[Journal of Business & Leadership: Research, Practice, and Teaching (2005-2012)](https://scholars.fhsu.edu/jbl)

Volume 7
Number 1 *Journal of Business & Leadership*

Article 7

1-1-2011

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Journal of Business & Leadership: Research, Practice and Teaching
2011, Vol. 7, 55-75

TEACHING PROSPECTIVE FINANCIAL STATEMENTS: A COMPILATION PROJECT

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The planning process is central to the work of business management. Strategic planning involves a broad scope and long-term planning horizon that provides a guide to achieve the organization's goals. External users also need prospective financial information to assess credit or equity positions in a firm. The accounting professional in private industry plays a key role as a member of the planning team, processing management's plans and assumptions to provide meaningful reports and analysis. Many small and mid-sized firms look to the public accounting professional for assistance in developing prospective financial information (Stillwell, 1986). Public accountants may also be engaged by a client to review prospective financial statements that are going to be publicly disseminated. Clearly, expertise in developing, reporting and analyzing forward looking accounting information is important, but there is relatively little instruction offered on this topic in the traditional accounting curriculum. This paper describes a project that is effective for teaching how to prepare comprehensive prospective financial statements. The articulated statements are created using Excel, and can instantly process an unlimited variety of "what if" considerations. The final product has the added advantage of having the same form as the historical financial statements. The benefit of comparability with historical statements is significant.

TEACHING PROSPECTIVE FINANCIAL STATEMENTS

Prospective financial statements are the most important summary of management's plans for future operations. They provide management, present and potential debt and equity capital providers, trade creditors and other users relevant information (characterized by timeliness, predictive value, and feedback value) that is helpful in assessing the amounts, timing, and probability of prospective cash flows (AICPA, *SFAC* No. 1, par. 37). Management may request prospective information in any form desired for decision making. Significant capital providers, such as a bank lender or major suppliers, may request certain prospective financial information. Many enterprises have also selectively disseminated prospective financial information in investment publications and other public media, and in interviews with financial analysts. Some firms have also provided general users with prospective financial information as supplements to annual reports.

While preparing and disseminating prospective financial information is a common and necessary business practice, accounting students receive limited instruction about how this task is accomplished. Surveyed business executives have been particularly critical of the lack of preparation of accounting graduates in the areas of strategic planning and budgeting. (Heidrick & Struggles, 1988).

This paper presents a project that has proven to be very effective in teaching accounting students how to prepare prospective financial statements that are particularly useful for strategic planning. The project is appropriate for use in the second intermediate accounting course and in a managerial accounting course for MBA students.

FINANCIAL PLANNING: BUDGETS AND FORECASTS

Comprehensive planning in an organization will include strategic and tactical planning. Strategic planning, developed by top-level management, includes the long-range organizational goals and the strategies and policies that will help to achieve those goals. Business enterprises must establish measurable and attainable long-range goals. Prospective financial statements would provide the most effective presentation of management's expectations, since this is the format in which future activities will be reported.

The tactical planning task for an organization must use the strategic plan as a foundation. The tactical plan is more focused and determines the specific objectives and means by which the strategic plans will be achieved. For a business enterprise, the most critical objectives and goals must be measured in financial terms. Consequently, the most useful tactical planning tool is the budget, usually with a twelve month planning horizon. The budget is critical to the work of management because it is useful to motivate, control and provide feedback. (Anthony, Deardon, & Bedford 1989). Preparing a budget is usually a topic in managerial or cost accounting. A common approach in these courses is to review the compilation procedure for the period budgets which are the budget components. The concluding step of assembling the budgeted financial statements often is not undertaken. Preparing prospective financial statements as a part of the strategic planning process is not a common college experience for accounting students. (Killough,1989; Easton, Halsey, McAnally, Hartgraves, Morse, 2010).

The prospective financial statements project presented in this paper is not concerned with developing a budget, although a budget must be congruent with the strategic plan. The users of prospective statements are evaluating the entities financial outcomes based on its strategic plans.

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USERS OF PROSPECTIVE FINANCIAL INFORMATION

There are three categories of users of prospective financial information: management, negotiated capital markets and general users. Management may request any kind of forward looking accounting information necessary for decisions such as evaluating financing alternatives, plant and equipment acquisition, product line development or elimination, or subsidiary acquisition or divestiture. As well, entities that are significant capital providers (major suppliers, banks, investment groups, etc.) can negotiate the investment terms and specify that certain prospective financial information be provided. The trend in the negotiated capital markets, in fact, has been to place more emphasis on prospective financial information (Hagaman, 1990).

General users who are without significant influence are unable to negotiate directly with management to request prospective financial information. The Securities Exchange Commission changed a 40-year tradition in 1972 and permitted companies to voluntarily publish prospective financial information. More than a decade later the American Institute of CPAs Auditing Standards Board developed a new pronouncement titled, *Financial Forecasts and Projections*, to establish authoritative guidelines for the preparation and presentation of future-oriented information and for applying the attest function (AICPA, October 1985; Jones, 1986; Weinstock, 1986). *Financial Forecasts and Projections* provides that prospective financial statements can be completed in the same format as historical financial statements or in a format that provides a specified minimum level of information.

The minimum level of prospective information would include approximately nine financial items, such as, sales, gross profit, income taxes, discontinued operations, extraordinary items, net income, and earnings per share. The project described in this paper involves preparation of comprehensive prospective financial statements rather than the minimum level of information.

TERMINOLOGY FOR FINANCIAL STATEMENT DISCLOSURES

The accounting standard, *Financial Forecasts and Projections*, establishes the terminology that distinguishes financial statements based on certain assumptions and conditions (Weinstock, 1986). The Table applies the prescribed terminology to historical and future periods. Forward-looking financial statements are prospective and may be either forecasted statements or projected statements. The statements are forecasted statements when they are based on the conditions expected and the intended actions of the enterprise.

The statements are projected statements, when they are based on one or more hypothetical assumptions. For example, projected statements may be created to represent the expected outcome assuming approval of a proposed loan in a negotiated capital transaction. Pro forma statements are for a past period based on an assumed condition that did not exist. (PCAOB-SSAE No. 10 & 11, 2001; Hilton, 2009). For example, prior periods statements presented for comparison with the current period may be modified to delete an entity that was sold in the current period and is not included in the consolidation. The prior year's modified financial statement is a pro forma statement.

DEVELOPMENT OF PROSPECTIVE FINANCIAL STATEMENTS

The primary goal of the project is for students to learn how to convert strategic plans into prospective financial statements that are articulated and in the same form as the enterprise's historical statements. In addition, students should know that prospective financial statements can be developed to reflect management's expectations for the full range of their strategic plan. Furthermore, students should understand that plans that have not been developed to the point where they can be expressed in the standard financial terms of prospective statements represent too great a risk for serious strategic consideration (Schmaltz, 1980).

A secondary goal of the project is development of Excel spreadsheet skills. Essential analytical power is achieved by linking input data to processes and then statements using formulas (Goff, 2004). A third goal is to experience the preparation of a quality presentation of financial information.

