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MODULE 28

PROJECT ACCOUNTING: FINANCIAL STATEMENTS AND RATIOS

Bruce Brooks & Merlyn Kettering

A. *PREREQUISITES:*

Data provided by a good record keeping system or bookkeeping system. This will enable the analyst to formulate the financial statements and ratios.

B. *DISCUSSION:*

Financial statements and ratios are tools for summarizing, analyzing, controlling and monitoring a project by using financial information that is collected during the operations phase of a project.

The financial statements and ratios separate the business aspects of the project from everything else and pinpoint the strengths and weaknesses of the financial operation of the project. They tell the management that the project is doing well or poorly from a financial viewpoint, but they do not tell the management what is right or wrong. They tell the management that the project is doing all right at a specified point in time, or that something is wrong and he needs to find out what it is and do something about it. The financial statements and ratios are essential project control and monitoring tools.

C. *PURPOSE:*

The purpose of financial statements and ratios is to give the decision makers the necessary information for judging the project's viability and ability to reach the goals and objectives of the project.

D. *USE:*

Use of Financial Statements and Ratios

These management tools should be used by the project manager to:

1. signal changes in the financial situation of a project;

2. assist the manager in determining what the project's financial strengths and weaknesses are and where they are most likely to be in the operation;

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3. strengthen the position of the project when additional funds are needed;

4. show the project's ability to earn a satisfactory return on invested funds;

5. improve the performance of the management team;

6. motivate employees;

7. show the project's ability to withstand setbacks;

8. do a better job of planning in the future;

9. control different phases of production and encourage other phases; and

10. provide information that can be used to make control decisions.

E. *DEFINITIONS OF TERMS:*

A knowledge of the terms used in this module is necessary for a clear understanding of how financial statements and ratios are constructed and used.

1. A *Balance Sheet* is a summary of the financial condition of the business at a particular instant in time, e.g., at the close of business on December 31, 1979 or any other day. It is usually drawn up on the day that corresponds to the end of a fiscal reporting period for the project, company, or firm.

2. *Assets* are anything that is *owned* by the project e.g., buildings, land, cash, machinery, equipment, etc.

3. *Equities* are anything that is *owed* by the project, e.g., outstanding notes, mortages, loans, accounts payable for supplies, common stock shares outstanding, etc.

4. *Fixed Assets* are those things that are owned over a longer period (over a year), e.g., land, buildings, equipment.

5. *Current Assets* are those things that are held for less than a year and are constantly changing, e.g., cash, inventory, and accounts owed to the project.

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6. *Current Liabilities* are things that are owed for a shorter period of time usually less than one year, e.g., promissory notes, accounts payable, insurance premiums, etc. These change in the interim period between the drawing up of one balance sheet and the next.

7. *Long Term Liabilities* are those things that the project has an obligation to pay over a long period of time, i.e., one to twenty or more years. Bank loans and government loans are examples of long term debts or liabilities of a project. They are long term claims against the project by outsiders.

8. *Other Assets* are those things which are owned by the project and have a value that can be determined, e.g., value of franchise, value of leases, location, etc.

9. *Owners equity* are claims against the project by the owners. For example, if it is a co-operative, there may be common Stock shares outstanding against the project and the project owes the owners the book value of these shares. These are claims of the owners against the project.

10. A *Profit and Loss Statement* is a summary of all the revenue and expenses generated and incurred by the project over a specified length of time. The length of time usually is no shorter than one month and no longer than one year. Monthly Profit and Loss Statements (or Income Statements) are usual, and recommended if adequate financial control is to be maintained on the project. The Profit and Loss statement signals changes in earnings and perhaps losses. The summary results in a net income which is included in the *cash* entry in the balance sheet when it is drawn up. It also signals changes in individual expenses and revenues which can be readily noted by management.

11. *Financial ratios* are the calculated relationships between different entries on the balance sheet or the profit and loss statements that are reduced to simple proportions, i.e., the size of one in relation to another. For example, one ratio is called the current ratio. It is the size of current assets compared to the current liabilities or CA ÷ CL = Current Ratio.

    Ratios assist the project manager to answer questions about the ability of the project to meet its obligations to earn a satisfactory income on investments to withstand delays and setbacks, to obtain funds that may be needed and to perform efficiently what is undertaken.

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Ratios enable management to make comparisons between items on two or more balance sheets or profit and loss statements and arrive at trends that may be taking place over time on the project.

