|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Financial Analysis** | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| The T.P. Jarmon Company manufactures and sells as line of exclusive sportswear. The firm's sales were $600,000 for the year just ended, and its total assets exceeded $400,000. The company was started by Mr. Jarmon just 10 years ago and has been profitable every year since its inception.  The chief financial officer for the firm, Brent Vehlim, has decided to seek a line of credit from the firm's bank totaling $80,000. In the past, the company has relied on its suppliers to finance a large part of its need for inventory. However, in recent months tight money conditions have led the firm's supplier to offer sizable cash discounts to speed up payments for purchases. Mr. Vehlim wants to use the line of credit to replace a large portion of the firm's payables during the summer, which is the firm's peak seasonable sales period.    The firm's two most recent balance sheets were presented to the bank in support of its loan request. In addition, the firm's income statement for the year just ended was provided. These statements are found in the following tables: | | | | | | | | | |
|  | | | | | | | | | |
|  | | | | | | | | | |
|  | **T.P. Jarmon Company** | | | | | | |  |  |
|  | Balance Sheet | | | | | | |  |  |
|  | for the Years Ended 12/31/2009 and 12/31/2010 | | | | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | 2009 |  | 2010 |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Cash | |  |  | $15,000 |  | $14,000 |  |  |
|  | Marketable securities | | |  | 6,000 |  | 6,200 |  |  |
|  | Accounts receivable | | |  | 42,000 |  | 33,000 |  |  |
|  | Inventory | |  |  | 51,000 |  | 84,000 |  |  |
|  | Prepaid rent | |  |  | 1,200 |  | 1,100 |  |  |
|  | Total current assets | | |  | $115,200 |  | $138,300 |  |  |
|  | Net plant and equipment | | |  | 286,000 |  | 270,000 |  |  |
|  | Total assets | |  |  | $401,200 |  | $408,300 |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Accounts payable | | |  | $48,000 |  | $57,000 |  |  |
|  | Notes payable | | |  | 15,000 |  | 13,000 |  |  |
|  | Accruals | |  |  | 6,000 |  | 5,000 |  |  |
|  | Total current liabilities | | |  | $69,000 |  | $75,000 |  |  |
|  | Long-term debt | | |  | 160,000 |  | 150,000 |  |  |
|  | Common stockholders' equity | | |  | 172,200 |  | 183,300 |  |  |
|  | Total liabilities and equity | | |  | $401,200 |  | $408,300 |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | **T.P. Jarmon Company** | | | | | | |  |  |
|  | Income Statement | | | | | | |  |  |
|  | for the Year Ended 12/31/2010 | | | | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Sales (all credit) | | |  |  |  | $600,000 |  |  |
|  | Less: cost of goods sold | | |  |  |  | 460,000 |  |  |
|  | Gross Profit | |  |  |  |  | $140,000 |  |  |
|  | Less: operating and interest expenses | | | |  |  |  |  |  |
|  | General and administrative | | |  | $30,000 |  |  |  |  |
|  | Interest | |  |  | 10,000 |  |  |  |  |
|  | Depreciation | |  |  | 30,000 |  |  |  |  |
|  | Total | |  |  |  |  | 70,000 |  |  |
|  | Earnings before taxes | | |  |  |  | $70,000 |  |  |
|  | Less: taxes | |  |  |  |  | 27,100 |  |  |
|  | Net income available to stockholders | | | |  |  | $42,900 |  |  |
|  | Less: cash dividends | | |  |  |  | 31,800 |  |  |
|  | Change in retained earnings | | |  |  |  | $11,100 |  |  |

1. Calculate the financial ratios for 2010 corresponding to the industry norms provided.
2. Which of the ratios reported in the industry norms do you feel should be most crucial in determining whether the bank should extend the line of credit?
3. Prepare Jarmon's statement of cash flows for the year ended December 31, 2010. Interpret your findings.
4. Use the information provided by the financial ratios and the cash flow statement to decide if you would support making this loan.