



# FINANCIAL ANALYST TEAM (09)

## KEY

### Regional—2013

PRELIMINARIES	_____	(160)
FINALS	_____	(80)
<b>TOTAL POINTS</b>	_____	<b>(240)</b>

***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	\$343,500	\$316,000
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	\$343,500	\$316,000

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:

- 1. 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.
- 2. 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.
- 3. Would knowing more about the company change your recommendation?**  
Knowing past history should/could affect the decision.