Ratios do not tell the management what the problem is but do *tell him whether a problem exists* and whether the situation is improving or deteriorating. Again using the current ratio as an example, suppose the analyst found that the current ratio was 3 to 1 ($3 of current assets to $1 of current liabilities) on November 1, 1978. Six months later the ratio was 1.5 to 1. The manager should immediately conclude that the project's ability to meet current obligations is in danger and an attempt should be made to find out what has happened and to correct the situation as soon as possible.

12. *Retained earnings* are earnings that are kept in the business after the income tax has been deducted. Retained earnings are the property of the owners of the project and therefore are added into the owners' equity and become a part of the equity portion of the balance sheet. *Retained earnings occur only in the case of a co-operative.*

F. *LIMITATIONS:*

Limitations occur in the use of financial statements and ratios when there are insufficient records to construct them and when the data that is used is inaccurate.

Well formulated, accurate and complete project financial records are necessary if these limitations are to be overcome.

G. *ASSUMPTIONS:*

There are certain assumptions that are made when financial statements are prepared.

1. The information which is used to prepare them is accurate.

2. All assets and equities or liabilities have been reduced to monetary terms and all of these are included in the statements.

3. The actual costs or values of assets, equities and liabilities are used for valuing them and are shown in the project accounts and summarized on the Balance Sheet.

4. A consistent system of arriving at and making entries to the statements is pursued when preparing each of the financial statements.

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H. *OUTPUT:*

Records designed to facilitate financial control of a project.

I. *STEPS IN THE CONSTRUCTION OF A PROFIT AND LOSS STATEMENT (AN INCOME STATEMENT) AND A BALANCE SHEET AND FINANCIAL RATIOS:*

A. *Profit and Loss Statements*

An income statement (Profit and Loss Statement) for a Pioneer Farm Co-operative is shown in Illustration 1 at the end of this module. It also shows how the retained earnings statement is prepared for a co-operative project. Please refer to Illustration 1 to identify each of the following steps.

STEP 1. Put title of document and ending date of statement at top of the page.

STEP 2. Determine the gross sales from the sales ledgers.

2.1 Sum the sales from the sales ledgers. If several products were sold, sum each separately and then add the sub-totals to get the total.

2.2 Total the receipts which are the gross sales.

STEP 3. Determine the net sales.
If discounts are given on larger sales, these are summed and the total is subtracted from the gross sales figure to arrive at the net sales.

STEP 4. Determine the cost of all goods sold.

4.1 Carry forward beginning inventory figure from previous income statement. If none existed, leave space blank. Beginning inventory is a cost and is added into the the other costs for the period covered by the statement.

4.2 Enter cost of goods next. This is the sum of all the costs incurred to produce each of the items produced on the project, except administrative and transportation costs which are listed separately. Costs will be taken from the expense ledgers

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that are kept regularly.

4.3 Determine transportation costs and enter.

A separate ledger should be kept on transport costs in which the costs of fuel, oil, and repairs of vehicles used for this purpose are kept. If the vehicles are used only part time for this purpose, the hours of use for transport is also entered in the ledger and costs are then pro-rated to the different uses that each vehicle has. A good record keeping system on transportation expense is necessary to give a reasonably accurate figure.

4.4 Cost of goods available for sale is the sum of the beginning inventory, cost of goods, and transportation costs.

4.5 Ending inventory is the next entry. This is usually determined by means of a physical counting of all production materials available at the site. The price paid for these items is used to determine the total value of the ending inventory. The value of the ending inventory is subtracted from the total cost of goods available for sale.

STEP 5. Gross income is derived by subtracting the total cost of goods available for sale from the net sales figure.

STEP 6. Administrative and general expense is a summation of all general expenses that are not directly attributable to the cost of production and sales of products. These costs are part of the cost of every activity carried out on the project.

The costs to be entered here are:

Salaries
Insurance and benefits
Utilities
Licences and taxes
Depreciation
Maintenance and repairs
other (rental on equipment, security, etc.)

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All of this information must come from the bookkeeping ledgers which should be organized in a manner that facilitates their summation for each individual expense item. The opportunity to compare the size of these items on each successive Profit and Loss or Income Statement is a very valuable tool for the manager in his efforts at financial control of the project. The more frequently these statements are prepared, the more valuable they are as management tools.

STEP 7. Total operating expense is the sum of all the administrative and general expenses.

STEP 8. Subtracting the total operating expense from the gross income to derive the net operating income.

