

BA 620 Managerial Finance

Group Problem Set 1: This problem Set is based on materials covered in modules 1 and 2. It is designed for you to demonstrate your understanding of basic financial statements, financial statement analysis, break-even concepts, financial and operating leverages. Before you start this assignment, please review Modules 1 and 2 materials thoroughly.

Finance data of Adams Stores, Inc. for the year ending 2016 and 2017.

Items	2016	2017
Sales	\$3,432,000	\$5,834,400
Cash	9,000	7,282
Other Expenses	340,000	720,000
Retained Earnings	203,768	97,632
Long-term debt	323,432	1,000,000
Cost of goods sold	2,864,000	4,980,000
Depreciation	18,900	116,960
Short-term investments	48,600	20,000
Fixed Assets	491,000	1,202,950
Interest Expenses	62,500	176,000
Shares outstanding (par value = \$46.00)	100,000	100,000
Market Price of stock	8.50	6
Accounts Receivable	351,200	632,160
Accounts payable	145,600	324,000
Inventory	715,200	1,287,360
Notes Payable	200,000	720,000
Accumulated Depreciation	146,200	263,160
Accruals	136,000	284,960
Tax Rate	40%	40%

Instructions:

As a group, complete the following activities using the financial information above:

Part 1: Financial Statements

- Prepare the income statement for 2016 and 2017. Include statement of retained earnings for 2017. The company paid \$11,000 dividend in 2017.
- Prepare the balance sheet for 2016 and 2017
- Prepare Common-Size financial statements of income statement and balance sheet.
- Prepare Statement of Cash Flows.

Part 2: Financial Statement Analysis

- A. Based on your financial statements (from Part 1), calculate the following ratios for the two years. Show all your calculations in good form. Show your formulas. If you use excel, each calculation need to show the excel formula

Current ratio

Quick ratio

Inventory turnover (times)

Average collection period (days)

Total asset turnover (times)

Debt ratio

Times interest earned

Gross profit margin

Net profit margin

Return on total assets

Return on equity

P/E ratio

Return on equity using DuPont Analysis

- B. Comments on the ratios by comparing 2016 to 2017 ratios.

- C. Assume Adams Stores, Inc. is a retail company similar to WalMart, Myers, or Target. Compare 2017 ratios to the industry average. Please note that Adams Stores, Inc. is not a real company. To find comparable industry ratios, you need to search for industry ratios for retail. See information on Moodle for instructions on how to find industry ratios. Based on the industry average, how is Adams Stores, Inc. doing financially?