Project Procedure

A guiding principle in the design of the project was to avoid excessive details that would distract from the realization of the overall goal. Accordingly, the forecasted financial statements for this project are for a merchandising firm for a twelve month period.

The project requires the development of several segments in the following sequence: introduction (title page, cover letter, table of contents), data analysis (management's plans and assumptions are analyzed and summarized), forecasted statements worksheet, forecasted financial statements (income statement, balance sheet, and statement of cash flows), analytical measures (ratio analysis), and an analysis of two independent contingencies (projections). The students are instructed to prepare the report for presentation to the corporation's board. The quality of the presentation is critical, including the cover letter, which should be sufficient to give an overview of the report and yet be succinct. The contingencies, at the end of the report, also must be accompanied by a written explanation that describes the contingency.

DOI: 10.58809/GGMD4074

TABLE

Terminology for Financial Statement Disclosures

LIKELIHOOD OF ASSUMPTIONS AND COURSES OF ACTION	REPORTING PERIOD: PAST FISCAL PERIODS	REPORTING PERIOD: FUTURE FISCAL PERIODS
HISTORICAL OR EXPECTED	**HISTORICAL FINANCIAL STATEMENTS** *FOR GENERAL USE *COMPLETE SET OF STATEMENTS	**FORECASTED FINANCIAL STATEMENTS** *FOR MANAGEMENT USE, NEGOTIATED CAPITAL USE, AND GENERAL USE *RANGE FROM COMPLETE SET OF STATEMENTS TO MINIMUM DISCLOSURE
HYPOTHETICAL (NOT NECESSARILY EXPECTED)	**PRO FORMA FINANCIAL STATEMENTS** *FOR LIMITED USE OR SUPPLEMENTAL TO HISTORICAL STATEMENTS *RANGE FROM COMPLETE SET OF STATEMENTS TO LIMITED DATA	**PROJECTED FINANCIAL STATEMENTS** *FOR LIMITED USE OR SUPPLEMENTAL TO FORECASTED STATEMENTS *RANGE FROM COMPLETE SET OF STATEMENTS TO LIMITED DATA

The compilation procedure for the development of the prospective financial statements can be viewed as having three parts that must be developed in sequence. These parts are the data analysis section, the data processing section, and the prospective financial statement presentation section. The Figure shows the content of the sections and the presentation sequence.

Data Analysis Section

When prospective financial statements are going to be developed, the work of acquiring information about the conditions, plans, and assumptions of management would be a time consuming task. For this project, this information is provided. All students have the same data which includes the beginning balance sheet, forecasted sales, cost of goods sold percentage, inventory management rules, credit sales collection assumptions, accounts payable payment plans, fixed and variable selling and administrative expenses, investing and financing transactions, long-term debt payment data, income tax rate, and minimum cash rules. Several data sections are developed to analyze this financial information.

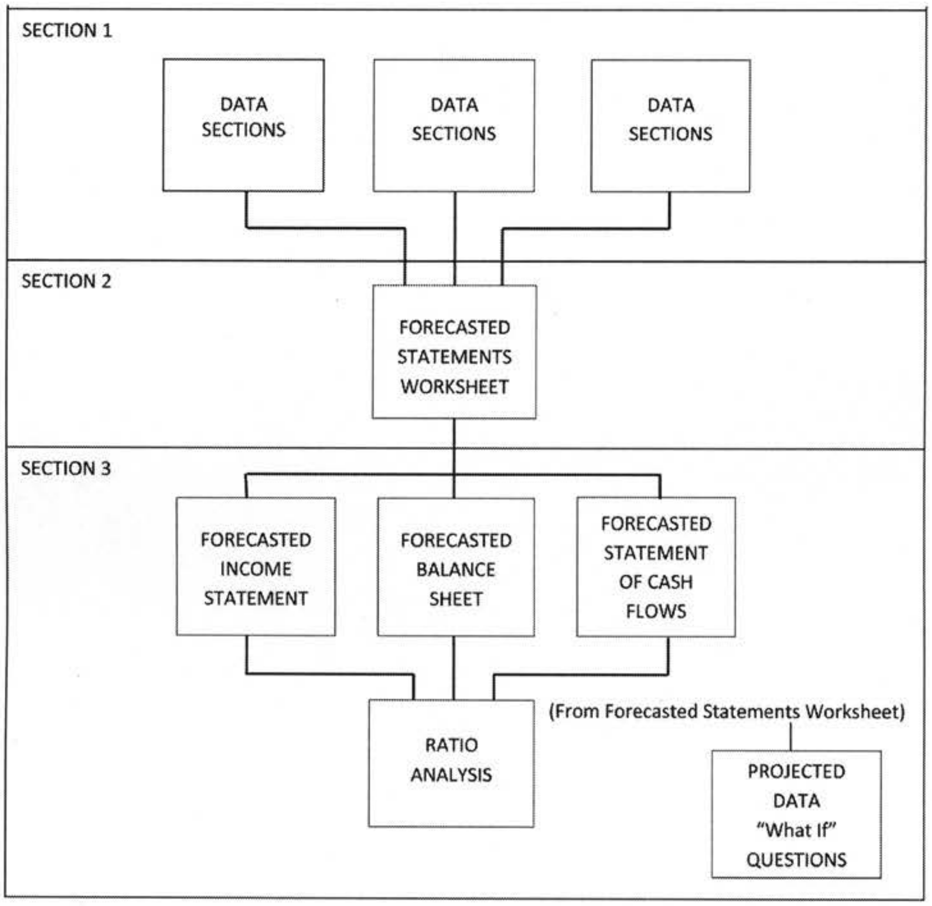
Data Processing Section

The forecasted financial statements worksheet is an adaptation of the simultaneous worksheet used for analyzing cash flows for a statement of cash flows (Collins, 1990). This adapted worksheet utilizes the data developed in the data analysis sections. With the exception of the beginning balance sheet, which is historical data, all of the cell entries on the worksheet are either formulas to transfer amounts from the data sections to the worksheet, or formulas to process amounts on the worksheet. For example, the ending balances or account changes of balance sheet accounts such as receivables, inventory, prepaid expenses, operating assets, accounts and notes payable, and equity accounts have been determined in the data analysis sections. These ending balances or account changes are transferred to the worksheet on the same line as the account's beginning balance. Ending balances for all accounts are determined and the result is the

forecasted balance sheet. The sales, cost of sales, operating expenses, interest expense and tax expense are also transferred from the data sections to the worksheet to represent the data of the forecasted income statement (accrual basis). Once a fiscal period's beginning and ending balance sheet amounts and the income statement revenue and expense amounts for the period are determined, an analysis of account changes can be processed to determine the period's operating, investing and financing cash flows. Additionally, the worksheet simultaneously develops the operating cash flows for both the direct and indirect methods. Since management's plans and assumptions may not have maintained the minimum cash balance, a short-term loan may be necessary. Once completed the worksheet contains all of the information necessary for preparing the forecasted financial statements.

