

Boulton's Fashion Depot Inc.

Comparative Balance Sheets

Assets	2007	2006
Cash	33,197	25,750
Accounts Receivable	15,000	11,000
Merchandise Inventory	48,500	37,500
Prepaid Insurance	2,500	4,000
Land	118,700	114,000
Building	75,000	75,000
Accumulated Amortization - Building	(6,700)	(500)
Machinery	10,800	11,400
Accumulated Amortization - Machinery	(13,520)	(9,000)
Patent	7,600	8,300
Total Assets	291,077	277,450

Liabilities and Shareholder's Equity

Accounts Payable	23,000	17,000
Bonds Payable	10,000	-
Bond Discount	(450)	-
Common Shares	35,500	30,500
Retained Earnings, Jan. 1	229,950	
Add: Net Income	7,677	
Less: Cash Dividends	(14,600)	
Retained Earnings, Dec 31	223,027	229,950
Total Liabilities and Shareholder's Equity	291,077	277,450

Boulton's Fashion Depot Inc.

Income Statement

For the Year Ended December 31, 2007

Net Sales (100% on account)	506,400
Cost of Goods Sold	(303,840)
Operating Expenses	(176,600)
Operating Income	25,960
<i>Non-Operating Expenses</i>	
Interest Expense	(1,302)
Loss on sale of machinery	(4,120)
Income Before Tax	20,538
Income Tax Expense (30%)	(6,161)
Income from Continuing Operations	14,377
Expropriation of Land (no tax effect)	(6,700)
Net Income	7,677

Boulton's Fashion Depot Inc.

Statement of Cash Flows

For the Year Ended December 31, 2007

Additional Information for 2007

Purchased machinery for cash for	15,000
Purchased Machinery with common share proceeds for	5,000
Recorded amortization expense on the building of	6,200
Recorded amortization expense on machinery of	4,520
Sold machinery worth	20,600
(and with NO accumulated amortization) for	16,480
and recognized a loss on sale of	4,120
Recorded amortization on the patent of	700
Issued bonds payable at	10,000
Bonds had a discount of	500
Amortized the following amount of bond discount in 2005	50
New land purchased with cash	11,400
Other lands were expropriated at a value of	6,700
Total number of shares outstanding at the end of 2007	is 8875

All other transactions are assumed to have taken place normally.

Produce a Statement of Cash Flows for this firm using the information on this page.

This assignment is for:

Practice

Your answers MUST be in point form.

Your Task:

1. Produce a SCFP and calculate all ratios (10A)
2. Discuss the reason for key differences in accrual numbers versus cash numbers (5C)
3. Highlight what you feel are the 3 most significant ratios and discuss their meaning and casue. One must be a cash flow ratio (6T)
4. Why do cash flow ratios use Operating Cash Flow and not total cash flow for the year? Explain (5T)

Ratio Analysis

Cash Flow Ratios

2007

Operating Activities

Net Income	\$	7,677	
<i>Cash Provided (Used) by:</i>			
Accounts Receivable		(4,000)	
Merchandise Inventory		(11,000)	
Prepaid Insurance		1,500	
Account Payable		6,000	
<i>Amortization:</i>			
Building		6,200	
Machinery		4,520	
Patent		700	
Bond Discount		50	
Loss on sale of machinery		4,120	
Expropriation of Property		6,700	
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$		22,467

Investing Activities

<i>Cash Provided (Used) by:</i>			
Land	\$	(11,400)	
<i>Machinery</i>			
Purchase of Machinery with Cash		(15,000)	
Purchase of Machinery with Share Proceeds		(5,000)	
Sale of Machinery		16,480	
<i>Net Cash Provided by (Used in) Investing Activities</i>			(14,920)

Financing Activities

<i>Cash Provided (Used) by:</i>			
Issue of Bonds Payable	\$	9,500	
Issue of Common Shares		5,000	
Dividends Declared and Paid		(14,600)	
<i>Net Cash Provided by (Used in) Financing Activities</i>			(100)

Net Increase (Decrease) in Cash

Add: Cash at Start of Year			25,750
Equals: Cash at End of Year			33,197
	\$	7,447	

Solvency and Debt Capacity

Cash flow to current debt	1.1
Cash flow to total debt	0.9

Efficiency/Liquidity

Cash return on sales	4.4%
Cash flow per share	\$ 0.84

Other Ratios*Liquidity/Solvency*

Current Ratio	4.3
Quick Ratio	2.1
Accounts Receivable Period	9.4
Inventory Turnover Period (days)	51.7

Borrowing Capacity

Debt Ratio	11.2%
Times Interest Earned	14.8

Efficiency/Profitability

Return on Net Sales	1.5%
Return on Equity	3.4%
Return on Assets	9.1%

Practice

NAME: _____

Boulton's Fashion Depot Inc.
 Statement of Cash Flows
 For the Year Ended December 31, 2007

Adjustments to Reconcile Net Income to Net Cash

Operating Activities

Net Income

Cash Provided by (Used in):

- Accounts Receivable
- Merchandise Inventory
- Prepaid Insurance
- Account Payable

Amortization:

- Building
- Machinery
- Patent
- Bond Discount

- Loss on sale of machinery
- Expropriation of Property

Net Cash Provided by (Used in) Operating Activities _____

Investing Activities

Cash Provided by (Used in):

Land

Machinery

- Purchase of Machinery with Cash
- Purchase of Machinery with Share Proceeds
- Sale of Machinery

Net Cash Provided by (Used in) Investing Activities _____

Financing Activities

Cash Provided by (Used in):

- Issue of Bonds Payable
- Issue of Common Shares
- Dividends Declared and Paid

Net Cash Provided by (Used in) Financing Activities _____

Net Increase (Decrease) in Cash

Add: Cash at Start of Year _____

Equals: Cash at End of Year _____

Practice

Ratio Analysis

Cash Flow Ratios **2007**

Solvency and Debt Capacity

Cash flow to current debt _____
 Cash flow to total debt _____

Efficiency/Liquidity

Cash return on sales _____
 Cash flow per share _____

Other Ratios

Liquidity/Solvency

Current Ratio _____
 Quick Ratio _____
 Accounts Receivable Period (in days) _____
 Inventory Turnover Period (in days) _____

Borrowing Capacity

Debt Ratio _____
 Times Interest Earned _____

Efficiency/Profitability

Return on Net Sales _____
 Return on Equity _____
 Return on Assets _____

Practice

Criteria	Marks
Three sections in right place and order	3
Right Value and Sign (+ or -)	
Operations (1/2 mark each #)	10
Investing	4
Financing	3
Ratios	4
Total	_____/24