STEP 9. The net income is the last item to be determined. It is the net operating income minus the income tax that may have to be paid. For all statements except the year end statement, the income tax figure is estimated. Two entries on the income statement are transferred to the balance sheet. These are (1) *net income* which is added into the cash entry, and (2) *depreciation* which is subtracted from the long-term assets of the previous balance sheet.

CAUTION: If the project is a co-operative, a third item is transferred to the balance sheet from the income statement. *The retained earnings* are added into the owners' equity portion of the balance sheet.

B. *The Balance Sheet*

An example of a completed Balance Sheet is shown in Illustration 2 at the end of this module. It does not include all the entries that may appear in other balance sheets but shows the format for a balance sheet and the kinds of entries usually included. See ILLUSTRATION 3 for a Sample Format.

Please refer to ILLUSTRATIONS 2 and 3 to follow each of the steps for constructing a Balance Sheet.

STEP 1. Enter ASSETS in full capitals in the centre of the left half of the page and underline.

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STEP 2. Enter *Current Assets* at the left hand margin and underline.

3.1. Enter *cash* as the first entry under current assets. Cash is the carry-over of net income from the previous period plus the net income realized in the current period. It is derived from a summary of the cash accounts to date plus the net income brought forward from the income statement.

3.2 Enter the *Accounts Receivable* which are those items that have been sold but have not been paid for on the date the balance sheet is drawn up. Accounts receivable records will yield the needed information.

3.3 Enter *the value of the Inventory* which is the value of production inputs and unsold items on hand on the date that the balance sheet is formulated. The inventory value is brought forward from the income statement or can be ascertained by counting items and multiplying the purchase price of those items by the numbers of items.

STEP 4. Enter the value of *Fixed Assets less depreciation.*

4.1 Enter *Fixed Assets* on left hand margin and underline.

4.2 Enter the value of the *land* based on the purchase price of the land. If no land is owned but it is rented or leased, there is no entry for land.

4.3 Enter the value of buildings used in the business (not leased buildings or rented buildings). If buildings are leased or rented there is no entry.

4.4 *Equipment* is entered next as an asset. Only equipment that is owned is valued at the purchase price and entered. If no equipment is owned nothing is entered.

4.5 Depreciation is entered next on all buildings and equipment that is owned. Usually this figure is carried forward from the income statement. Depreciation

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is *subtracted* from the total of the three items, i.e., land, buildings, and equipment to arrive at the value of the fixed assets on the date of the balance sheet.

STEP 5. Enter *Other Assets* at the left hand margin.

5.1 Enter the value of *leases* and *franchises* (if any are used) based on the annual cost (value) to the project for the lease. If it is a one year lease, the entire cost is added. If the lease is for a longer period, the annual value is determined by dividing the total amount paid for the lease by the number of years it will run.

5.2 *Location* may be an asset that has a value and is therefore listed an asset. Location is usually valued by determining the value of a business in the specific location and comparing it with the value of a similar business in other locations. The location value is considered to be the average difference between the value in the specific location and the value in other locations.

5.3 *Stocks shares in otherbusinesses* are assets. Their value is determined by their purchase price.

STEP 6. Enter *EQUITIES* in the centre of the right hand half of the page and underline. All entries under equities are entered on the right hand half of the page.

STEP 7. Enter *Current Liabilities* and underline at the left hand margin of the right half of the page.

7.1 Enter *Accounts Payable* under current liabilities. Accounts payable are all short-term accounts that are owed by the project. They are usually thirty (30) days or less in duration and at a minimum at the close of the balance sheet period.

7.2 Next, any *Bank Notes* (short-term of less than 1 year) which are owed are entered. Interest on these notes is included in this total.

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7.3 Enter any *Accrued Liabilities* next. These are such things as taxes that are past due plus any penalties, prorated shares of lease payments, unpaid dividends on stock, or interest on outside investments in the project. All of these are summed and entered.

7.4 The total *Current Liabilities* entry is made by totalling the accounts payable, Bank notes, and accrued liabilities.

STEP 8. Enter *Long-Term Liabilities* at the left hand margin of the righthand half of the page and underline it.

8.1 enter loans (government and private) as a total. Include interest on the loans in the total.

STEP 9. Enter *Owner's Equity* at the left hand margin of the right hand half of the page and underline it.

9.1 Enter the book value of *Common stock* outstanding among owners. This stock represents ownership in the project and therefore every person who owns common stock is owed a portion of the assets of the project.

