

Rasahn Staley

Managerial Accounting and Finance Mid-Term Exam

Professor Peter Hensley

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Short Answer

1. What role does the Balance Sheet play in finance?
The balance sheet allows us to see the entity at any moment in time. It shows how healthy the company is by listing out both assets and liabilities. The balance sheet will allow the user to identify if the company is able to meet its financial obligations over the short and long term.
2. Speak to the relationship between a company's assets and liabilities and what this means as it relates to a company's bottom line.
The assets of the company represent what the entity owns. It can be broken out by current assets which can be liquidated quickly and fixed assets which would take longer to liquidate. The liabilities of a company represent its financial obligations to others. Determining the difference between the two will help the user understand how healthy the company is financially.
3. What is a fixed asset? Give a few examples of such and the length of time an asset of this nature is to last.
Fixed assets are items that are used in the operation of the business but are expected to last longer than a year. Examples of fixed assets are items such as land, buildings and equipment.
4. What is straight line depreciation and how is it calculated?
Straight line depreciation is a simple method of depreciation used to record a noncash expense for fixed assets over their useful life. It is calculated by taking the total cost for the fixed asset less any salvage value and dividing it by the useful life.
5. What are the similarities and differences between preferred and common stock?
There are a few differences between preferred stock and common stock. One major difference is that common stockholders have voting rights in the company whereas preferred stockholders do not. Preferred stockholders are paid dividends before common shareholders when the company is in good financial health.

- 6.** What is the main difference between short-term and long-term debt for a company? Give examples of each type of debt.

Short term debt is comprised of any loans that a company has that would be due within a year. The loan can be called at any time and the company has to repay the proceeds to the bank. Short term loans from commercial banks, known as revolving credit, would be considered short term debt. Long term debt would include loans with terms spanning over one year. Mortgage bonds are considered long term debt and are secured by assets held by the company.

- 7.** What contributions did the Gilbert Brothers offer to the business world and stockholders of companies in particular?

The Gilbert brothers contributed to both the business world and stockholders in various ways. They were instrumental in making sure that the stockholders received timely information about the company through audited financial statements. They also ensured that meetings were held in locations that the shareholders could attend rather than participate through remote locations. Shareholders were given the opportunity to present resolutions for management to vote on. One of the major contributions that the Gilbert brothers helped to develop is the practice of inviting all parties to listen in on conference calls about past and future projections of the business. Security analysts were once only privy to this information which gave them an advantage when buying stock for their clients.

- 8.** What role does the Securities and Exchange Commission play in overseeing business practices? Who reports to the SEC?

The Securities and Exchange Commission is the US government agency that oversees accounting reporting for registered publicly traded companies.

- 9.** What value does a Current Ratio play for a company? What does a Current Ratio below 1.0 mean?

Current ratio measures the company's ability to pay liabilities that are due within a year with current assets. A current ratio below one would signify that the company potentially may not be able to cover its current payment obligations with current assets.

- 10.** What is the main difference between a Quick Ratio and the Current Ratio? Why might a Quick Ratio test be better off for a company's starting point?

The major difference between the quick ratio and the current ratio is that the quick ratio does not include inventory and can be used to calculate more immediate needs of the company.

- 11.** During the economic turmoil of 2008 and 2009 many United States citizens took part in flipping properties. What were the advantages and disadvantages of purchasing and selling homes during this time frame?

During this time many people were able to sell homes and make a huge amount of money on their sale. The properties were sold soon after they were purchased. The downside to this was that the demand for the houses decreased which left some of the homebuyers holding the property and resulted in them losing everything.

12. What is the value in a company knowing its Revenue per Employee ratio? How is this ratio calculated?

The Revenue per employee is calculated by dividing annual corporate revenue by total employees. It measures the company's performance, efficiency, profitability and the value-added nature of the business.

13. How does After Tax Cash Flow and Total Assets work with one another when trying to determine the ROA of a profit Center?

The profitability of the company is affected by the amount of assets it has. Determining the after-tax cash flow and dividing that figure by assets allows the company to determine the ROA.

14. How does a company go about determining how much inventory is needed to maintain a competitive advantage within the market place?

The inventory turnover ratio helps the company to determine how effectively they are managing inventory. It is calculated by dividing Cost of Goods Sold by Average inventory.

15. What has been the most valuable source of information you have learned from the course to date? How will you use this information to be more aware in the areas of finance and accounting?

The ratios have been very helpful in determining the financial health of a company. I feel that I can apply them to my personal life as well.

