

Closed Book Part

1. D, maximize Shareholder's wealth.
2. Agency problem is when goals and objectives of the principal do not match the goals and objectives of the agent. Agency relationship is when principal delegates authority and responsibility to an agent.
3. Balance Sheet

CASH 14,000

SHORT-TERM INVESTMENTS 71,632

ACCOUNTS RECEIVABLE _\$878,000(Cash + ST Invest + AR+Inv=Total Current Assets)___

INVENTORIES 1,716,480

TOTAL CURRENT ASSETS __\$2,680,112 (Total Current + Net Fixed =Total Assets)___

GROSS FIXED ASSETS _\$1,197,160 (Gross Fixed – Acc Dep = Net Fixed)___

LESS ACCUMULATED DEPRECIATION 380,120

NET FIXED ASSETS \$ 817,040

TOTAL ASSETS __\$3,497,152 (from Total Liabilities and Equity ___

ACCOUNTS PAYABLE 436,800

NOTES PAYABLE 600,000

ACCRUALS __\$408,000 (AP + Notes Pay + Accruals =Total Current Liab)___

TOTAL CURRENT LIABILITIES \$1,444,800

LONG-TERM DEBT _\$500,000 (Total Current Liab + LT Debt + Total Equity =Total Liab + Equity)___

COMMON STOCK 1,680,936

RETAINED EARNINGS _-\$128,584 (Retain Earn + Common = Total Equity)___

TOTAL EQUITY \$1,552,352

TOTAL LIABILITIES AND EQUITY \$3,497,152

Income Statement

SALES \$7,035,600

COST OF GOODS SOLD 5,728,000

RENTAL EXPENSE 300,000

ADMINISTRATIVE EXPENES 340,000

DEPRECIATION _\$159,960 (Sales – COGS – Rent – Admin – Deprec = EBIT)___

EBIT __\$510,640 (EBIT – Interest = EBT) ___

INTEREST EXPENSE 88,000

EARNINGS BEFORE TAXES \$ 422,640

TAXES 169,056

NET INCOME __\$253,584 (EBT –Tax =Net Income)___

Other/Footnote Information

SHARES OUTSTANDING 250,000

EPS \$1.014

DPS \$0.220

CAPITAL LEASE PAYMENTS 40,000

SINKING FUND PAYMENTS 0

Open Book Part

1a. Cash Flow from Investing activities

Purchase of Fixed Assets = 17400-15000= 2400

1b. 2000 dso = 2000/(9200/360) = 78.3 days

2001 dso =2500/(9650/360)= 93.3 days, getting worse

1c. roe = 1800/(10000+3400)=13.4%

1d. debt ratio = (4700+5000)/23100=42.0%

2.	November	December	January	February
Sales		160000	40000	60000
Purchases	140000	40000	40000	40000

Collections		160000	40000	60000
Payments		140000	40000	40000
Salary		4800	4800	4800
Rent		2000	2000	2000
Taxes				12000
Net Cash Gain/Loss		13200	-6800	1200
Begin Cash		400	13600	
Required Cash		6000	6000	
Cumulative Surplus Shortage		7600	800	