



FINANCIAL ANALYST TEAM (09)

KEY

Regional—2013

| | |
|----------------------------|---------------------------|
| PRELIMINARIES | _____ (160) |
| FINALS | _____ (80) |
| <i>TOTAL POINTS</i> | <i>_____ (240)</i> |

Judges/Graders:

Please double-check and verify all scores!

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Workplace Skills Assessment Program competition.



Your team is currently working in the Professional Business Associates (PBA) Finance Department and is responsible for evaluating the financial statements of companies who are applying for loans. Lanier Inc. has applied to PBA for a loan of \$50,000 for expansion and they have given you the following data to evaluate. Prepare the following for Lanier Inc:

- Income statement for year ended December 31, 2012
- Evaluate Lanier's solvency by calculating:
 - The debt to equity
 - Return on equity
 - Return on investment
 - Earnings before interest and taxes ratios
- Prepare a written report for your recommendation as to whether PBA should loan Lanier Inc. the \$50,000.

Lanier Inc.
Comparative Balance Sheet
December 31, 2012

| | 2012 | 2011 |
|---------------------------------------|------------------|------------------|
| Cash | \$22,000 | \$20,000 |
| Accounts Receivable | 41,500 | 39,000 |
| Inventory | 72,000 | 64,000 |
| Plant & Equipment | 288,000 | 265,000 |
| Accumulated Depreciation | (80,000) | (72,000) |
| Total Assets | <u>\$343,500</u> | <u>\$316,000</u> |
| | | |
| Accounts Payable | \$24,000 | \$37,000 |
| Wages Payable | 3,500 | 4,000 |
| Taxes Payable | 6,750 | 8,500 |
| Bonds Payable | 100,000 | 100,000 |
| Common Stock | 80,000 | 80,000 |
| Retained Earnings | 129,250 | 86,500 |
| Total Liabilities & Retained Earnings | <u>\$343,500</u> | <u>\$316,000</u> |

Additional Information:

| | |
|---------------------------|---------|
| Bad Debt Expense | 1,715 |
| Cost of Goods Sold | 248,000 |
| Depreciation Expense | 11,000 |
| Income Tax Expense | 11,785 |
| Interest Expense | 15,000 |
| Loss on Sale of Equipment | (1,000) |
| Rent Expense | 45,000 |
| Sales | 400,000 |
| Selling Expenses | 39,000 |



NOTES: Place each team member's contestant number in the footer on any documentation you plan to give to the judges.

Print at least three copies of your report and any documentation that will be provided to judges. One copy will be provided to judges for scoring and one will be provided for finals. No changes can take place to content or data after testing time ends or team will be disqualified. If there are preliminary and final rounds in this event, visual aids may be prepared outside of the testing time, provided that content and data from the original written report are not changed.



Any standard form of financial statements should be accepted. Operating expenses may be listed in a different order. Loss on sale of equipment may be listed under “Other income and expenses”.

Lanier Inc.
Income Statement
Year Ended December 31, 2012

| | | |
|---------------------------|--------|------------------------|
| Sales | | \$400,000 |
| Cost of Goods Sold | | 248,000 |
| Gross Profit | | <u>152,000</u> |
| Operating Expenses: | | |
| Selling Expenses | 39,000 | |
| Rent Expense | 45,000 | |
| Depreciation Expense | 11,000 | |
| Bad Debt Expense | 1,715 | |
| Interest Expense | 15,000 | 111,715 |
| Income from Operations | | <u>40,285</u> |
| Loss on Sale of Equipment | | <u>(1,000)</u> |
| Income Before Taxes | | 39,285 |
| Income Tax Expense | | <u>11,785</u> |
| Net Income | | <u><u>\$27,500</u></u> |

Students must calculate the following ratios, but may include any additional ratios they feel are relevant to justify their decision.

Debt to Equity = 64.16%
Return on Equity = 14.64%
Return on Investment = 8.34%
Times Interest Earned = 3.619

All teams should be asked the same questions.

Possible Judges Questions:

- What additional information would you liked to have had for this analysis?**
Statement of Cash Flows, company history, etc. Very limited information to make a decision. Also have no past history or industry standards.
- Why do we perform financial analysis/ratio analysis?** Numbers can be hard to compare, it is easier to compare with the ratios. Also, with limited information, ratios show us a more complete picture of the company.
- Would knowing more about the company change your recommendation?**
Knowing past history should/could affect the decision.