FIGURE

Order of Development: Forecasted Statements Project



Forecasted Financial Statements Section

The primary forecasted financial statements are prepared from the data on the worksheet. Specified formatting is required for the income statement (contribution approach), balance sheet (classified), and statement of cash flows (either direct or indirect). The amounts are transferred to the forecasted financial statements by formulas that reference the appropriate cell on the worksheet. Other formulas on the statements are written to determine totals and net amounts. These statements have only Excel formulas written in the cells, since there are no historical amounts on these statements.

Analytical measures of liquidity, leverage, turnover, and profitability are presented following the forecasted financial statements. These measures are determined by formula references to amounts presented on the forecasted statements and worksheet.

DOI: 10.58809/GGMD4074

Projected Financial Data

The possible outcomes of contingencies or alternative plans or assumptions can be evaluated quickly with this model. Since the expected plans and assumptions are all originally placed in the data sections, a "what if" change of plans or assumptions will originate in the data sections as well. For example, a changed assumption for sales is introduced in one cell in the sales forecast data section. The effect of this altered assumption is immediately reflected in the forecasted financial statements and analytical measures. The array of "what if" adjustments that can be comprehensively evaluated is unlimited. Presentations of these outcomes, either comprehensive statements or limited data must be labeled as "projected", since they propose some events that are not the expected events.

The project requires consideration of two independent contingencies. One of the contingencies results in a change of only fixed expenses. The second involves the change of only a variable expense. The student is directed to create their own presentation using one page for each contingency. Only the projected income statement can be printed for this presentation, and this is excluded from the one page limitation.

CONCLUSION

The accounting professional in private and public accounting is involved with developing prospective financial information. Management's planning process is most effective when prospective financial statements are developed, and they should be developed for as far into the future as economic, competitive, and technological conditions will allow (Hirsch 1988). These statements may be developed by the firm's accounting staff or the firm may turn to the public accounting professional to assist in the compilation of prospective financial statements or agreed-upon procedures for forward looking accounting information. Indeed, if public accounting responds to market demand and the encouragement of the SEC, there will be more engagements to examine client's forecasted financial statements.

The traditional accounting curriculum does not expose accounting students to prospective financial statements in a comprehensive form. The author has found that a project that requires intermediate and managerial accounting students to develop a comprehensive set of prospective financial statements, has proven to have several valuable educational benefits which include the relationship of the primary financial statements, development of Excel spreadsheet skills, and quality presentations. This paper has described the general guidelines of that project.

Describing the development of prospective financial statements in general terms is not sufficient to understand how to complete the project. Therefore, an appendix follows that presents a comprehensive example of the development of prospective financial statements. Step by step procedures are described for developing the three sections of data, worksheet, and financial statements that are shown in the Figure. The introductory material and projected financial data for the appendix example are not presented.

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Accounting, and other academic and professional journals. These articles have examined reporting issues for entities for profit, not-for-profit, and government entities. Also, articles have examined behavioral issues in accounting, and auditing reporting issues. Dr. Olson has been a career-long member of the American Accounting Association, Institute of Management Accountants and the American Institute of Certified Public Accountants.

APPENDIX

Comprehensive Prospective Financial Statements Example

This example will follow the procedure outlined in the article for development of prospective financial statements. The critical beginning point for preparing forward-looking statements is gathering the detailed plans and assumptions of management for the planning period. Once this information is available, the procedure shown in the Figure is followed: the plans and assumptions are analyzed in data sections to determine data useful for financial statements; a worksheet processes the financial data to determine financial statement amounts; and financial statements are prepared. A detailed, step-by-step description is provided for the processing steps. The term forecasted financial statements is used where the prospective financial statements are expected, and projected financial statements is used when an unexpected event is assumed.

A printed example of the layout that must be created on an Excel spreadsheet is provided for all of the data sections, worksheet, financial statements, and supplements. Amounts and Excel formulas are not provided with the sample layout. The student begins the project with the "Description of Assumptions and Plans", the printed sample layout, and a blank Excel spreadsheet.

The example is developed for Riskit Corporation, a retailer established in 2006 that markets equipment for high risk recreation, such as bungee jumping, mountain climbing, parasailing and skydiving. The company has grown rapidly, and prospects for continued growth are excellent. Riskit's management has developed a long-range strategic plan that includes plans and assumptions for operations in 2011.

Description of Assumptions and Plans

Items 1 through 14 provide detailed information about Riskit's 2012 plans. Item 1 is the beginning balance sheet, and is provided as historical data on the worksheet.

1. Riskit's Balance Sheet at December 31, 2010, is provided on the worksheet for this paper.

2. Sales are forecasted to be $200,000 in January 2011. Sales are expected to increase 3.5% each month through July, 2011, and decrease by 2% each month from August through January, 2012. Sales were $250,000 in November and $240,000 in December of 2010.

3. The ending inventory of each month should equal the inventory need for the next month's sales. Product pricing will result in a gross margin of 39% for 2011 and for January 2012.

4. Collections on sales are expected to be 50% in the month of the sale, 33% in the month following the sale, and 17% in the second month following the sale.

5. Inventory purchases are paid 70% in the month of purchase and 30% in the next month.

6. Rent on equipment of $2,500 is paid one month in advance on the last day of the month. Rent expense is a fixed selling and administrative expense.

7. Management plans to replace old equipment costing $100,000 with new equipment costing $140,000 on December 20, 2011. The old equipment is expected to sell at the book value of $75,000 on December 20, 2011. The supplier of the new equipment will be paid $100,000 and will finance $40,000 on a 3-year note accruing interest at 6% simple. The accrued interest is not payable until maturity.

8. The Note Payable on the December 31, 2010, balance sheet was originally made for $500,000 on April 1, 2009. It

bears interest at 6% and must be paid in 48 monthly payments of $11,743 each (Calculate the exact payment using the Excel PMT function).

9. Riskit will sell 5,000 shares of common stock at the par on December 20, 2011.

10. A $15,000 dividend is planned for December 2011.

11. Selling and administrative expenses for the twelve month period are:
    Variable 10% of sales
    Fixed $650,000 (including insurance expense, rent expense, depreciation expense of $48,000, and interest expense on the notes payable)

12. The income tax rate is 32%. The beginning balance of the income tax liability will be paid in March 2011. Also, 80% of the estimated taxes for 2011 will be paid in October 2011.

13. The accrued liability at December 31, 2010, is for employee compensated absence. The liability will decrease $3,000 by December 31, 2011.

14. A minimum acceptable cash balance is $25,000. A short-term loan will be obtained, if necessary, to maintain this balance of cash.

Requirements

A. Prepare (1) the data analysis sections, (2) the worksheet, and (3) Riskit's three primary financial statements, and (4) the financial analysis ratios as indicated.

