Problem 1. State the values of the following accounts or variable names as reported by Buckle in

its 2009 financial statements (p. 31-34) and explain their meaning (no more than one or two

sentences).

(1) “Income from operations” for FY2009

(2) “Accounts Payable” on January 30, 2010.

(3) Number of Common Stock issued and outstanding on January 30, 2010.

(4) “Purchase of property and equipments” for FY2009.

(5) “Prepaid expenses and other assets” on January 31, 2009.

(6) “Selling expense” for the year FY2009.

(7) “(Gain) loss-impairment of securities” for the FY2008.

(8) “Accumulated depreciation and amortization” FYE 2009.

(9) “Diluted EPS” FY2009.

(10) What is Buckle’s fiscal year end for FY 2010? Why do you believe Buckle does not choose

to use a calendar year end date?

Problem 2. Refer to Balance Sheet, the Statement of Income and Note 1(p36).

Part A

Inventory is valued at the lower of cost or market at Buckle. Cost is determined using an average

cost method that approximates the first-in, first-out (FIFO) method. In addition, make the

following assumptions i) all accounts payable relate to purchases of inventory only and ii) all

cost of goods sold relate to sales of inventory.

(1) Assume the company purchased inventory worth $428.6 million from its suppliers. What was

the cash paid to suppliers in 2009?

(2) Assume all trade receivables reported by Buckle, Inc. relate to sales of inventory by Buckle.

Inc. to their customers, all sales are on credit, and all deductions relate to accounts written off,

Determine the amount of cash collected from customers in 2009. Please see p. 54 for amount of

accounts receivable written off.

3) At the top of p.39, Buckle states that cash paid for taxes during fiscal 2009 is $79,480,000.

Using information from the Balance Sheet, determine the amount of taxes Buckle was expected

to pay to the Government in fiscal 2009.

B) Determine the following financial ratios for Bucle (3 points each)

1) Return on assets

2) Return on equity

3) Times interest earned

4) How would rate the liquidity of the company? Explain your reasoning.

5) How would you rate the long-term financial strength (financial risk) of this company? Explain

your reasoning.

Problem 3 Answer the following independent questions (A) and (B).

(A) Buckle has an opportunity to invest $50 million in a new investment opportunity that is

expected to generate cash flows of $5 million a year for 15 years. At the end of 15 years Buckle

believes it can sell the investment for $16 million. Assume that Buckle’s borrowing rate is 7% and

all cash flows are received at year-end.

1) Based on the information given should Buckle invest in the bridge? support your answer.

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2) How will your answer change if at the end of 15 years the Buckle is only able to get rid of the

investment for $12 million? Support your answer.

(B) You have $10,000 that you have decided to invest in Buckle stock. The stock is paying

dividends of $2.50 per year. You plan to sell Buckle stock for $30 a share at the end of 10 years.

Assume that you receive the dividends if declared each year on the anniversary of the date of

purchase and you would like to earn a 9% return.

1)Determine the maximum price you would pay for the stock?

2) At the price calculated in 1) determine the number of shares you can buy, assuming there are

no transactions cost?

3) Determine the maximum price you would be willing to pay if Buckle pays dividends on a

quarterly basis rather than annually i.e. $0.375 each three months.

Problem 4

In the chart below there is data provided on the earnings per share and price per share of Buckle’s

on specific dates.

Dates Earnings per share Price per share

Jan 30, 2010 $2.79 $30.34

Jan 31, 2009 $2.30 $21.15

Feb 2, 2008 $1.69 $27.73

(1) Provide some likely reasons why Buckle’s earnings per share increased during FY2008 from

$1.69 to $2.30 but price per share decreased from $27.73 to $21.15.

(2) Provide some likely explanation why EPS only increased from $2.30 to $2.79 (a 21%

increase) in FY2009 and yet the price increased 43% ($21.15 to $30.34).

(3) You have decided to value Buckle by the present value of future earnings. Buckle’s forecasted

earnings per share reported in Oct 31, 2010 by Yahoo Finance analysts’ is $2.64. Assuming the

EPS is not expected to grow ad infinitum, determine the value of Buckle’s stock. (This is

perpetuity, a special case of an annuity since it has no end date.) Assume a discount rate of

0.24% for such a risky security.

(4) Since Buckle is a growing firm assume the forecasted earnings per share above is expected to

grow at an estimated rate of 10.5% in perpetuity. (Yahoo Finance analyst expect Buckle’s EPS

expect it to grow at 10.5% for the next 5 years). Determine the value of Buckle’s stock based on

this assumption if investors required rate of return is fixed at 24%.

Problem 5

“Use of estimates” (Pg. 38) states- “The preparation of financial statements in conformity with

accounting principles generally accepted in the United States of America requires management to

make estimates and assumptions that affect the reported amounts of certain assets and liabilities”

(1) Why are estimates needed in financial statements?

(2) Provide two examples of estimates used by Buckle.

(3) Provide two assumptions we use in financial statements.

(4) “ The company cautions that the risk factors described above could cause actual results to

vary materially from those anticipated in any forward-looking statements made by or on behalf of

the Company:. State at least two reasons why actual results could vary from any estimates.