The value of common stock is the purchase price of the stock multiplied by the total number of shares.

9.2 Enter *Retained Earnings if the project is a co-operative* venture. The retained earnings are that portion of the profits held by the project and not distributed to the owner/users of the co-operative.

9.3 Total and enter the total *owners equity* in the project. This consists of common stock and retained earnings (only if it is a co-operative business).

STEP 10. Total all of the items included as equities and enter the amount as *Total Equity*.

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Balance Sheets are called balance sheets because the assets must balance with the equities. Everything that is shown as a project asset is the property of some person or entity. The project owns nothing and is simply a legal entity for the purpose of conducting the business of operating the project.

C. *Financial Ratios*

Financial ratios are tools for interpreting what is only partially revealed by financial statements. The results of ratio analysis of financial statements gives the project management some but not all of the information they need to manage the project resources more effectively as they strive to reach project objectives and goals. Ratios show the level of success or failure of a project and signals that different aspects of the project may require greater attention and possibly adjustment.

There are four kinds of ratios discussed in this module: Liquidity, Solvency, Activity and Profitability ratios. These are illustrated below. The factors used to compute all of these ratios are derived from the items included in the financial statements previously discussed in this module and shown in ILLUSTRATIONS 1 AND 2 ON PAGES 14 to 16. Not all ratios are applicable to projects at the implementation stage. Many of them are applicable only after the project enters the operations stage.

The different ratios that can be computed are:-

1. *Liquidity Ratios* - Measure the ability of the firm to meet its obligations with a margin of safety or general financial strength.

   a) Current Ratio:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{326}{84} = 3.9$$

Norm = 2.0

   b) The Acid Test:

$$\frac{\text{Cash + Marketable Securities + Receivables}}{\text{Current Liabilities}} = \frac{184}{84} = 2.2$$

Norm = 1.0

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c) Cash Velocity:

$$\frac{\text{Sales}}{\text{Cash and Equivalent}} = \frac{1,526}{184} = 8.3$$

d) Inventory to Net Working Capital:

$$\frac{\text{Inventory}}{\text{Current Assets - Current Liabilities}} = \frac{135}{242} = 0.55$$

2. *Solvency Ratios* - Measure the contribution of financing by owners compared to creditors.

a) Debt to Equity:

$$\frac{\text{Total Debt}}{\text{Net Worth}} = \frac{137}{663} = .21$$

b) Current Liabilities to Net Worth:

$$\frac{\text{Current Liabilities}}{\text{Net Worth}} = \frac{84}{663} = .13$$

c) Fixed Assets to Net Worth:

$$\frac{\text{Fixed Assets}}{\text{Net Worth}} = \frac{290}{663} = .44$$

3. *Activity Ratios* - Measure the effectiveness of the use of financial resources.

a) Inventory Turnover:

$$\frac{\text{Sales}}{\text{Inventory}} = \frac{1,526}{135} = 11.3$$

b) Net Working Capital Turnover:

$$\frac{\text{Sales}}{\text{Current Assets - Current Liabilities}} = \frac{1,526}{242} = 6.3$$

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c) Fixed Assets Turnover:

$$\frac{\text{Sales}}{\text{Fixed Assets}} = \frac{1,526}{290} = 5.3$$

d) Average Collection Period:

$$\frac{\text{Receivables}}{\text{Average Sales Per Day}} = \frac{123}{4.18} = 29.4 \text{ days}$$

e) Equity Capital Turnover:

$$\frac{\text{Sales}}{\text{Net Worth}} = \frac{1,526}{663} = 2.3$$

f) Total Capital Turnover:

$$\frac{\text{Sales}}{\text{Total Assets}} = \frac{1,526}{800} = 1.9$$

4. *Profitability Ratios* - Measure the success in achieving desired profit levels.

a) Gross Operating Margin:

$$\frac{\text{Gross Operating Profit}}{\text{Sales}} = \frac{226}{1,526} = 0.15$$

b) Net Operating Margin:

$$\frac{\text{Net Operating Profit}}{\text{Sales}} = \frac{31}{1,526} = .02$$

c) Sales Margin:

$$\frac{\text{Net Profit after Tax}}{\text{Sales}} = \frac{62}{1,526} = .04$$

d) Return on Capital:

$$\frac{\text{Net Profit after Tax}}{\text{Net Worth}} = \frac{62}{663} = .09$$

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e) Net Profit on Working Capital:

$$\frac{\text{Net Operating Profit}}{\text{Current Assets - Current Liabilities}} = \frac{31}{242} = .13$$

f) Cost of Sales:

$$\frac{\text{Cost of Goods Sold}}{\text{Sales}} = \frac{1,317}{1,526} = .86$$

g) Net Profit on Assets:

$$\frac{\text{Net Profit after Tax}}{\text{Total Assets}} = \frac{62}{800} = .08$$