B. A lawsuit contingency must be evaluated. In November 2010, a rock climbing customer has communicated his intent to file a lawsuit. The customer ordered climbing rope and received bungee cord. The climber was repeatedly battered on the rock face, and suffered severe embarrassment. It is "reasonably possible" that the claimant will be successful. A possible result is an increase in the annual insurance premium of $18,000 (paid monthly)

   (1) If these increased costs occur, calculate the new break-even point.
   (2) If these increased costs occur, calculate the projected net income.

C. Suppliers may increase prices causing the cost of goods to equal 62% of expected sales.

   (1) If the cost of goods increases to 62%, calculate the new break-even point.
   (2) If the cost of goods sold increases to 62%, calculate the projected net income.

Analysis of Assumptions and Plans

Management's assumptions and plans are analyzed in Sections 1 through 9 of the example. Immediately below is a step-by-step description of the analysis. Also, the relevant information item number from the "Description of Assumptions and Plans" is referenced in each section.

1) Section 1: Sales Forecast

   The section above the column headings presents management assumptions from items 2 and 3 of "Description of Assumptions and Plans," where January sales are forecasted at $200,000 with seven months of increasing sales at 3.5%, five months of decreasing sales at 2.0%, and a cost of goods sold percentage of 61%. These cells of data are referenced by Excel formulas in the columns of data (Sales, Beginning Inventory, Purchases, etc.) for January through December. In the January row, formulas are written that connect January sales with the January inventory management plan, purchases, and the cost of goods sold. The formulas for the first row can be copied to their respective columns. The sales formula is changed to a 2.0% decrease in August. The "Total" row presents total sales, purchases, and cost of goods sold for the twelve months of 2011, and the beginning and ending inventory balances are presented. A similar format and procedure is used for data Sections 2, 3, and 4.

2) Section 2: Revenue Collection Plan

The section above the column headings presents management assumptions from item 4. Credit sales are collected 50% in the month of sale, and 33% and 17% in the two months following the sale. The first column of data on the table is Sales, which is copied from Section 1, Sales Forecast. The November and December sales of 2010 are also listed for calculation of collections that will be made in 2011. The table presents columns for each month of 2011. The collection formulas are written referencing the appropriate percentages for January. They are then copied to each month's column. The "Cash Collected" row presents each month's collections. The ending balance of receivables is calculated at the bottom of this section.

3) Section 3: Accounts Payable Plan

This section presents the planned payments to inventory suppliers. Item 5 describes a plan for payment of 70% of a month's purchases in the month of purchase, and 30% in the following month. These percentages are presented above the columns and are referenced in Excel formulas in the columns. Monthly purchases in Section 1: Sales Forecast, are copied to the purchases column of this section. In the January row, the beginning balance (30% of December's purchases) will all be paid in January. January purchases will be 70% paid in January. These payment amounts are summed in the "Payments" column. January's ending balance of accounts payable is 30% of the January purchases. The ending balance of a month is the beginning balance of the next month. Formulas for the January row are copied to the respective columns. The "Totals" row includes total payments and the ending accounts payable for 2011.

4) Section 4: Note Payable Amortization

This section presents the amortization of the four year note described in item 7. The forecast period 2011 will include payments 22 through 33 of this schedule. The terms of the note, including the principal, term, interest rate, and monthly payment (calculated using the Excel payment formula), are presented above the column headings. The monthly payment is presented in the "Payment No. 1" row. The dollar amount of interest expense is the product of the monthly interest rate and the carrying amount. The payment of the principal is the difference in the cash payment and interest expense. The new carrying amount is determined by deducting the principal portion of a month's payment from the previous carrying amount. These formulas in the "Payment No. 1" row are then copied to the respective columns. The principal portion of the 2012 payments are classified as current on the forecasted balance sheet. Principal payments beyond 2012 are noncurrent.

Interest expense for the forecast period is the sum of the interest portion of the monthly payments 22 through 33. Summing the principal portion of payments 22 through 33 results in the forecasted cash outflow for debt repayment.

5) Section 5: Variable and Fixed Expenses

Item 11 presents the expectation that variable expenses will be a 10% of sales. Fixed expenses are presented as the expected annual amounts for total insurance, depreciation, rent, interest, and other expenses. These expenses are presented in the "Accrual" column of the worksheet.

6) Section 6: Estimated Income Tax Rate

The expected income tax rate stated in item 12 is used to calculate income tax expense for the forecasted period. Additionally, management's plans for payment of the current income taxes and the beginning tax liability are presented in this section.

7) Section 7: Planned Investment and Financing Activities

The investing and financing activities are unique planned transactions affecting operating assets or investments, or debt and equity capital. Four journal entries present the relevant information in this section. Two journal entries concern the investing activities (sale and purchase of equipment) described in item 7, and two journal

DOI: 10.58809/GGMD4074

Journal of Business & Leadership: Research, Practice and Teaching
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entries are concerned with financing activities (sale of stock and a dividend) described in items 9 and 10. The debit and credit amounts are transferred to the worksheet.

8) Section 8: Minimum Acceptable Cash Balance

Item 14 provides that the minimum acceptable cash balance is $25,000. Since the beginning cash balance is $25,000, a short-term borrowing would be necessary if the net cash flow of the forecasted operating, investing, and financing activities was negative.

9) Section 9: Other Debt Management

Item 14 describes management's plan to increase accrued liabilities by $3,000. Also, interest on the possible short-term loan (Section 8) and the equipment purchase note (Section 7), will be ignored, since it is assumed that these notes were created near the end of the year.

The nine data sections present amounts and rates in cells that can be easily referenced by formulas created on the forecasted financial statements worksheet. Since all of the original input for the plans and assumptions are in these data sections, a change can be made in the appropriate section, and it will be transferred to the worksheet, financial statements, and the ratios. For example, a change in the gross margin percentage in Section 1 will affect every related section of plans and assumptions, the worksheet, financial statements, and the relevant ratios. This design easily accommodates the queries concerning changed plans and assumptions for projected financial data.

Developing the Forecasted Financial Statement Worksheet

The four-column worksheet also has four sections from top to bottom. The top section lists the permanent accounts grouped as a debit or credit. The next three sections are for analysis of operating, investing, and financing activities, respectively. The only historical data on the worksheet is the beginning balance sheet amounts in the first column of the permanent accounts section. All of the other cells have an Excel formula to either acquire an amount from one of the nine preceding data sections, or to perform a function on the worksheet such as a summation.

Permanent Accounts Section: The middle "Analysis" debit and credit columns in the permanent accounts section presents account changes for the forecast period. The right column presents the expected ending balances for the permanent accounts. For example, in Section 1: Sales Forecast, the ending inventory is $132,849. That cell address is placed in the 12/31/2011 column for inventory. Since the beginning inventory was $98,000, a $34,849 entry in the "Analysis" debit column is necessary to reconcile the changed balance. Each permanent account is similarly processed. The reconciliation of the "Cash and Cash Equivalent" line is deferred until the forecasted net cash flows are determined.

