

## PLANNING ASSUMPTIONS AND FACTS Income Statement Items

### Balance Sheet Items

1.	Revenue declines by 10%.
2.	Cost ratio improved by 3%.
3.	Spending in the Marketing Department will be held to 22% of revenue.
4.	Engineering and Overhead expenses cut by 15%.
5.	The combined state and federal income tax rate will be 40%
6.	Interest on all borrowing will be 9 percent.
7.	Interest expenses are based on $\frac{1}{2}$ of the prior year's long-term debt and $\frac{1}{2}$ of the current year's long-term debt.)

1.	Cash balances will remain constant.
2.	The ACP will be 30 days. (Use ending balances.)

3.	The inventory turnover ratio will be 4 times. (Use ending balances.)
4.	Capital spending is expected to be \$6.0M. The average depreciation life of the assets to be acquired is 5 years and straight-line depreciation is used. Old assets will depreciation by \$1,700,000.
5.	Accounts payable is expected to be 40% of inventory.
6.	Accruals will rise by \$10,000
7.	\$1,500,000 of dividends will be paid.
8.	There are no stock splits.

<b>Key Graphics</b>				
Income Statement (\$000)				
	THIS	YEAR	NEXT	YEAR
	\$	%	\$	%

Revenues	\$18,000	100.0	\$16,200	100.0
Less: Cost of Goods Sold	7,500	42.0	6,3186	39
Gross Margin	\$10,440	58.0	9,882	61
Expenses				
Marketing	\$4,100	22.8	3,564	22
Engineering	1,400	7.8	1,190	7.3
Overhead	1,500	8.3	1,275	7.95
Total Expenses	7,000	38.9	6,029	37.2
EBIT	\$3,440	19.1	3,853	23.28

Less: Interest Expense	500	2.8		
EBT	\$2,940	16.3	3,380	20.9
Less: Income Tax	1,176	6.5	1,352	8.2
EAT	\$1,764	9.8	2,028	12.6

<b>Key Graphics</b>					
Balance Sheet (\$000)					
ASSETS	LIABILITIES AND EQUITY				
	This Year	Next Year		This Year	Next Year
Cash	\$1,200	1,200	Accounts Payable	\$400	729
Accts, Receivable	2,000	1,350	Accruals	180	190
Inventory	2,400	1,578	Current Liabilities	\$580	919

Current Assets	\$5,600	4,128			
Gross Fixed Assets	\$13,000	19,000	Long-Term Debt	\$4,575	5,936
Less: Acc. Deprec.	4,800	7,100	Equity	8,645	9,173
Net Fixed Assets	\$8,200	11,900	Total Capital	\$13,220	15,109
Total Assets	\$13,800	16,028	Total Liab.& Equity	\$13,800	16,028

## Key Graphics

Change in working capital

A/R 650 Inventory 822 A/P 329

Accruals	10
Total	1,811

Key graphics Statement of cash flow

Operating activities:	
Eat	2,028
Deprc.	2,300
Increase in work. Cap.	1,811
Cash flow from op. Act.	6,139
Investing activities:	
Increase in fixed gross assets	-6,000
Cash flow from investing act.	-6,000
Financing activities:	
Decrease in debt	1,361

Dividend	-1,500
Cash flow from financing act.	-139
Net cash flow:	0
	Reconciliation:
Beg. cash	1,200
Net cash flow	0
Ending cash	1,200