Samples of a Balance Sheet and a Profit and Loss Statement

To gain an understanding of the mechanics of Balance Sheet and Income Statement construction, it is necessary that a person be able to visualize what must be included in them and how they are constructed. There are a number of examples of these financial statements with associated exercises and solutions are included in the following pages of this module.

Earlier PDRT working papers relevant to this topic include "Criteria to test Project Worthiness: Project Analysis and Appraisal", M. Kettering, 1977. (25 pages).

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ILLUSTRATION 1

Income Statement - Pioneer Farm Co-operative

Year Ending December 31, 1978

Gross Sales		$200,000	
Less: Sale discounts (2% on $500 sales and over - 25% of orders)		1,000	
Net Sales			$199,000
Cost of Goods Sold:			
Beginning Inventory	$ 1,850		
Cost of Goods	$128,250		
Transportation Costs	$ 8,250		
Cost of Goods Available for Sale		$138,350	
Less: Ending Inventory		-200	$138,150
Gross Income			$ 60,850
Administrative and General Expense			
Salaries and Wages		27,500	
Insurance and Other Benefits		4,200	
Utilities		6,500	
Licenses and Taxes		300	
Depreciation		700	
Maintenance and Repair		1,200	
Other		500	
Total Operating Expense			$ 40,900
Net Operating Income			$ 19,950
Retained Earnings			
Net Operating Income Before Taxes		$ 19,950	
Less Provision for Income Taxes		- 1,500	
Net Income after Taxes (1978)		$ 18,450	

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ILLUSTRATION 1

Income Statement - Pioneer Farm Co-operative (Cont'd)

Add Retained Earnings (1977)	$ 2,650
Total Net Income (1978)	$ 21,100
Less Patronage Dividends	-6,450
Retained Earnings (1978)	$ 14,650

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ILLUSTRATION 2

Pioneer Co-operative Farm

Balance Sheet as of December 31, 1978

ASSETS			EQUITIES		
Current Assets			**Current Liabilities**		
Cash	$ 1,350		Accounts Payable	$ 150	
Accounts Receivable	1,650		Notes Payable	6,000	
Inventories	1,650				
Prepaid Expense	3,000				
Total Current		$ 7,650			$ 6,150
Fixed			**Long Term Liabilities**		
Land	$15,000		Mortgage Payable	$ 5,650	
Buildings & Equipment	7,000				
(Less Accumulated Depreciation	700				
		$21,300			$ 5,650
			Owner's Equity		
			Common Stock	$ 2,500	
			Retained Earnings	$14,650	
					$17,150
TOTAL ASSETS		$28,950	TOTAL EQUITIES		$28,950

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ILLUSTRATION 3

Sample Balance Sheet Format

(Name of Business)

(Date Balance Sheet is Drawn)

ASSETS			EQUITIES		
Current Assets			**Current Liabilities***		
Cash			Accounts Payable		
Accounts Receivable			Accrued Expenses Payable		
Prepaid Bills or Expenses			Deferred Income		
Marketable Securities			Estimated Tax Liability		
Inventories			Notes Payable		
			Dividends Payable		
Total Current			Total Current		
Fixed Assets			**Long Term Liabilities**		
Land			Mortgages		
Buildings					
Improvements					
Equipment					
(Less Accumulated Depreciation)					

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ILLUSTRATION 3

Sample Balance Sheet Format (Cont'd)

ASSETS

Other Assets		
Investments	_____	
Leases	_____	_____
TOTAL ASSETS		_____

Other Liabilities		
Mortgage Bonds Payable	_____	_____
Owner's Equity**		
Common Stock	_____	
Retained Earnings	_____	
		_____
TOTAL EQUITIES		_____

* Liabilities are claims of outsiders on business.

** Equities are claims of owners on business.

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EXERCISE 1

Group Exercise on Constructing a Balance Sheet

Given the following information, construct a balance sheet for a Pioneer Farm. This is the Andover Pioneer Farm Co-operative Association and you are drawing up the balance sheet on December 31, 1979. You began operation April 1, 1979.