Operating Activities Section: The operating activities section presents in the "Accrual" column the forecasted temporary account balances from the preceding data Sections 1, 4, 5, and 6. Forecasted sales, for example, is the total of forecasted sales for 2011 in data Section 1. Other forecasted temporary account amounts are similarly acquired by Excel formula in the accrual column. These amounts are tentative cash flow amounts.

Changes in some of the permanent accounts are adjustments to the accrual basis temporary accounts to determine the cash flow amounts for the right column in this section, which is labeled "Cash". For example, to reconcile the accounts receivable increase of $4,165, a debit is the adjustment to the permanent account. It is also a credit adjustment to Sales in the operating activities section. The adjusted amount is extended to the "Cash" column as the cash collected from customers. Each of the temporary accounts is similarly analyzed and adjusted to a cash flow amount. A final step is the calculation of the net cash flows for operating activities in the "Cash" column.

Investing Activities Section: This section of the worksheet reflects the journal entries of Section 7. The permanent accounts are changed by the noncash debits and credits in Section 7. The debits and credits to cash are transferred to the investing activities section of the worksheet. For example, the sale of equipment is a $100,000 credit adjustment to plant and equipment and a $25,000 debit adjustment to accumulated depreciation in the permanent accounts section. The cash receipt of $75,000, is labeled "Sale of Equipment" in the investing activities section. The equipment purchase transaction is treated in a similar manner. The permanent accounts, plant and equipment and notes payable, are adjusted, and the cash payment of

$100,000, is labeled "Purchase of Equipment" in the investing activities section. A concluding step for investing activities is the calculation of the net cash flows for investing activities.

Financing Activities Section: Each of the four amounts in this section have an equal adjustment to a permanent account. Section 7 journal entries are useful for the stock sale and cash dividend. Referencing the common stock credit in Section 7, common stock is adjusted on the worksheet and an equal amount of cash receipt is presented in the financing activities. Similarly adjust retained earnings (debit), and present the same amount of cash outflow for dividends in the financing activities. Payment of the principal amount of debt is another financing cash flow. The long-term note presented in Section 4, has principal amounts paid in each monthly payment. The sum of the monthly principal payments in 2011, is the payment of long term debt. This amount is placed as an adjustment to the permanent account, note payable, and a cash outflow in the financing activities. A potential financing cash flow is a short-term loan to maintain the minimum cash balance. If the net cash flows of operating, investing, and financing (excluding this contingent loan) are negative, a loan is needed. An "If" statement (Excel formula) recognizes a short-term loan $11,933 is required. This amount is credited to a new permanent account, note payable, and a cash inflow labeled, "Short-Term Loan," is presented in financing activities. The financing net cash flows is a net outflow of $79,667.

The short-term loan resulted in a $0 net cash flow from all activities. No reconciling amount will appear on the "Cash and Cash Equivalent" line in the permanent accounts section. The 12/31/2011 balance is $25,000.

Preparing the Forecasted Financial Statements

Forecasted financial statements are developed from the data on the worksheet. The forecasted income statement is prepared in the in the contribution margin format. All of the cells in which an amount is presented, are formulas. The sales, cost of sales, and expenses are cell amounts that are the transferred by formulas from the accrual column of the operating activities section. Other cells in the forecasted income statement are either an addition or deduction calculation.

The forecasted balance sheet is a classified balance sheet. All cell entries have an Excel formula that references the assets, liabilities and equity account balances in the 12/31/2011 column of the permanent accounts section of the worksheet. The current and noncurrent portions of the four year note payable is determined on data Section 4. The other cells on the forecasted balance sheet are formulas for either an addition or deduction of cell amounts.

The forecasted statement of cash flows can be prepared with either the direct or indirect method for operating cash flows. The direct method is presented in this example. The indirect method is shown in the supplement. All of the cells on the forecasted statement of cash flows, in which an amount is presented, are formulas. The cash inflows and outflows for operating, investing, and financing, respectively, are amounts that are the result of cell formulas that reference the appropriate cell in the cash column of the operating, investing, and financing sections of the worksheet. The other cells on the forecasted statement of cash flows are formulas for either adding or deducting cell amounts.

Two supplements accompany the forecasted statement of cash flows. One supplement is for the portion of the equipment purchase that was financed with a $40,000 note payable. This is a noncash investing and financing transaction. The second supplement reconciles net income and the net cash flows from operating activities. The net income, additions to net income, and deductions from net income are transferred from the "Inflow" and "Outflow" columns of the worksheet operating activities section. Amounts in the "Inflow" column are added to the net income, and amounts in the "Outflow" column are deducted. The other cell formulas in this supplement are either to add cells or calculate a difference between cell amounts.

Preparing the Ratio Analysis of the Forecasted Financial Statements

The data for the required ratios is accessed by Excel formula from either the preceding financial statements or the worksheet. For example, the current ratio would require the amounts from the classified forecasted balance sheet. Worksheet data would be required for a turnover measure.

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DOI: 10.58809/GGMD4074

Preparing Projected Financial Data

Project requirements B and C are independent contingencies. A possible fixed cost change is described in B. A possible variable cost change is described in C. In each case a new break-even sales They are to be evaluated independently. In each case, new break-even sales and net income amounts are determined. A format is not provided for the solution. An effective presentation, including a written description of the contingency, is to be created. Only the projected income statement can be a part of the printed solution. Examples of solutions for these contingencies are not included.

RISKIT CORPORATION
MANAGEMENT'S PLANS AND ASSUMPTIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION 1: SALES FORECAST (12 MONTHS)

JANUARY...	$ 200,000	Estimated COGS % . . 61.0%
INCREASE per MONTH	3.5%	FEBRUARY through JULY 2011
DECREASE per MONTH	2.0%	AUGUST 2011 through JANUARY 2012

MONTH	SALES	BEGINNING INVENTORY	PURCHASES	ENDING INVENTORY	COGS	COGS %
JAN	$ 200,000	$ 98,000	$ 150,270	$ 126,270	$ 122,000	61%
FEB	207,000	126,270	130,689	130,689	126,270	61%
MAR	214,245	130,689	135,264	135,264	130,689	61%
APR	221,744	135,264	139,998	139,998	135,264	61%
MAY	229,505	139,998	144,898	144,898	139,998	61%
JUN	237,537	144,898	149,969	149,969	144,898	61%
JUL	245,851	149,969	146,970	146,970	149,969	61%
AUG	240,934	146,970	144,030	144,030	146,970	61%
SEP	236,115	144,030	141,150	141,150	144,030	61%
OCT	231,393	141,150	138,327	138,327	141,150	61%
NOV	226,765	138,327	135,560	135,560	138,327	61%
DEC	222,230	135,560	132,849	132,849	135,560	61%
JAN	217,785					61%
TOTAL	$ 2,713,319	$ 98,000	$ 1,689,974	$ 132,849	$ 1,655,125	

