	74.48%	78.96%
<b><i>Gross Profit</i></b>	<b><i>25.52%</i></b>	<b><i>21.04%</i></b>
Selling and G&A Expenses	13.31%	9.36%
Depreciation	7.59%	8.15%
<b><i>EBIT</i></b>	<b><i>4.62%</i></b>	<b><i>3.53%</i></b>
Interest Expense	1.79%	1.63%
<b><i>Earnings Before Taxes</i></b>	<b><i>2.83%</i></b>	<b><i>1.90%</i></b>
Taxes	0.99%	0.72%
<b><i>Net Income</i></b>	<b><i>1.84%</i></b>	<b><i>1.17%</i></b>

**Notes:**

Tax Rate	35.00%	38.20%
Shares Outstanding	75,000	65,000
Earnings per Share	\$0.00	\$0.00
Dividends per Share	(\$0.89)	\$0.00
Addition to RE per Share	\$0.89	\$0.00

**Square Corp.**  
**Balance Sheet**  
**As of Dec. 31,**

<b>Assets</b>	<b>2011</b>
Cash	=Problem 3 BS!B5/Problem 3 BS!B\$12
Accounts Receivable	=Problem 3 BS!B6/Problem 3 BS!B\$12
Inventory	=Problem 3 BS!B7/Problem 3 BS!B\$12
<i>Total Current Assets</i>	=Problem 3 BS!B8/Problem 3 BS!B\$12
Plant & Equipment	=Problem 3 BS!B9/Problem 3 BS!B\$12
Accumulated Depreciation	=Problem 3 BS!B10/Problem 3 BS!B\$12
<i>Net Fixed Assets</i>	=Problem 3 BS!B11/Problem 3 BS!B\$12
<b>Total Assets</b>	<b>=Problem 3 BS!B12/Problem 3 BS!B\$12</b>
<b>Liabilities and Owners' Equity</b>	
Accounts Payable	=Problem 3 BS!B14/Problem 3 BS!B\$12
Notes Payable	=Problem 3 BS!B15/Problem 3 BS!B\$12
<i>Total Current Liabilities</i>	=Problem 3 BS!B16/Problem 3 BS!B\$12
Long-term Debt	=Problem 3 BS!B17/Problem 3 BS!B\$12
<i>Total Liabilities</i>	=Problem 3 BS!B18/Problem 3 BS!B\$12
Common Stock	=Problem 3 BS!B19/Problem 3 BS!B\$12
Additional Paid-in-Capital	=Problem 3 BS!B20/Problem 3 BS!B\$12
Retained Earnings	=Problem 3 BS!B21/Problem 3 BS!B\$12
<i>Total Shareholder's Equity</i>	=Problem 3 BS!B22/Problem 3 BS!B\$12
<b>Total Liabilities and Owners' Equity</b>	<b>=Problem 3 BS!B23/Problem 3 BS!B\$12</b>

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**2010**

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='Problem 3 BS!C5/'Problem 3 BS!C\$12

='Problem 3 BS!C6/'Problem 3 BS!C\$12

='Problem 3 BS!C7/'Problem 3 BS!C\$12

='*Problem 3 BS!C8/'Problem 3 BS!C\$12*

='Problem 3 BS!C9/'Problem 3 BS!C\$12

='Problem 3 BS!C10/'Problem 3 BS!C\$12

='*Problem 3 BS!C11/'Problem 3 BS!C\$12*

='***Problem 3 BS!C12/'Problem 3 BS!C\$12***

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='Problem 3 BS!C14/'Problem 3 BS!C\$12

