12-9

Financing Deficit

Balance Sheet as of December 31, 2013

Cash...........................$ 180,000 Accounts payable.....................$ 360,000

Receivables....................360,000 Notes payable.............................156,000

Inventories......................720,000 Line of credit........................................ 0

Total current assets……$ 1,260,000 Accruals....................................... 180,000

Fixed assets.....................1,440,000 Total current liabilities............$ 696,000

Common stock ……………………….1, 800, 000

Retained earnings………………….. 204,000

Total assets.................... $2,700,000 Total liabilities and equity..........$ 2,700,000

Income Statement for December 31, 2013

Sales $3,600,000

Operating costs 3,279,720

EBIT $ 320,280

Interest 18,280

Pre-ax earnings $ 302,000

Taxes (40%) 120,000

Net income $ 181,200

Dividends $ 108,000

Suppose that in 2014 sales increase by 10% over 2013 sales and that 2014 dividends will increase to $112,000. Forecast the financial statements using the forecasted financial statement method. Assume the firm operated at full capacity in 2013. Use an interest rate of 13%, and assume that any new debt will be added at the end of the yea (so forecast the interest expense based on the debt balance at the beginning of the year). Cash does not earn any interest income. Assume that all new debt will be in the form of a line of credit.