Income Statement

Create an annual Income Statement from scratch which is to include an annual salary, additional forms of income and no less than 10-line item expenses. Be sure to have a definitive number for your total income, total expenses and a final cash surplus (or deficit). This can be a made-up scenario.

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Income Statement for year ending 2019

Salary	\$200,000.00	
Bonus	\$10,000	
Cost of Goods Sold	\$ (15,000.00)	
Gross Margin		\$ 195,000.00
Advertsing Expenses	\$ 14,000.00	
Wardrobe Expenses	\$ 2,000.00	
Child Care Expenses	\$ 4,000.00	
Leisure Expenses	\$ 1,000.00	
Household Management Expenses	\$ 36,000.00	
Utility Expenses	\$ 4,000.00	
Landscaping expenses	\$ 1,000.00	
Education expenses	\$ 3,500.00	
Credit Card expenses	\$ 1,400.00	
Music lesson expenses	\$ 1,200.00	
Total expenses		\$ (68,100.00)
Depreciation expense		\$ (1,200.00)
Net Income Before Tax		\$ 125,700.00
Federal Income Tax		\$ (37,710.00)
Net Income		\$ 87,990.00
Cash Dividends		\$ (1,000.00)
Change in Retained Earnings		\$ 86,990.00

Balance Sheet

Create a Balance Sheet from scratch which is to have a clear listing of assets, liabilities and Net Worth. This can be a made-up scenario. As far as assets are concerned, be sure to include all cash, checking accounts, savings accounts, stocks and bonds, real estate, cars, household furnishings, and jewelry. As it relates to liabilities are concerned, please include credit card balances, all bills related to running a household, auto loans, educational loans and personal loans. Of course, feel free to add any line items you so choose that make sense. I am looking for a balanced worksheet that will identify a final Net Worth.

Rasahn Staley Inc		
Balance Sheet		
December 31, 2019		
Cash	\$	16,000.00
BOA Savings Account	\$	40,000.00
BOA CD Account	\$	25,000.00
Current Assets	\$	81,000.00
Real estate- Brown Street	\$	350,000.00
Accumulated Depreciation	\$	(12,000.00)
Net Book Value	\$	338,000.00
Total Assets		\$419,000.00
HSBC Credit Card	\$	3,500.00
American Express	\$	1,200.00
Total Current Liabilities	\$	4,700.00
Nyack Student Loan	\$	6,000.00
Mortgage	\$	150,000.00
Total Liabilities		\$160,700.00
Stockholder's Equity (net Worth)		\$258,300.00

Essay

You are my financial consultant and I am seeking help with expanding my privately-owned tutoring business due to some upcoming cuts in salary from my other sources of income. Currently, I have 10 clients I see one time each week that I charge \$40 per hour. However, 2 of them are graduating from high school and will no longer need my services in a few weeks. I do work through a third-party advertising agency which charges me \$5 per student they help connect me with. It is important to know that I do travel to my clients via my personal vehicle. I am starting to wonder if my efforts should be placed in another business venture, but I am not willing to give up yet. My main goal is to make more money, have less expenses and have more available time to tap into my other interests.

In a well-crafted 3 paragraph essay please review the issue at hand and offer me some sound financial advice on how I can reach my goals. Please use any and all information discussed in the first few weeks of the class to help guide me.

It sounds like you still want to pursue this business. Currently you are earning \$40 per hour for each client which brings in revenue of \$400 per week. You also incur fees that must be paid for advertising of \$5 per client. Assuming your clients are in the metro area we can estimate that you spend about \$5 per client using your personal vehicle. If they are not local that adds a significant amount to your travel costs. With the expenses listed you have a net profit of \$300 per week. This seems reasonable as you are working ten hours and will have extra time to engage in activities you enjoy if they are income producing.

However, in the near future you will lose two clients due to graduation and will bring in revenue of only \$320 per week. Your fees will decrease for both advertising and vehicle expenses leaving you with a net profit of \$240. Your net income will be reduced by \$60 taking into account the decrease in clients. Although your income will be reduced you will have two additional hours to spend doing other things that you enjoy.

In my professional opinion it would be impossible for you to stay in business and meet all of the goals you communicated to me. First, in order to make more money you would either have to charge your clients a higher hourly fee in order to provide services. This would increase your revenue without adding additional time to be spent on clients. You could also reduce costs of advertising by terminating your relationship with the third party agency and advertising on social media platforms at a lower cost.