='Problem 3 BS!C15/'Problem 3 BS!C\$12

='*Problem 3 BS!C16/'Problem 3 BS!C\$12*

='Problem 3 BS!C17/'Problem 3 BS!C\$12

='*Problem 3 BS!C18/'Problem 3 BS!C\$12*

='Problem 3 BS!C19/'Problem 3 BS!C\$12

='Problem 3 BS!C20/'Problem 3 BS!C\$12

='Problem 3 BS!C21/'Problem 3 BS!C\$12

='*Problem 3 BS!C22/'Problem 3 BS!C\$12*

='***Problem 3 BS!C23/'Problem 3 BS!C\$12***

**Dragon Telecommunications Inc.**  
**Pro-Forma Income Statement**  
**For the Year Ended Dec. 31**

	<i>2012</i>	<i>2011</i>
Sales	1,937,500	1,550,000
Cost of Goods Sols	1,562,500	1,250,000
<b><i>Gross Profit</i></b>	<b><i>375,000</i></b>	<b><i>300,000</i></b>
Selling and G&A Expenses	137,500	110,000
Depreciation Expense	16,800	15,000
<b><i>EBIT</i></b>	<b><i>220,700</i></b>	<b><i>175,000</i></b>
Interest Expense	30,000	25,000
<b><i>Earnings Before Taxes</i></b>	<b><i>190,700</i></b>	<b><i>150,000</i></b>
Taxes	66,745	52,500
<b><i>Net Income</i></b>	<b><i>123,955</i></b>	<b><i>97,500</i></b>

**Notes:**

Tax Rate	35.00%	35.00%
Shares Outstanding	80,000	80,000
Earnings per Share	\$1.549	\$1.22
Dividends per share	\$0.775	
Retained earnings per share	\$0.775	

**Dragon Telecommunications Inc.**  
**Pro-Forma Balance Sheet**  
**As of Dec. 31**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash	152,328	20,000
Accounts Receivable	138,000	120,000
Inventory	253,000	220,000
<i>Total Current Assets</i>	<i>543,328</i>	<i>360,000</i>
Plant & Equipment	1,288,000	1,150,000
Accumulated Depreciation	266,800	250,000
<i>Net Fixed Assets</i>	<i>1,021,200</i>	<i>900,000</i>
<b>Total Assets</b>	<b>1,564,528</b>	<b>1,260,000</b>
<b>Liabilities and Owners' Equity</b>		
Accounts Payable	101,430	88,200
Notes Payable	7,245	6,300
<i>Total Current Liabilities</i>	<i>108,675</i>	<i>94,500</i>
Long-term Debt	302,400	252,000
<i>Total Liabilities</i>	<i>411,075</i>	<i>346,500</i>
Common Stock	700,875	560,700
Additional Paid-in-Capital	189,000	151,200
Retained Earnings	263,578	201,600
<i>Total Shareholder's Equity</i>	<i>1,153,453</i>	<i>913,500</i>
<b>Total Liabilities and Owners' Equity</b>	<b>1,564,528</b>	<b>1,260,000</b>

**Dragon Telecommunications Inc.**  
**Pro-Forma Statement of Cash Flows**  
**For the Year Ended Dec. 31, 2012**

<b>Cash Flows from Operations</b>	
Net income	123,955
Depreciation Expense	16,800
Change in Accounts Receivables	-18,000
Change in Inventory	-33,000
Change in Accounts Payable	13,230
<b>Total Cash Flows from Operations</b>	<b>102,985</b>
<b>Cash Flows from Investing</b>	
Change in Plant & Equipment	-138,000
<b>Total cash Flows from Investing</b>	<b>-138,000</b>
<b>Cash Flows from Financing</b>	
Change in Notes Payables	945
Change in Long-term Debt	50,400
Change in Common Stock	140,175
Change in Paid-in-Capital	37,800
Cash Dividends Paid to Shareholders	-61,978
<b>Total Cash Flows from Financing</b>	<b>167,343</b>
<b>Net Change in Cash Balance</b>	<b>132,328</b>
<b>Check answer against Balance Sheet</b>	
Beginning Cash From Balance Sheet	20,000
Ending Cash From Balance Sheet	152,328
<b>Net Change in Cash Balance</b>	<b>132,328</b>