

EXERCISE 1:

A company opens a subsidiary, which starts operating on 2 January 2013. On 2 January 2013 it has to buy a machine costing \$60m, partly financed by a \$40m bank loan repayable in installments of \$4m every 15 July and 15 January over 5 years.

Financial expenses, payable on a half-yearly basis, are as follows:

2013		2014		2015		2016		2017	
Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
1	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.1

Profits are tax-free. Sales will be \$24m per month. A month's inventory of finished products will have to be built up. Customers pay at 90 days.

The company is keen to have a month's worth of advance purchases and, accordingly, plans to buy 2 months' worth of supplies in January 2013. Requirements in a normal month amount to \$8m.

The supplier grants the company a 90-day payment period. Other costs are:

- Personnel costs of \$8m per month;
- Shipping, packing and other cost, amounting to \$4m per month and paid at 30 days.

These costs are incurred from 1 January 2013.

To Do List:

❖ Tips: Draw up a monthly cash flow (2013) & annual cash flow (2013 – 2017)

✓ Write a short financial analysis report based on:

- How much cash will the subsidiary need at the end of each month over 2013?
- And if operations are identical, how much will it need each month over 2014?
- To conclude, what is the change in the cash position over 2006 if no additional investments are planned?

EXERCISE 2:

You are asked by a company that assembles computers to draw up an income statement for year n . You are provided with the following information:

Retail price of a PC: \$2250

Cost of various components:

Parts	Price	Opening inventory	Closing inventory
Case	75	10	18
Mother board	300	13	7
Processor	450	9	16
Memory	150	11	9
Graphic card	75	6	18
Hard disk	225	10	15
Screen	300	8	8
CD-ROM reader	75	12	24

Over the financial period, the company paid out \$90,000 in salaries and social security contributions of 50% of that amount. The company produced 245 PCs. Closing stock of finished product was 32 units and opening stock 19 units.

At the end of the financial period, the manager of the company sells the premises that he bought 3 years ago for \$300,000 (which was depreciated over 20 years) for \$345,000. He rents other premises for \$1,500 per month, and pay off a \$18,000 loan on which the company was paying interest at 15%.

To Do List:

- ❖ Tips: Draw up a cash flow plan from sales to net earnings.
- ✓ **Write a financial analysis report based on those questions:**
 - What impact do these transactions have on EBITDA, operating profits and net incomes? Tax is levied at a rate of 45%.
 - By how much did the company, the lenders, the company manager (owner of 40% of the shares) get richer or poorer?

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BY DR. GABRIEL-MARCEL DEUTOU

BUSINESS FINANCIAL MANAGEMENT

CORRECTION OF FINAL EXAM

2011 - 2012

EXERCISE 1

Cash Forecast	J	F	M	A	M	J	J	A	S	O	N	D	2013	2014	2015	2016	2017
Sales (+)					24	24	24	24	24	24	24	24	192	288	288	288	288
				16	8	8	8	8	8	8	8	8	80	96	96	96	96
Personal (-)	8	8	8	8	8	8	8	8	8	8	8	8	96	96	96	96	96
Shipping (-)		4	4	4	4	4	4	4	4	4	4	4	44	48	48	48	48
Interest (-)						1						0.9	1.9	1.5	1.1	0.7	0.3
Cap Exp. (-)	60												60				
Borrowing (+)	40												40				
Repayment (-)	4						4						8	8	8	8	8

Cash Flow	-32	-12	-12	-28	4	3	0	4	4	4	4	4	3.1	-57.9	38.5	38.9	39.3	39.7
Cumulative	-32	-44	-56	-84	-80	-77	-77	-73	-69	-65	-61	-57.9						

EXERCISE 2

Sales	245 X 2,250 (retail price) = \$551,250
Cost of production	245 X 1,650 (total cost of components) = -\$404,250
Salaries + Social security	90,000 X (1+50%) = -\$135,000

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EBITDA	551,250
	- 404,250
	- 135,000
	= \$12,000

Amortization	300,000 / 20 = -\$15,000
Operating Income	12,000 - 15,000 = -\$3,000

Financial Charges (Bank loan)	18,000 X 15% = -\$2,700
Exceptional Gains (Premises + Amortization)	(345,000 - 300,00) + (15,000 X 3) = \$90,000

EBIT	- 3,000 - 2,700 + 90,000 = \$84,300
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2011 - 2012

Tax	84,300
	X 45%
	= -\$37,935

Net Earning	84,300
	- 37,935
	= \$46,365

Tips: As you could see, I used the Right table from the book instead of the Left with Change in Purchase or Inventory... It is faster and safer, but the results remain unchanged.

GOOD LUCK