SECTION 2: REVENUE COLLECTION PLAN							
	MONTH OF SALES			50%			
	1st MONTH AFTER SALES			33%			
	2nd MONTH AFTER SALES			17%			
	BEGINNING A/R BALANCE						
	NOVEMBER SALES			$ 250,000			
	DECEMBER SALES			$ 240,000			
		COLLECTION OF RECEIVABLES (JAN THRU JUN)					
MONTH	SALES	JAN	FEB	MAR	APR	MAY	JUN
NOV	$ 250,000	$ 37,500					
DEC	240,000	72,000	$ 36,000				
JAN	200,000	100,000	66,000	$ 34,000			
FEB	207,000		103,500	68,310	$ 35,190		
MAR	214,245			107,123	70,701	$ 36,422	
APR	221,744				110,872	73,175	$ 37,696
MAY	229,505					114,752	75,737
JUN	237,537						118,769
CASH COLLECTED		$ 209,500	$ 205,500	$ 209,433	$ 216,763	$ 224,349	$ 232,202
		COLLECTION OF RECEIVABLES (JUL THRU DEC)					
MONTH	SALES	JUL	AUG	SEP	OCT	NOV	DEC
MAY	$ 229,505	$ 39,016					
JUN	237,537	78,387	$ 40,381				
JUL	245,851	122,926	81,131	$ 41,795			
AUG	240,934		120,467	79,508	$ 40,959		
SEP	236,115			118,058	77,918	$ 40,140	
OCT	231,393				115,697	76,360	$ 39,337
NOV	226,765					113,383	74,833
DEC	222,230						111,115
CASH COLLECTED		$ 240,329	$ 241,979	$ 239,361	$ 234,573	$ 229,882	$ 225,284
		SUMMARY OF ACCOUNTS RECEIVABLE ACTIVITY					
	BEGINNNING BALANCE - JAN 1					$ 145,500	
	SALES					2,713,319	
	TOTAL					2,858,819	
	LESS: COLLECTIONS					2,709,154	
	ENDING BALANCE - DECEMBER 31					$ 149,665	

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DOI: 10.58809/GGMD4074

SECTION 3: ACCOUNTS PAYABLE PAYMENT PLAN

Payment % in the month of purchase	70%
Payment % in the first month following purchase	30%

MONTH	ACCOUNTS PAYABLE BEGINNING	PURCHASES	TOTAL BEGINNING BALANCE	PAYMENTS	ACCOUNTS PAYABLE ENDING
JAN	$ 45,000	$ 150,270	$ 195,270	$ 150,189	$ 45,081
FEB	45,081	130,689	175,770	136,564	39,207
MAR	39,207	135,264	174,470	133,891	40,579
APR	40,579	139,998	180,577	138,578	41,999
MAY	41,999	144,898	186,897	143,428	43,469
JUN	43,469	149,969	193,438	148,448	44,991
JUL	44,991	146,970	191,961	147,870	44,091
AUG	44,091	144,030	188,121	144,912	43,209
SEP	43,209	141,150	184,359	142,014	42,345
OCT	42,345	138,327	180,672	139,174	41,498
NOV	41,498	135,560	177,058	136,390	40,668
DEC	40,668	132,849	173,517	133,662	39,855
TOTALS	$ 45,000	$ 1,689,974		$ 1,695,119	$ 39,855

ACCOUNTS PAYABLE SUMMARY:

ACCOUNTS PAYABLE 1/1/2011	$ 45,000
PURCHASES	1,689,974
TOTAL PAYABLE	1,734,974
PAYMENTS	1,695,119
ACCOUNTS PAYABLE 12/31/2011	$ 39,855

SECTION 4: NOTE PAYABLE AMORTIZATION

	PRINCIPAL:		$ 500,000		
	TERM:		4	YEARS	
	INTEREST RATE:		6.00%	ANNUAL	
	MONTHLY PAYMENT		$11,742.51		
PMT NO.	PAYMENT DATE	CASH PAYMENT	INTEREST EXPENSE	PRINCIPAL PORTION	CARRYING AMOUNT
0	4/1/2009				$ 500,000
1	5/1/2009	$ 11,743	$ 2,500	$ 9,243	490,757
2	5/31/2009	11,743	2,454	9,289	481,469
3	6/30/2009	11,743	2,407	9,335	472,134
4	7/31/2009	11,743	2,361	9,382	462,752
5	8/31/2009	11,743	2,314	9,429	453,323
6	9/30/2009	11,743	2,267	9,476	443,847
7	10/31/2009	11,743	2,219	9,523	434,324
8	11/30/2009	11,743	2,172	9,571	424,753
9	12/31/2009	11,743	2,124	9,619	415,134
10	1/31/2010	11,743	2,076	9,667	405,467
11	2/28/2010	11,743	2,027	9,715	395,752
12	3/31/2010	11,743	1,979	9,764	385,988
13	4/30/2010	11,743	1,930	9,813	376,176
14	5/31/2010	11,743	1,881	9,862	366,314
15	6/30/2010	11,743	1,832	9,911	356,403
16	7/31/2010	11,743	1,782	9,960	346,443
17	8/31/2010	11,743	1,732	10,010	336,432
18	9/30/2010	11,743	1,682	10,060	326,372
19	10/31/2010	11,743	1,632	10,111	316,261
20	11/30/2010	11,743	1,581	10,161	306,100
21	12/31/2010	11,743	1,531	10,212	295,888
22	1/31/2011	11,743	1,479	10,263	285,625
23	2/28/2011	11,743	1,428	10,314	275,311
24	3/31/2011	11,743	1,377	10,366	264,945
25	4/30/2011	11,743	1,325	10,418	254,527
26	5/31/2011	11,743	1,273	10,470	244,057
27	6/30/2011	11,743	1,220	10,522	233,535
28	7/31/2011	11,743	1,168	10,575	222,960
29	8/31/2011	11,743	1,115	10,628	212,332
30	9/30/2011	11,743	1,062	10,681	201,651
31	10/31/2011	11,743	1,008	10,734	190,917
32	11/30/2011	11,743	955	10,788	180,129
33	12/31/2011	11,743	901	10,842	169,287
34	1/31/2012	11,743	846	10,896	158,391
35	2/28/2012	11,743	792	10,951	147,441
36	3/31/2012	11,743	737	11,005	136,435
37	4/30/2012	11,743	682	11,060	125,375
38	5/31/2012	11,743	627	11,116	114,260
39	6/30/2012	11,743	571	11,171	103,088
40	7/31/2012	11,743	515	11,227	91,861
41	8/31/2012	11,743	459	11,283	80,578
42	9/30/2012	11,743	403	11,340	69,238
43	10/31/2012	11,743	346	11,396	57,842
44	11/30/2012	11,743	289	11,453	46,389
45	12/31/2012	11,743	232	11,511	34,878
46	1/31/2013	11,743	174	11,568	23,310
47	2/28/2013	11,743	117	11,626	11,684
48	3/31/2013	11,743	58	11,684	0
		$ 563,641	$ 63,641	$ 500,000	
				12/31/2010	12/31/2011
		PRINCIPAL		$ 295,888	$ 169,287
		CURRENT PORTION		126,601	134,409
		NONCURRENT PORTION		$ 169,287	$ 34,878