As of December 31, 1979, the accounts of the Andover Pioneer Farm showed the following balances:

Cash	$ 8,100
Land	40,000
Other Assets	6,050
Accounts Payable	200
Accounts Receivable	350
Bank Note	5,000
Equipment	12,000
Equipment Depreciation (6-year, straight line)	2,000
Inventory	800
Buildings	8,400
Building Depreciation (20-year, straight line)	420
Common Stock (100 shares @ $10/share)	1,000
Retained Earnings	12,335
Accrued Liabilities	350
Government Loan	55,000

Prepare a Balance Sheet as of this date in proper form.

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ILLUSTRATION 4

Completed Balance Sheet for Exercise 1

Andover Pioneer Farm Co-operative Association

Balance Sheet as of December 31, 1979

ASSETS			EQUITIES		
Current Assets			**Current Liabilities**		
Cash	$ 8,100		Accounts Payable	$ 200	
Accounts Receivable	350		Bank Note	5,000	
Inventory	800		Accrued Liabilities	350	
Total Current		$ 9,250	Total Current		$ 5,550
Fixed Assets			**Long Term Liabilities**		
Land	$40,000		Government Loan	$55,000	
Buildings	8,400				
Equipment	12,000				
(Less Depreciation)	1,815				
		$58,585			$55,000
Other Assets		$ 6,050	**Owner's Equity**		
			Common Stock	1,000	
			Retained Earnings	12,335	$13,335.
TOTAL ASSETS		$73,885	TOTAL EQUITY		$73,885

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EXERCISE 2

Exercise on Income Statement Preparation

You are given these items from the ledgers of the XYZ Pioneer Farm. Use them to construct an Income Statement for that farm. The items are for the year ending June 30, 1978.

Beginning Inventory	$ 21,000
Ending Inventory	21,000
Salaries and Wages	36,500
Depreciation	1,300
Licenses	400
Sales Discounts	675
Gross Sales	225,000
Cost of Transporting Goods (Freight Costs)	4,500
Maintenance and Repairs	600
Employee Benefits	1,500
Other Administrative Expense	800
Costs of Supplies for Farm (Farm Supplies)	156,000
Utilities	3,500
Provision for Income Taxes	2,100

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ILLUSTRATION 5

Solution of Exercise 2 on Income Statement for XYZ Pioneer Farm

Year Ending June 30, 1978

Gross Sales		$225,000	
Less: Sales Discounts (1% of 30% of gross sales)		-675	
Net Sales			$224,325
Cost of Goods Sold			
Beginning Inventory		21,000	
Farm Supplies	$156,000		
Freight Costs	4,500	160,500	
Cost of Goods Available for Sale		181,500	
Less: Ending Inventory		-21,000	160,500
Gross Profit			$ 63,825
Administrative and General Expenses			
Salaries and Wages		36,500	
Employee Benefits		1,500	
Utilities		3,500	
Licenses		400	
Depreciation		1,300	
Maintenance and Repairs		600	
Other		800	$ 44,600
Net Operating Profit			$ 19,225
Net Income Before Taxes			$ 19,225
Less Provision for Income Taxes			2,100
NET INCOME			$ 17,125

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EXERCISE 3

Exercise on Construction of Balance Sheet from a Written Case

LIL'S PALACE

"Lil's Palace" is a small nighclub in a downtown area of a small Mid-Island town. Lil features live entertainment and dancing nightly with a disco band on weekends. She opened the "Palace" on July 4, 1977, with a big name entertainer (a personal friend of Lil's). For Midtown this was quite an event. Consequently, the stage was set for rapid growth.

Lil started out with $20,000 that she had managed to save from her rather brief career as an exotic dancer in a North Shore Hotel Club. The land and building -- a prime downtown location, cost her $22,000. The land itself -- in a prime location -- was worth $10,000. The equipment -- tables, chairs, bar, kitchen facilities -- ran an additional $8,000. Redecorating the building in a disco theme cost $2,500. Lil decided she must have $5,000 cash at the outset to cover other costs of operation for the first few months.

To finance her initial business venture she convinced a local banker of the need for such an establishment. He felt that such would be a good investment and agreed to loan her the needed amount.

