# Cash flow final exam

1)Prepare an income statement for the 12 months beginning January 2003 using the following information:

- Sales—January 20x3—$1,600,000; increasing at the rate of 1% per month each month thereafter
- Cost of goods sold
  - Variable CGS @ 40 percent of sales
  - Fixed CGS @ $425,000/month, increasing at $10,000 per month for each following month
- Selling, general and administrative expenses (including bad debt expense, but excluding interest expense)
  - Variable @ 10 percent of sales
  - Fixed @ $55,000/month for six months, then $65,000/month
  - Taxes—40 percent of profit before taxes

Prepare a cash flow statement for 12 months using the following data:

- Accounts receivable collections
  - 10 percent of current month sales
  - 55 percent of prior month sales
  - 34.5 percent of second prior month sales
  - 0.5 percent uncollectible
- Cost of goods sold
  - 100 percent of variable costs are cash
  - 70 percent of fixed costs are cash
  - Current month expenses are used as basis for projecting cash flow, although they are actually paid for at a later date
  - Selling, general and administrative expenses
  - $5,000 of fixed costs are noncash; all others are cash
  - Current month expenses are used as basis for projecting cash flow, although they are actually paid for at a later date
- Operating cash—maintain minimum balance of $10,000
- Line of credit—9 percent interest on the prior month end balance
- Loan payments
  - Interest @ 8.5 percent of outstanding balance
  - $25,000/month repayment (interest included)
  - Balance outstanding @ January 1, 20x3 = $1,346,100
- Tax payments
  - Payment in January, April, June, and September covering in full all tax obligations calculated for the period covered by the payments
- Other obligations
  - All other obligations are for fixed-asset investments
    - January $125,000
    - February $700,000
    - March $175,000
    - Subsequent months $200,000/month

There are many different cash management and operational areas to discuss related to this case study. The company faces a cash flow crisis that has been caused essentially by four factors:

1. Growth in sales
2. the granting of credit terms of 30 days to customers
3. debt service
4. investment in fixed assets

Please explained how each of these impact on cash flow.

5.