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DOI: 10.58809/GGMD4074

SECTION 5 VARIABLE AND FIXED EXPENSES			
VARIABLE EXPENSES		10%	OF SALES
FIXED EXPENSES:			
	INSURANCE EXPENSE (paid each month)	$ 12,000	
	DEPRECIATION EXPENSE ($4,000 per month)	48,000	
	RENT EXPENSE (paid each month)	30,000	
	INTEREST EXPENSE (see SECTION 4)	-	
	OTHER EXPENSE	560,000	
	TOTAL FIXED EXPENSES	$ 650,000	

SECTION 6: ESTIMATED INCOME TAX RATE		
INCOME TAX RATE	32%	
INCOME TAX PAYABLE 12/31/2011	20%	of income tax exp
INCOME TAX PAYABLE 12/31/2010 will be paid 4/15/2011	$ 4,000	

SECTION 7: PLANNED INVESTMENT AND FINANCING ACTIVITIES

No.	Date	Accounts		Dr	Cr
1)	DEC. 20, 2011	CASH		75,000	
		ACCUM DEPRE		25,000	
			OLD EQUIPMENT		100,000
2)	DEC. 20, 2011	NEW EQUIPMENT		140,000	
			NOTE PAYMENT 12%		40,000
			CASH		100,000
		3 YR NOTE, simple interest payable at maturity.			
3)	DEC. 20, 2011	CASH		50,000	
			COMMON STOCK		50,000
4)	DEC. 20, 2011	RETAINED EARNINGS		15,000	
			CASH		15,000

SECTION 8: MINIMUM ACCEPTABLE CASH BALANCE	
MINIMUM CASH BALANCE	$ 25,000

SECTION 9: OTHER DEBT MANAGEMENT		
ACCRUED LIABILITIES (compensated absence)	$ 3,000	increase
NOTE PAYABLE (equipment purchase 12/31/2011)	0	interest expense
SHORT TERM NOTE PAYABLE (cash balance management)	0	interest expense

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RISKIT CORPORATION
WORKING PAPERS: FORECASTED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

	12/31/2010	ANALYSIS				12/31/2011
DEBITS		ref		ref		
CASH & CASH EQUIV	$ 25,000	x				$ 25,000
ACCCTS RECEIVABLE	145,500	1	4,165		-	149,665
INVENTORY	98,000	2	34,849		-	132,849
PREPAID INSURANCE	1,000		-		-	1,000
PREPAID RENT	2,500		-		-	2,500
PLANT & EQUIPMENT	960,000	3	140,000	4	100,000	1,000,000
TOTAL DEBITS	$ 1,232,000					$ 1,311,014
CREDITS						
ACCUM DEPRECIATION	84,000	4	25,000	5	48,000	107,000
ACCTS PAYABLE	45,000	6	5,145		-	39,855
ACCRUED LIABILITIES	15,000			7	3,000	18,000
INCOME TAX PAYABLE	4,000	14	4,000	8	8,759	8,759
S-T NOTE PAYABLE				13	11,933	11,933
NOTE PAYABLE	295,888	9	126,601		-	169,287
NOTE PAYABLE				3	40,000	40,000
COMMON STOCK - PAR $10	720,000			10	50,000	770,000
RETAINED EARNINGS	68,112	12	15,000	11	93,067	146,178
TOTAL CREDITS	$ 1,232,000					$ 1,311,013
OPERATING ACTIVITIES:	**Accrural**		**Inflow**		**Outflow**	**Cash**
NET INCOME	93,067	11	93,067			
SALES	2,713,319		-	1	(4,165)	2,709,155
COST OF GOODS SOLD	(1,655,125)		-	2	34,849	(1,695,119)
			-	6	5,145	
VARIABLE S&A EXPENSES	(271,332)	7	3,000		-	(268,332)
FIXED S&A EXP:						
INSURANCE EXP	(12,000)					(12,000)
DEPRECIATION EXP	(48,000)	5	48,000			-
RENT EXP	(30,000)					(30,000)
INTEREST EXP	(14,309)					(14,309)
OTHER FIXED EXP	(545,691)					(545,691)
INCOME TAX EXP	(43,796)	8	8,759	14	4,000	(39,037)
NET CASH - OPERATING						104,667
INVESTING ACTIVITIES:						
PURCHASE OF EQUIPMENT				3	100,000	(100,000)
SALE OF EQUIPMENT		4	75,000			75,000
NET CASH - INVESTING						(25,000)
FINANCING ACTIVITIES:						
PAYMENT OF L-T DEBT				9	126,601	(126,601)
SALE OF COMMON STOCK		10	50,000			50,000
DIVIDEND PAID				12	15,000	(15,000)
SHORT-TERM LOAN		13	11,933			11,933
NET CASH - FINANCING						(79,667)
NET CASH INCREASE (DECREASE) DURING THE PERIOD:						$0

https://scholars.fhsu.edu/jbl/vol7/iss1/7
DOI: 10.58809/GGMD4074

Journal of Business & Leadership: Research, Practice and Teaching
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RISKIT CORPORATION
FORECASTED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

SALES		$ 2,713,319	100.0%
VARIABLE COSTS:			
COST OF GOODS SOLD		1,655,125	61.0%
GROSS MARGIN ON PRODUCTS SOLD		1,058,194	39.0%
VARIABLE SELLING & ADMIN EXPENSE		271,332	10.0%
CONTRIBUTION MARGIN		786,863	29.0%
FIXED COSTS:			
INSURANCE EXPENSE	$ 12,000		0.4%
DEPRECIATION EXPENSE	48,000		1.8%
RENT EXPENSE	30,000		1.1%
INTEREST EXPENSE	14,309		0.5%
OTHER FIXED S&A EXP	545,691		20.1%
TOTAL FIXED S&A EXPENSES		650,000	24.0%
OPERATING INCOME BEFORE TAXES		136,863	5.0%
INCOME TAX EXPENSE		43,796	1.6%
NET INCOME		$ 93,067	3.4%

EARNINGS PER SHARE:					
NET INCOME	=	$ 93,067		=	$ 1.29
WTD AV # SH OTSTG		72,000	shares		PER SHARE
BREAK-EVEN SALES:					
FIXED COST	=	$ 650,000		=	$ 2,241,379
CM RATIO		29.0%			SALES
MARGIN OF SAFETY:					
FORECASTED SALES minus B/E SALES				=	$ 471,940
					SALES
SALES AT TARGET NET INCOME OF		$ 100,000			
FC + ((Target NI)/(1-TR))		=	$ 797,059	=	$ 2,748,479
C M RATIO			29.0%		SALES
SALES AT TARGET RETURN ON EQUITY OF		20%			
FC + ((ROE*Avg Eqty)/(1-TR))		=	$ 900,631	=	$ 3,105,624
CM RATIO			29.0%		SALES

