



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate (Banking) Finance

INSTRUCTIONAL AREA

Financial Analysis

FINANCIAL STATEMENT ANALYSIS EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 60 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills – the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills – the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills – the ability to take a concept from an idea and make it real
- Priorities/time management – the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

- Describe the nature of cash flows.
- Prepare cash flow statements.
- Analyze cash-flow patterns.
- Describe the effect of a firm's dividend decisions on its external financing requirements.
- Explain the nature of a dividend policy.

CASE STUDY SITUATION

You are financial analysts hired by the newly appointed CFO of MINNESOTA TRADING COMPANY. The CFO has forwarded you a copy of the most recent cash flow statement. The client is very excited because cash appears to have increased by \$105,000 indicating a superb first year of operations. The cash balance at the start of the year was \$140,000.

The cash flow statement for the year ending December 31, 2018 is presented below. You both realize the statement is prepared incorrectly. The client is also excited to announce a forthcoming dividend payment later this quarter.

Minnesota Trading Co.
Cash Flow Statement
For the year ending December 31, 2018

Cash Inflows

From the Sale of Merchandise	\$ 390,000	
From the Sale of Common Shares	420,000	
From the Sale of Investment (see below)	80,000	
From Amortization	55,000	
From Issue of note for Truck	20,000	
From Interest on Investment	6,000	
Total Sources of Cash		\$ 971,000

Cash Outflows

For Purchase of Furniture and Equip	\$ 340,000	
For Merchandise Purchased for Resale	268,000	
For Operating Expenses	160,000	
For Purchase of Investment	75,000	
For Purchase of Truck by Issue of Note	20,000	
For Interest on Note Payable	3,000	
Total Uses of Cash		866,000

Net Increase in Cash		\$ 105,000
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YOUR CHALLENGE

You will meet with the client to discuss the financial results of 2018. You will present to the client a corrected version of the cash flow statement using the indirect method. The only non-cash items on the income statement are amortization and gain from the sale of the investment. There were no changes in any current accounts other than cash.

You will also present the operating activities section of the cash flow statement using the direct method and explain to the client why the first year was an operating failure, and that a potential dividend payment should be deferred. In your discussion, include an analysis of a dividend policy you would recommend, as well as the impact a dividend policy would have on future cash flows.

You will also provide the client with an explanation for the changes you have made.

SOLUTION

From the information given, it appears that from an operating standpoint MINNESOTA TRADING COMPANY did not have a superb first year, having suffered a \$30,000 net loss [see calculation below]. The correct format classifies cash flows from three activities—operating, investing, and financing. It also presents significant noncash investing and financing activities in a separate note.

**Minnesota Trading Company
 Cash Flow Statement
 For the Year Ended December 31, 2018**

Cash flows from operating activities

Net loss		(30,000) **
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization expense	55,000	
Gain from sale of investment	(5,000)	50,000
Net cash provided by operating activities		20,000

Cash flows from investing activities

Sale of investment	80,000	
Purchase of fixtures and equipment	(340,000)	
Purchase of investment	(75,000)	
Net cash used by investing activities		(335,000)

Cash flows from financing activities

Sale of common shares		420,000
Net increase in cash		105,000
Cash, January 1, 2018		140,000
Cash, December 31, 2018		245,000

Significant noncash investing and financing activity:

Issue of note for truck		20,000
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Calculation of net income (loss)

Revenues		
Sales of merchandise	390,000	
Interest revenue	6,000	
Gain on sale of investment	5,000	
Total revenues		401,000
Expenses		
Merchandise purchased	268,000	
Operating expenses (\$160,000 – \$55,000)	105,000	
Amortization	55,000	
Interest expense	3,000	
Total expenses		431,000
Net loss		30,000

**Minnesota Trading Company
 Cash Flow Statement (Partial)
 For the Year Ended December 31, 2018**

Cash flows from operating activities

Cash receipts from revenues	396,000 (1)
Cash payments for operating expenses	376,000 (2)
Net Cash provided by operating expenses	20,000

Calculations:

(1) Cash receipts from revenues

Sales of merchandise	390,000
Interest revenue	6,000
	<u>396,000</u>

(2) Cash payments for operating expenses

Merchandise purchased	268,000
Operating Expenses	105,000
Interest Expense	3,000
	<u>376,000</u>

A cash dividend this year would be possible, due to the large increase in net cash over the course of the year. However, the increase in cash is a result of the sale of share capital. (There was a net loss for the year, and only \$20,000 cash inflow from operating activities.) Therefore, a dividend would be equivalent to a return of invested capital, and is not recommended.

EVALUATION INSTRUCTIONS

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event director and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 th percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 th percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 th percentile of business personnel performing this performance indicator.



**FINANCIAL STATEMENT ANALYSIS
2020**

JUDGE'S EVALUATION FORM
Association Event 1

Participant: _____

INSTRUCTIONAL AREA
Financial Analysis

Participant: _____

ID Number: _____

Did the participants:

		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Describe the nature of cash flows?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Prepare cash flow statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Analyze cash-flow patterns?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Describe the effect of a firm's dividend decisions on its external financing requirements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Explain the nature of a dividend policy?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and response to judge's questions	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						