**1,Problem 5 Points**

          **Resource:** *Basic Finance: An Introduction to Financial Institutions, Investments, and Management*

         **Prepare** a response to the following problem:

* Problem 3 (Ch. 23) of *Basic Finance: An Introduction to Financial Institutions, Investments, and Management*. You do not have to complete letter e which relates to previous problem.,

3. EEM, Inc. has the following balance sheet:

**EEM, Incorporated Balance Sheet as of 12/31/X0**

**Assets Liabilities and Equity**

Cash $ 1,000 Accounts payable $ 5,300

Accounts receivable 7,200 Bank note payable 3,200

Inventory 6,100

Long-term assets 4,200 Equity 10,000

$18,500 $18,500

It has estimated the following relationships between sales and the various assets and liabilities that vary with the level of sales:

Accounts receivable = $3,310 + 0.35 Sales,

Inventory = $2,264 + 0.28 Sales,

Accounts payable = $1,329 + 0.22 Sales.

a. If the firm expects sales of $25,000, what are the forecasted levels of the balance sheet items above?

b. Will the expansion in accounts payable cover the expansion in inventory and accounts receivable?

c. If the firm earns 12 percent on sales after taxes and retains all of these earnings, will it cover its estimated needs for short-term financing?

d. Construct a new balance sheet that incorporates the issuing of additional short-term debt