

Hansel Almanzar

Finance 1

Professor Boronow

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Cash Flow from operations Finance1: Financial Analysis Test

Problem

1. Listed below are the account balances for UBUS, Inc. The income statement balances are for the year, 20X4. The balance sheet balances are shown as of 1/1/20X4 and 12/31/20X4. They are listed in alphabetical order, NOT in the order they appear on the statements themselves. The applicable tax rate is 40%. You are to use this information to answer the following SEVEN questions (6-a through 6-g).

Income Statement for 20X4

Cost of Goods Sold	330
Depreciation Expense	35
Interest Expense	20
Operating Expense (excluding depreciation)	115
Sales	600
Tax Expense	???

Balance Sheet	1/1/20X4	12/31/20X4
Accounts Payable	35	30
Accounts Receivable	65	75
Accruals	30	35
Accumulated Depreciation	(175)	(210)
Cash	35	45
Common Stock	120	120
Fixed Assets (gross)	390	440
Inventory	135	150
Long Term Debt	200	200
Retained Earnings	65	115

a) What was the Quick Ratio for UBUS Inc. as of 12/31/20X4? **Answer: C**

a.	Less than 1.0
b.	From 1.0 - 1.5
c.	From 1.51 - 1.9
d.	From 1.91 - 2.3
e.	More than 2.3

b) What kind of impact will the change in the Accounts Receivable balance have on Operating Cash Flows portion of the Statement of Cash Flows in 20X4? **Answer: A**

a.	Decrease operating cash flows by \$10
b.	Decrease operating cash flows by \$5

c.	Increase operating cash flows by \$10
d.	Increase operating cash flows by \$5
e.	No impact

c) Where will the change in Fixed Assets (gross) appear on the Statement of Cash Flows? **Answer: B**

a.	The Operating Section
b.	The Investing Section
c.	The Financing Section
d.	It won't appear on the Statement of Cash Flows
e.	Can't tell from the information given

d) What is UBUS Inc.'s Times Interest Earned (TIE) ratio for 20X4? **Answer: E**

a.	Less than 2.0
b.	From 2.0 - 3.0
c.	From 3.1 - 4.0
d.	From 4.1 - 5.0
e.	More than 5.0

e) What is UBUS Inc.'s Return on Assets (ROA) for 20X4? **Answer: E**

a.	Less than 12.0%
b.	From 12.0% - 12.5%
c.	From 12.6% - 13.0%
d.	From 13.1% - 13.5%
e.	More than 13.5%

f) What is UBUS Inc.'s Return on Sales (profit margin) for 20X4? **Answer: B**

a.	Less than 9.0%
b.	From 9.0% - 11.0%
c.	From 11.1% - 13.0%
d.	From 13.1% - 15.0%
e.	More than 15%

g) What is UBUS Inc.'s Debt Ratio as of 12/31/20X4? **Answer: E**

a.	Less than 43.0%
b.	From 43.0% - 46.0%
c.	From 46.1% - 49.0%
d.	From 49.1 - 52.0%
e.	More than 52.0%

2. Given the following balance sheets for Joshua Trucking answer the next five questions. Joshua Trucking's net income was \$12 million. It paid out \$10 million in dividends. All numbers are in millions.

Joshua Trucking		
December 31 Balance Sheets		
(\$ in millions)		
	20X4	20X5
Cash	\$8	\$5
Accounts Receivable	31	31
Inventory	<u>21</u>	<u>30</u>

Total Current Assets	\$60	\$66
Gross Plant and Equipment	\$147	\$180
Less Depreciation	<u>40</u>	<u>50</u>
Net Plant and Equipment	107	\$130
<u>Total Assets</u>	<u>\$167</u>	<u>\$196</u>
Accounts Payable	\$12	14
Accrued Wages and Taxes	<u>3</u>	<u>2</u>
	\$15	\$16
Long Term Debt	64	80
Common Stock	15	25
Retained Earnings	<u>73</u>	<u>75</u>
Total Liabilities and Equity	<u>\$167</u>	<u>\$196</u>

Long Term Debt **64** **80**
Common Stock **15** **25**
Retained Earnings **73** **75**

Total Liabilities and Equity **\$167** **\$196**

1. What is Joshua Trucking's cash flow from operations? $12 + (50-40) - (31-31) - (30 - 21) + (14-12) + (2-3)$ **Answer: \$14**
2. What is Joshua Trucking's cash flow from investing activities? $180-147$ **Answer: \$33**
3. What is Joshua Trucking's cash flow from financing activities? $(80 - 64) + (25 - 15) - 10$ **Answer: \$16**
4. What is Joshua Trucking's net cash flow? **Answer: (\$3 million)**
5. What is Joshua Trucking's return on equity? **Answer 13.6%**

3. A partial financial plan for Blatt Inc. is shown below. Blatt pays 10% interest on all of its debt and is subject to a total effective tax rate of 50%

	Income Statement		Balance Sheet	
	<u>Next Year</u>		<u>This year</u>	<u>Next year</u>
EBIT	\$300	Assets	\$600	\$900
Interest (10%)	<u>_\$20_</u>	Current		
EBT		Liabilities	\$100	\$200
Tax (50%)	<u>__\$140_</u>	Debt	200	
EAT		Equity	<u>300</u>	\$500 <u>__</u>
Total			\$600	\$900

Complete the forecast developing consistent debt and interest figures for next year.

4. Payables are entirely due to inventory purchases at Cosmo Inc. COGS is 70% materials, and the company pays its bills in 50 days. This year's revenue is \$1,000,000 and is forecast to grow by 15% next year. The cost ratio (COGS as a % of revenue) is planned at 40% next year. Forecast next year's ending payables balance. **Answer: \$63,020**

5. A firm is planning to lower its ACP by ten days next year. Receivables are currently \$15M on credit sales of \$120M. Credit sales are expected to grow by 20% next year. Calculate next year's ending receivables balance (make calculations using ending balances and a 360 day). **Answer: \$18 million for next year.**