

Income Statement 2008

Net sales	48,230.00
Cost of goods sold	31,729.00
Selling, general and administrative expenses	11,158.00
Depreciation	<u>1,539.00</u>
Earnings before interest and taxes (EBIT)	3,804.00
Interest expense	<u>298.00</u>
Taxable income	3,506.00
Tax	<u>1,227.10</u>
Net income	<u>2,278.90</u>
Dividends	491.00
Addition to retained earnings	1,787.9

According to the above Balance Sheet and Income Statement, find the following managerial measures of shareholder's wealth when the company's weighted-average cost of capital was about 10%, and tax rate was at 35%.

- Market value added.
- Market-to-book ratio.
- Economic value added.
- Return on capital.

Example 2: Change in Fixed Asset Calculation

	31 December 2011	31 December 2012
Fixed Assets	150,000	3,000,000
Depreciation	520,000	820,000
Net Fixed Assets	980,000	2,180,000

Assume: Depreciation during the period \$400,000

Example 3: Statement of Cash Flow

Cash flows from operating activities:	
Net cash flow from operating activities	

Cash flows from investing activities:	

Cash flows from financing activities:	
Net cash flow from financing activities	

Increase in cash balance	
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Sources of change in cash:

1. It earned \$60 million of net income.
2. It purchased \$25 million of marketable securities.
3. It invested \$30 million.
4. It increased its accounts payable – borrowing an additional \$25 million from its suppliers.
5. It allowed accounts receivable to expand by \$25 million.
6. It set aside \$20 million as depreciation.
7. It paid a \$30 million dividend.
8. It reduced inventory, releasing \$5 million.
9. It issued \$30 million of long-term debt.
10. It repaid \$25 million of short-term bank debt.

Example 4: Statement of Cash Flows Calculation

Changes in Balance Sheet of ChuThaThep Company (2011 and 2012)

Entries	Activity	2011	2012	Cash Inflow	Cash Outflow
Cash		16,000	15,000		
Marketable securities		8,000	7,200		
Account receivable		42,200	34,100		
Inventory		50,000	82,000		
Land and plant		150,000	150,000		
Machine		190,000	200,000		
Office equipment		50,000	54,000		
Other fixed assets		10,000	11,000		
Depreciation reserve		115,000	145,000		
Account payable		49,000	57,000		
Note payable		16,000	13,000		
Accrual expense		6,000	5,000		
Long-term debt		160,000	150,000		
Common stock		120,000	110,200		
Retained earning		50,200	73,100		
Total					

Statement of Cash Flow**Cash flow from operating activities:**

Net income	49,000	
<i>Plus</i>		
<i>Minus</i>		

Cash flow from investing activities:

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Cash flow from financing activities:

Dividend payout	(26,100)	
Net cash flow increase (decrease)		
Cash at the beginning of period		
Cash at the end of period		

Lecture Note 1 Supplementary sheet 1/2014

Example 5: Statement of Cash Flows Calculation

Acme Manufacturing has provided the following financial statements:

Acme Manufacturing
Comparative Balance Sheets
For the years Ended December 31, 20X4 and 20X5

	20X4	20X5
ASSETS		
Cash	\$ 112,500	\$ 350,000
Accounts receivable	350,000	281,250
Inventories	125,000	150,000
Plant and equipment	1,000,000	1,025,000*
Accumulated depreciation	(500,000)	(525,000)
Land	500,000	718,750
Total assets	<u>\$1,587,500</u>	<u>\$2,000,000</u>
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* Beginning equipment	\$1,000,000	
Purchases	250,000	
Less sales	(225,000)	
Ending equipment	<u>\$1,025,000</u>	
LIABILITIES AND EQUITY		
Accounts Payable	\$ 300,000	\$ 237,500
Mortgage payable	—	250,000
Common Stock	75,000	75,000
Contributed capital in excess of par	300,000	300,000
Retained earnings	912,500	1,137,500
Total liabilities and equity	<u>\$1,587,500</u>	<u>\$2,000,000</u>

Income Statement
For the years Ended December 31, 20X5

Revenues	\$1,200,000
Gain on sale of equipment	50,000
Less: Cost of goods sold	(640,000)
Less: Depreciation expense	(125,000)
Less: Interest expense	(35,000)
Net income	<u>\$ 450,000</u>

Other information:

(a) Equipment with a book value of \$125,000 was sold for \$175,000 (original cost was \$225,000).

(b) Dividends of \$225,000 were declared and paid.

Prepare a statement of cash flows.