During the first few months, Lil's business really boomed. She managed to pay off $3,500 of her bank note and meet all her current expenses. But then disaster struck Lil's Palace. The local WCTU, which had never quite approved of the idea of a "nite club" in Midtown, succeeded in getting Lil's place shut down on the unofficial grounds that it contributed to the moral decay of the community. (Besides, the police had reason to believe that Lil's had been the scene of various illegal activities including the sale of ganga in recent months.)

The upshot of all this was to dissolve the business and move to a larger city, (after all, the mayor's wife was the chairman of the local WCTU). Lil has hired you to draw up a balance sheet for her business as of July 4, 1977 -- the day she opened and June 15, 1978-- the day she closed.

You find that Lil has $9,000 in her business checking account and owes $1,000 and other unpaid bills. Depreciation is estimated at 10 percent on the building, 20 percent on the equipment, and $500 on the

DO NOT DUPLICATE WITHOUT PERMISSION

EXERCISE 3

Exercise on Construction of Balance Sheet from a Written Case (Cont'd)

improvements for the period she was in business. There is $200 of prepaid insurance on the establishment.

1. Draw up the requested balance sheets.

2. How much profit or loss did Lil make?

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ILLUSTRATION 6

Solution to Lil's Palace shown in Exercise 3

Balance Sheets

As of July 4, 1977:

ASSETS			EQUITIES		
Current Assets			**Current Liabilities**		
Cash	$ 5,000		None		
Total Current		$ 5,000			
Fixed Assets			**Long Term Liabilities**		
Improvements	$ 2,500		Bank Loan	$17,500	
Land	10,000				$17,500
Building	12,000				
Fixtures	8,000				
Total Fixed		$32,500			
			Owner's Equity	$20,000	
					$20,000
TOTAL ASSETS		$37,500	TOTAL EQUITY		$37,500

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As of June 15, 1978:

ASSETS			EQUITIES		
Current Assets			**Current Liabilities**		
Cash	$ 9,000		Accounts Payable	$ 1,000	
Prepaid Insurance	200				
Total Current		$ 9,200	Total Current		$ 1,000
Fixed Assets			**Long Term Liabilities**		
Land	$10,000		Bank Loan	$14,000	
Building	12,000				$14,000
(Less depreciation)	-1,200				
Net Building	$10,800				
Equipment	8,000				
(Less depreciation)	-1,600				
Net Equipment	$ 6,400				
Improvements	$ 2,500				
(Less depreciation)	-500				
Net Improvements	2,000				
Total Fixed		$29,200	Owner's Equity		$23,400
TOTAL ASSETS		$38,400	TOTAL EQUITY		$38,400

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Project Planning and Management Series.

MANUAL - I Planning for Project Implementation
MANUAL - P Project Planning
MANUAL - M Project Management
MANUAL - PF Pioneer Farm Implementation Planning

MODULES

1. Defining Project Objectives (Objective Trees)
2. The Logical Framework
3. Work Breakdown Structure
4. Activity Description Sheets
5. Project Organization
6. Linear Responsibility Charts
7. Project Scheduling - Bar Charts
8. Bar Charting for Project Control/Scheduling
9. Project Scheduling - Network Analysis
10. Milestones Description Charts
11. Resource Planning & Budgeting
12. The Role of PAMCO
13. Project Technology Analysis
14. Demand Analysis
15. Market Strategy Analysis
16. Project Area Analysis
17. Project Costs & Benefits
18. Project Profile
19. Financial Analysis
20. Cash Flow Analysis
21. Discounting
22. Net Present Worth Analysis
23. Cost-Benefit Analysis
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25. Internal Rate of Return
26. Social Analysis of a Project
27. Economic Analysis of Projects (including Border Pricing)
28. Financial Statements & Ratios
29. Project Selection & Ratios Analysis
30. Brainstorming
31. Decision-making System for Projects
32. Project Institutional Environmental Analysis
33. Ecological Analysis for Projects
34. Introduction to Contracts, Jamaican Contract Documents & Tendering Procedures
35. Selection & Use of Consultants
36. Project Documents for Planning & Implementation
37. Report Writing for Projects
38. Project Files
39. Formats for Pre-Feasibility & Feasibility Studies
40. Motivation of Employees and Personnel Evaluation
41. Design of a Project Management Control System
42. Evaluating & Forecasting Project Progress & Performance
43. Project Termination
44. Introduction to Lending Agencies
45. Organizing and Conducting Conference Meetings
46. Withdrawal of and Accounting for Loan Funds in the Financing of Projects