



ASSIGNMENT

Finance and Accounting
Senior Accountant Analysis

DUE DATE

Week 5

SHAUN'S CRITERIA:

Hi Team,

I wanted to provide you some guidelines as you determine how we'll finance our expansion. Please give this careful consideration, as we need to get this right.

1. I estimate we'll need \$150,000 to increase capacity in order to stock the five additional pop-up stands
2. We'll need to make sure we have additional funds available to increase our marketing efforts to stimulate demand
3. Cash flow is going to be tight, so I'd like to minimize interest payments
4. I'd like to maintain or increase our profit margins
5. Since I don't have a lot of experience with big discount retailers, I'd like to add a thought partner with experience in this channel
6. If we're successful over the next two years, we'll likely seek additional capital to expand into more stores, so I'd like to do all we can now to enhance our credibility

We need to move on this quickly, so I'd like an answer by the end of the week.

-Shaun

FINANCING OPTIONS

Option 1: Equity

Raise \$150,000 from a venture capital firm in exchange for 30% of the company

Option 2: Debt

Secure a loan of \$150,000 at a 10% annual interest rate, to be repaid over 7 years

Option 3: Debt + Self-Financing

Secure a loan of \$100,000 at a 7% annual interest rate, to be repaid over 7 years, and self-finance the remaining \$50,000

JUNIOR ACCOUNTANT EMAIL:

Hi,

I'm working on expenses from the last quarter for the revised income statement, but I'm unsure of what to do next. I grouped similar transactions to compile the following list:

- inventory purchases
- marketing expenses
- payroll expenses
- interest expenses
- technology purchases
- office supplies expenses
- automotive maintenance cost
- travel expenses
- training and development costs
- office rent
- raw material purchases

How would you like me to proceed given where we are in the process? Thanks in advance for your guidance.

Best,

Jenna S.

SUNSTRUCK SUNGLASSES
INCOME STATEMENT
For Year Ended September 30, 2016

REVENUES	
Sales revenues	\$778,590
Other revenue	\$11,000
Total revenue	\$789,590
COST OF GOODS SOLD (COGS)	(\$428,225)
GROSS PROFIT	\$361,366
EXPENSES	
Depreciation and amortization	(\$18,820)
Selling, general and administrative expenses	(\$78,959)
Marketing and advertising expenses	(\$55,271)
Total expenses	(\$153,050)
INCOME FROM OPERATIONS	\$208,315
OTHER EXPENSES	
Interest expense	(\$51,000)
PRETAX INCOME	\$157,315
Income tax expense	(\$55,060)
NET INCOME	\$102,255

SUNSTRUCK SUNGLASSES**BALANCE SHEET**

At September 30, 2016

ASSETS		
CURRENT ASSETS		
Cash	\$28,000	
Accounts receivable	\$55,220	
Merchandise inventories	\$62,280	
Total current assets		\$145,500
LONG-TERM ASSETS		
Property, truck and equipment		\$468,000
TOTAL ASSETS		\$613,500
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		\$37,500
LONG-TERM LIABILITIES		
Truck loan	\$40,000	
B+M loan	\$360,000	
Operating loan	\$42,000	
Total long-term liabilities		\$442,000
TOTAL LIABILITIES		\$479,000
SHAREHOLDERS' EQUITY		
CONTRIBUTED CAPITAL	\$12,000	
RETAINED EARNINGS	\$122,000	
TOTAL SHAREHOLDERS' EQUITY		\$134,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$613,500

SUNSTRUCK SUNGLASSES
STATEMENT OF CASH FLOWS
For Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash collected from customers	\$733,780
Cash paid to suppliers and employees	(\$524,520)
Cash paid for interest	(\$55,060)
Cash paid for taxes	(\$55,060)
Net cash provided by operating activities	<u>\$99,139</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid on truck loans	(\$20,000)
Cash paid on B+M loans	(\$40,000)
Net cash used for investing activities	<u>(\$60,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash received from operating cash loan	\$12,000
Net cash provided by financing activities	<u>\$12,000</u>
NET INCREASE IN CASH DURING YEAR	\$51,139
CASH AT BEGINNING OF YEAR	(\$23,255)
CASH AT THE END OF YEAR TO DATE	\$28,000