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RISKIT CORPORATION
FORECASTED BALANCE SHEET
DECEMBER 31, 2011

ASSETS:				
CURRENT ASSETS:				
CASH & CASH EQUIVALENTS			$ 25,000	
ACCOUNTS RECEIVABLE			149,665	
INVENTORY			132,849	
PREPAID INSURANCE			1,000	
PREPAID RENT			2,500	
TOTAL CURRENT ASSETS				$ 311,014
NONCURRENT ASSETS:				
PLANT & EQUIPMENT			1,000,000	
LESS ACCUM DEPRECIATION			107,000	
TOTAL NONCURRENT ASSETS				893,000
TOTAL ASSETS				$ 1,204,014
LIABILITIES AND STOCKHOLDER'S EQUITY:				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE		$ 39,855		
ACCRUED LIABILITIES		18,000		
INCOME TAX PAYABLE		8,759		
SHORT TERM NOTE PAYABLE		11,933		
CURRENT PORTION OF L-T NOTE		134,409		
TOTAL CURRENT LIABILITIES			$ 212,957	
NONCURRENT LIABILITIES:				
NOTE PAYABLE, 12% int rate		40,000		
NOTE PAYABLE, 6% int rate	$ 169,287			
LESS CURRENT PORTION	134,409	34,878		
TOTAL NONCUR LIABILITIES			74,878	
TOTAL LIABILITIES				$ 287,835
STOCKHOLDER'S EQUITY:				
COMMON STOCK, $10 PAR,				
77,000 shares issued & outstdg			770,000	
RETAINED EARNINGS:				
BALANCE 1/1/2011		68,112		
NET INCOME - 2011		15,000		
DIVIDENDS		93,067		
BALANCE 12/31/2011			146,178	
TOTAL STOCKHOLDER'S EQUITY				916,178
TOTAL LIABILITIES & STKHLDER'S EQUITY				$ 1,204,013

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RISKIT CORPORATION
FORECASTED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:			
CASH RECEIVED FROM CUSTOMERS	$ 2,709,155		
TOTAL CASH RECEIVED		$ 2,709,155	
CASH OUTFLOWS:			
CASH PAID MERCHANDISE SUPPLIERS	(1,695,119)		
CASH PAID FOR S & A EXPENSES	(268,332)		
CASH PAID FOR RENT	(12,000)		
CASH PAID FOR INSURANCE	(30,000)		
CASH PAID FOR INTEREST ON N/P	(14,309)		
CASH PAID FOR OTHER FIXED EXPENSES	(545,691)		
CASH PAID FOR TAXES	(39,037)		
TOTAL CASH PAYMENTS		(2,604,488)	
NET CASH FLOWS: OPERATING ACTIVITIES			$ 104,667
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH INFLOWS:			
SALE OF EQUIPMENT	75,000		
TOTAL CASH RECEIVED		75,000	
CASH OUTFLOWS:			
PURCHASE OF EQUIPMENT	(100,000)		
TOTAL CASH OUTFLOWS		(100,000)	
NET CASH FLOWS: INVESTING ACTIVITIES			(25,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
CASH INFLOWS:			
SALE OF COMMON STOCK	50,000		
S-T LOAN	11,933		
TOTAL CASH INFLOWS		61,933	
CASH OUTFLOWS:			
PAYMENT OF L-T LOAN PRINCIPAL	(126,601)		
CASH DIVIDEND	(15,000)		
TOTAL CASH OUTFLOWS		(141,601)	
NET CASH FLOWS: FINANCING ACTIVITIES			(79,667)
NET INCREASE OR DECREASE IN CASH			0
CASH BALANCE JANUARY 1, 2011			25,000
CASH BALANCE DECEMBER 31,2011			$ 25,000

RISKIT CORPORATION
SUPPLEMENTS TO THE FORECASTED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

SUPPLEMENT 1: NONCASH INVESTING AND FINANCING ACTIVITIES		
A NOTE PAYABLE OF $ 40,000 WAS MADE TO PURCHASE EQUIPMENT.		
SUPPLEMENT 2: RECONCILIATION OF NET INCOME AND CASH FLOW FROM OPERATIONS		
NET INCOME		$ 93,067
ADJUSTMENTS TO NET INCOME:		
DEPRECIATION EXPENSE	$ 48,000	
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	(4,165)	
(INCREASE) DECREASE IN INVENTORY	(34,849)	
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	(5,145)	
INCREASE (DECREASE) IN ACCRUED LIABILITIES	3,000	
INCREASE (DECREASE) IN TAXES PAYABLE	4,759	
NET ADJUSTMENTS TO NET INCOME		11,600
NET CASH FLOW FROM OPERATING ACTIVITIES		$ 104,666

https://scholars.fhsu.edu/jbl/vol7/iss1/7
DOI: 10.58809/GGMD4074

RISKIT CORPORATION
RATIO ANALYSIS OF FORECASTED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

LIQUIDITY RATIOS:								
CURRENT RATIO	=	CURRENT ASSETS	=	$	311,014	=	1.46	TIMES
		CURRENT LIABILITIES		$	212,957			
		CASH + TEMPORARY INVESTMENTS + NET						
ACID-TEST	=	RECEIVABLES	=	$	174,665	=	0.82	TIMES
		CURRENT LIABILITIES		$	212,957			
TURNOVER RATIOS:								
ASSET TURNOVER	=	NET SALES	=	$	2,713,319	=	2.3	TIMES
		AVER TOTAL ASSETS		$	1,176,007			
ACCTS REC'BLE TURNOVER	=	CREDIT SALES	=	$	2,713,319	=	18.39	TIMES
		AVER NET ACCTS REC		$	147,583			
INVENTORY TURNOVER	=	COST OF GOODS SOLD	=	$	1,655,125	=	14.3	TIMES
		AVERAGE INVENTORY		$	115,425			
LEVERAGE RATIOS:								
DEBT RATIO	=	TOTAL DEBT	=	$	287,835	=	23.9	%
		TOTAL ASSETS		$	1,204,014			
EQUITY RATIO	=	TOTAL EQUITY	=	$	916,178	=	76.1	%
		TOTAL ASSETS		$	1,204,014			
		[						
		NET INCOME + TAXES						
TIMES INTEREST EARNED	=	+INTEREST EXPENSE	=	$	151,172	=	10.6	TIMES
		INTEREST EXPENSE			14,309			
PROFITABILITY RATIOS:								
RETURN ON SALES	=	NET INCOME	=	$	93,067	=	3.4	%
		TOTAL REVENUE		$	2,713,319			
		NET INCOME + TAXES						
RETURN ON ASSETS =	=	+INTEREST EXPENSE	=	$	151,172	=	12.9	%
		AVER TOTAL ASSETS		$	1,176,007			
RETURN ON EQUITY	=	NET INCOME	=	$	93,067	=	10.9	%
		AVERAGE EQUITY		$	852,145			