



## Basket Wonders' Balance Sheet (Asset Side)

**Basket Wonders Balance Sheet (thousands) Dec. 31, 2007<sup>a</sup>**

Cash	\$ 90	a. How the firm stands on a specific date.
Acct. Rec. <sup>c</sup>	394	b. What BW owned.
Inventories	696	c. Amounts owed by customers.
Prepaid Exp <sup>d</sup>	5	d. Future expense items already paid.
Accum Tax Prepay	10	e. Cash/likely convertible to cash within 1 year.
<b>Current Assets<sup>e</sup></b>	<b>\$1,195</b>	f. Original amount paid.
Fixed Assets (@Cost) <sup>f</sup>	1030	g. Acc. deductions for wear and tear.
Less: Acc. Depr. <sup>g</sup>	(329)	
<b>Net Fix. Assets</b>	<b>\$ 701</b>	
Investment, LT	50	
Other Assets, LT	223	
<b>Total Assets<sup>b</sup></b>	<b>\$2,169</b>	

6.8

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## Basket Wonders' Balance Sheet (Liability Side)

**Basket Wonders Balance Sheet (thousands) Dec. 31, 2007**

Notes Payable	\$ 290	a. Note, Assets = Liabilities + Equity.
Acct. Payable <sup>c</sup>	94	b. What BW owed and ownership position.
Accrued Taxes <sup>d</sup>	16	c. Owed to suppliers for goods and services.
Other Accrued Liab. <sup>d</sup>	100	d. Unpaid wages, salaries, etc.
<b>Current Liab.<sup>e</sup></b>	<b>\$ 500</b>	e. Debts payable < 1 year.
<b>Long-Term Debt<sup>f</sup></b>	<b>530</b>	f. Debts payable > 1 year.
Shareholders' Equity		g. Original investment.
Com. Stock (\$1 par) <sup>g</sup>	200	h. Earnings reinvested.
Add Pd in Capital <sup>g</sup>	729	
Retained Earnings <sup>h</sup>	210	
<b>Total Equity</b>	<b>\$1,139</b>	
<b>Total Liab/Equity<sup>a,b</sup></b>	<b>\$2,169</b>	

6.9

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# Basket Wonders' Income Statement

Basket Wonders Statement of Earnings (in thousands)  
for Year Ending December 31, 2007<sup>a</sup>

Net Sales	\$ 2,211	a. Measures profitability over a time period.
Cost of Goods Sold <sup>b</sup>	<u>1,599</u>	b. Received, or receivable, from customers.
Gross Profit	\$ 612	c. Sales comm., adv., officers' salaries, etc.
SG&A Expenses <sup>c</sup>	<u>402</u>	d. Operating income.
EBIT <sup>d</sup>	\$ 210	e. Cost of borrowed funds.
Interest Expense <sup>e</sup>	<u>59</u>	f. Taxable income.
EBT <sup>f</sup>	\$ 151	g. Amount earned for shareholders.
Income Taxes	<u>60</u>	
EAT <sup>g</sup>	\$ 91	
Cash Dividends	<u>38</u>	
Increase in RE	\$ <u>53</u>	

6.10

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## Framework for Financial Analysis

### Step 1. Analysis of the funds needs of the firm.

*Trend/Seasonal Component*

- How much funding will be required in the future?
- Is there a seasonal component?

Analytical Tools Used: Sources and Uses Statement, Statement of Cash Flows, and Cash Budgets

### Step 2. Analysis of the financial condition and profitability of the firm.

*Health of a Firm*

Financial Ratios

1. Individually
2. Over time
3. In combination
4. In comparison

A Financial Ratio is an index that relates two accounting numbers and is obtained by dividing one number by the other.

Types of Comparisons: internal (firm) and external (industry)

External Comparisons: This involves comparing the ratios of one firm with those of similar firms or with industry averages. Similarity is important as one should compare “apples to apples.”

Examples: Risk Management Association, Dun & Bradstreet, Almanac of Business and Industrial Financial Ratios

### Step 3. Analysis of the business risk of the firm.

*Business risk relates to the risk inherent in the operations of the firm.*

Examples: volatility in sales, volatility in costs, proximity to break-even point

**Framework Summary.** A financial manager must consider all three steps jointly when determining the financing needs of the firm followed by or concurrent negotiations with suppliers of capital.