Assignment 1:1 Chapter 2 Q: 3

2. **Missing accounts.**
Find the missing values for the following three firms. Show your computations.

	Firm 1	Firm 2	Firm 3
Assets, beginning of period	$1,000		
Assets, end of period	1,100	$500	
Owners' equity, beginning of period	500	200	
Owners' equity, end of period			$1,000
Liabilities, beginning of period		200	600
Liabilities, end of period			500
Revenues of the period	2,000		600
Expenses of the period	1,800	180	
Earnings after tax of the period		20	100
Dividends (from earnings of the period)	100	10	0
Shares issued ($ amount) during the period	0	50	0

3. **Balance sheet changes.**
Below are incomplete balance sheets of ABC Corporation (figures in millions).

End-of-year for balance sheet items	Year 1	Year 2	Year 3	Year 4
Current assets	$16,870	$18,732	$19,950	$19,976
Noncurrent assets			29,920	
Total assets		48,050		
Current liabilities	13,466	15,284	16,574	16,080
Noncurrent liabilities	11,998		18,414	
Paid-in capital		2,298		2,798
Retained earnings	13,438	15,844		
Earnings (loss) after tax	2,014		(1,312)	5,048
Dividends	1,580	2,040	2,234	2,480
Owners' equity				
Total liabilities and owners' equity	40,936			51,070

a. Compute the missing amounts, and show the balance sheet at year-end 1, 2, 3, and 4. Show your computations.
b. What transactions might explain the change in total assets between years 1 and 2?
c. What transactions might explain the change in retained earnings between years 2 and 3?
d. What transactions might explain the change in total liabilities plus owners' equity between years 3 and 4?

Assignment 1:1 Chapter 3 Q. 3

3. **Reconstructing a balance sheet.**
Use the following information to complete the balance sheet below.

a. Collection period: forty days
b. Inventory turnover: six times sales
c. Working capital requirement/sales: 20 percent
d. Liabilities/total assets: 60 percent
e. Cash in days of sales: twenty days
f. Short-term debt: 10 percent of total financial debt

Assume a 360-day year.

Balance Sheet			
Cash	$ 400,000	Short-term debt	
Accounts receivable		Accounts payable	
Inventory			
Total current assets		**Total current liabilities**	
Net fixed assets		Long-term debt	
		Owners' equity	
Total assets	$5,000,000	**Total liabilities and owners' equity**	

4. **Effect of transactions on working capital requirement.**
Indicate the effect of the following transactions on the working capital requirement:

a. More customers pay with cash instead of credit
b. More of raw material is paid for with cash
c. More discounts are offered to customers
d. More finished goods are produced for order

5. **Managing liquidity.**
Indicate which of the following four statements are right or wrong:

a. Because working capital requirement (WCR) = net long-term financing (NLF) + net short-term financing (NSF), I can reduce my investment in the operating cycle by either reducing my long-term financing through the repurchase of shares or by borrowing less on short-term basis
b. The lower my WCR, the more liquid my business unit is. One way to reduce WCR is to reduce inventories. I can do that by writing down some of my obsolete inventories
c. Although I can improve my liquidity or acid test ratios by letting my customer pay later, the result would be a decrease in the liquidity of my business unit
d. If I decrease my WCR, I will increase my cash holdings and be able to borrow less from my bank. But my bank, which makes money by lending funds, will be unhappy