



FINANCIAL ANALYST TEAM (150)

REGIONAL – 2016

**Judge/Graders: Please double check and verify all scores
and answer keys!**

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ANSWER KEY

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Max Jones has just graduated from college. Because he studied hard to earn good grades, took AP classes, and dual enrolled in college, his college costs were minimal. Using the \$125,000 he saved on tuition costs, he is now able to start his own business.

Because his favorite sport is bicycling, Max would like to start his own bicycle shop to sell and service bicycles. Max is trying to decide between two locations and seeks your advice. Estimated costs and earnings for both locations for the first year of operations are given below.

Location:	Grand Rapids, Michigan	Nashville, Tennessee
Building Rental Expense	\$18,000	\$30,000
Equipment (10 yr life)	15,000	15,000
Sales (net)	350,000	425,000
Wages Expense	40,000	65,000
Operating Expenses	50,000	50,000
Cost of Goods Sold	40% of revenue	40% of revenue
Loan amount needed	45,000 at 10% interest	50,000 at 10% interest
Income tax rate	15%	15%
Total Average Assets	200,000	250,000

One other consideration: If Max locates his business in Michigan, he will be able to close for the month of January and spend the month cycling in Florida. If he locates the business in Nashville, he will need to remain open all year.



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Required: Prepare a report for management including the following items:

1. Prepare a condensed comparative income statement for both potential locations based on the data given. Use straight-line depreciation and simple interest. Round all calculations to the nearest dollar.
2. Compute the following ratios:
 - a. Profit Margin Ratio (aka Rate of Return on Sales)
 - b. Gross Margin Ratio
 - c. Return on Total Assets
3. What other information would you like to know in order to better advise Max on his decision?
4. Your location recommendation to Max. Prepare a written report summarizing your findings, conclusions, and location recommendations, followed by the financial statements for the company and the calculated ratios for the company. The report must follow the report format located in the *Style & Reference Manual*. All financial statements and ratios need to be included at the end of the report.
5. Place each team member's contestant number in the footer on each financial statement and any documentation given to the judges.

Print two copies of your financial statements and any documentation you will be providing to the judges. One copy will be provided to judges for scoring, and the other will be retained for use by presentation judges.

No changes may take place to your work after testing time ends.



JUDGING PROCEDURE

- Teams will be introduced by team number. **Contestants may continue to wear their name badges.**
- As a team of judges, formulate two to three questions to ask at the conclusion of the presentation. Be sure to ask the same questions of each team.
- Teams will present before a panel of judges and timekeeper.
- The length of set-up will be no more than ten (10) minutes.
- The length of the presentation will be no more than ten (10) minutes.
- There will be no more than five (5) minutes for judges' questions.
- Excuse teams upon completion of answering judges' questions.
- **There can be no ties in the top ten (10) teams.** It is the responsibility of the judges to break any ties.
- Administrator will fill out ranking sheet prior to dismissing the judges.
- If more than one (1) section is necessary, finalists will be determined by selecting an equal number from each section.
- Give administrator all Judges' Scoring Rubrics, Judge Comment Sheets and contest materials.
- No audience is allowed in the contest room.

Please double-check and verify all scores!



(Note: format does not have to be exact but numbers must be correct)

1. Prepare a condensed comparative income statement for both potential locations based on the data given. Use straight-line depreciation and simple interest. Round all calculations to the nearest dollar.

Comparative Income Statement
For the year ended December 31, 2016

	GRAND RAPIDS	TENNESSEE
Sales (net)	\$350,000	\$425,000
Cost of Goods Sold	140,000	170,000
Gross Profit	\$210,000	\$255,000
Less Expenses		
Building Rental	\$18,000	\$30,000
Wages	40,000	65,000
Operating	50,000	50,000
Depreciation	1,500	1,500
Interest	4,500	5,000
Total Expenses	114,000	151,500
Income before Tax	\$ 96,000	\$103,500
Less Income Tax	14,400	15,525
NET INCOME	\$ 81,600	\$ 87,975

2. Compute the following ratios (round all calculations to the nearest whole %):

- a. Profit Margin Ratio (sometimes called Rate of Return on Sales)
(net income/net sales)

Grand Rapids: $81,600/350,000 = 23\%$

Nashville: $87,975/425,000 = 21\%$

- b. Gross Margin Ratio

Grand Rapids: $210,000/350,000 = 60\%$

Nashville: $255,000/425,000 = 60\%$



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c. Return on Total Assets

Grand Rapids: $81,600/200,000 = 41\%$

Nashville: $87,975/250,000 = 35\%$

3. What other information would you like to know in order to better advise Max on his decision?

There could be a variety of answers here. Some possibilities include:

- a. The amount of Accounts Receivable for each company
- b. The amount of Accounts Payable for each company
- c. The Inventory amounts for each company
- d. The number of employees needed
- e. Details about the location including population, neighborhood, bike trails, bike clubs that promote bicycling to name a few
- f. Competing bicycle shops: number and locations
- g. And more

Either location could be feasible but needs to be supported by the other information the team presents.

Possible Judges' Questions

1. What other financial statements might be prepared to help in the analysis of opening a new store? Balance Sheet, Cash Flows, Various Budgets, etc.
2. Is there additional information that you would have requested if you had the opportunity?
3. Do you believe this business will be successful?