

BUSI 570 – Week 3 Owner's Manual

As a reference for this data case, you might want to refer to Table 8.3 on page 247 of the text. Your submission won't look precisely like that Table (you will have to alter some rows and inputs to suit the data case), but the Table is has some similarity to what your output should look like.

#1 – copy and paste the financial statements as instructed

#2 – to derive the free cash flow, you must first derive the answers to 2a through 2e

2a: Profit margin is calculated by going to the base year income statement and taking Operating Profit Before Interest, Taxes, and Depreciation/Amortization (EBITDA) and dividing the amount by Total Revenues. The answer should be expressed in terms of a percent. Take the percentage out two decimal places (e.g. 9.78% - and I'm just making up that number).

Revenues will grow in years two through five by the percentages cited in the introductory paragraphs for the data case. However, the profit margin percentage will remain the same as you calculated above. That will enable you to calculate operating income for years one through five.

2b: To calculate capital expenditures and depreciation expense in years one through five, you must first find the "Net Fixed Assets" amount from the base year balance sheet. Capital expenditures will increase over that amount by the percentages cited in the introductory paragraphs. These items will be depreciated straight-line over 5 years. Depreciation expense for year one is calculated on the net fixed assets at the end of year zero, depreciation for year two is calculated on net fixed assets at the end of year one, etc. Keep in mind that each year's capital expenditures are added to the previous year's net fixed assets to derive the new amount for fixed assets.

2c: This one is easy. Just go to the base year income statement and take the Income Tax amount and divide it by the Income Before Tax (EBT) amount. Take the percentage out to two decimal places (e.g. 21.54% - and I'm making up that number).

2d: This is more difficult, and the textbook authors get even for giving you an easy calculation in 2c. The first thing you have to do is, using the base year income statement and balance sheet, determine the percentages of 1) current assets to sales and 2) current liabilities to sales. The narrative in 2d tells you to use only Accounts Receivable and Inventory for your current assets, and only Accounts Payable for your current liabilities. For example, let's make up some numbers and say that the percentage of current assets to sales is 11.66% and the percentage of current liabilities to sales is 18.43%.