

Case Study 2: Short-term Financial Planning

Introduction: Heavenly Reception

Heavenly Reception Limited is a local dealer for a national satellite television distributor. Recent growth has been very strong, but the company has to increase its financial leverage to deal with expansion. The high degree of financial risk is a concern to the company's controller as she prepares the budget for the coming fiscal year.

Assume the role of Abby Jeffers and prepare pro forma income statements, cash budgets, and balance sheets for Quarters 1, 2, 3, and 4 of 2004. Accompanying the budget should be a one-page memorandum which describes the changes in sales and cash flows each quarter, the financial decisions made, and if the company is in compliance with its ratio requirements.

The memo should be single-spaced and use the 11-point Arial font with .7 inch margins. All headings should be in 12-point font and be bolded. Submit one Word file containing the memorandum and an Excel workbook file containing five worksheets: Input Data, Income Statement, Cash Budget, Balance Sheet, and Key Financial Ratios. The following templates for the pro forma financial statements should be used:

Income Statement					
	Q1	Q2	Q3	Q4	Year
Revenue					
Dish Sales					
Installation					
Accounts Maintenance Fees					
Basic					
Deluxe					
Optimal					
Dish Maintenance					

Income Statement					
	Q1	Q2	Q3	Q4	Year
Total Revenue					
Expenses					
CGS					
Selling					
Installation					
Maintenance					
Administration					
Depreciation					
Operating Income					
Interest Income					
Interest Expense					
Income Before Tax					
Income Tax					
Net Income					

Cash Budget					
	Q1	Q2	Q3	Q4	Year
Cash Balance, Beginning					
Cash Receipts					
Dish Sales/Installation					
This Quarter					
Last Quarter					
Accounts Maintenance Fees					
Basic					
Deluxe					
Optimal					
Maintenance					
Interest					
Tax Refund					
Total Cash Receipts					
Cash Disbursements					
Purchases					
This Quarter					
Last Quarter					
Selling					
Installation					
Maintenance					

Cash Budget					
	Q1	Q2	Q3	Q4	Year
Administration					
Interest					
Income Tax					
Regular Dividends					
Capital Purchases					
Total Cash Disbursements					
Sub-total					
Financing					
Borrowing					
Line-of-Credit					
Term Loan					
Repayment					
Line-of-Credit					
Term Loan					
Special Dividends					
Issuance/Repurchase of Shares					
Total Financing					
Temporary Investment					
Cash Balance, Ending					

Balance Sheet				
	Q1	Q2	Q3	Q4
Current Assets				
Cash				
Temporary Investments				
Accounts Receivable				
Satellite Inventory				
Total Current Assets				
Property, Plant, & Equipment				
Equipment, Net				
Total Assets				
Current Liabilities				
Accounts Payable				
Line of Credit				
Current Portion of Long-term Debt				
Total Current Liabilities				
Long-term Liabilities				
Term Loan				
Shareholders' Equity				
Common Shares				
Retained Earnings				
Total Liabilities &Equities				

Ratio Table				
	Q1	Q2	Q3	Q4
Current Ratio - 1.5				
LOC/(A/R + Inventory)-1.0				
Debt Ratio - .35				
Times Interest Earned – 4.0				
LOC Financing - \$200,000				

Evaluation Rubric

The following are the grading criteria for Case Study 2.

Total: _____ / 100

Letter Grade: _____

Quality of Pro forma Financial Statements (35% of grade)

Physical appearance	/5
Input section	/10
Automation	/10
Accuracy of output	/10

Thoroughness of Analysis (40% of grade)

Quarter 1	/10
Quarter 2	/10
Quarter 3	/10
Quarter 4	/10

Memo Format and Writing Quality (25% of grade)

Memo layout /5

Grammatical and spelling errors /10

Writing style /10

Comments