

FINANCIAL ACCOUNTING - FINAL GROUP ASSIGNMENT

**ESCP - GENERAL MANAGEMENT
PROGRAMME**



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Cumberland financial year 2013

The company ended the 2013 financial cycle with a better and growing turnover than the 2012, moving from \$ 364,1 million to \$ 455,1 million with a net increase of 25%. According to the result mentioned above, Fixed Costs of the Company have been better employed with the final result of a significant increase of the EBITDA (Gross Margin) that moved from 11,8% to 15%. The extraordinary efficiency of the company had a limited impact on the overall result (which is positive and in a continuous improvement), moving from 4,6% to 6,8% with a value of \$ 31,6 million. As final consideration, the Company has reached the Financial Stability, with an increasing and positive result than the year before.

From the financial point of view, the cash generated from operating activities was able to cope with the absorption generated by the changes in working capital and investments, while the increase of bank debt in the medium / long run and the capital increase compensate for the distribution of dividends to shareholders.

Overall, the net financial position of the company improved by \$ 4.5 million, positive evidence in view of the fact that the NOWC accounted for 24% of sales and therefore the increasing of this implies a physiological absorption of liquidity : it can be assumed that once the growth will be stabilized, the company will be able to generate cash over time. Capital state doesn't present any aberration: current activity is quite able to cover current liabilities, and credits towards customers grows in a very proportional way in accordance

with profitability growth.

Because of company's financial capacity, effects of growth of liabilities towards suppliers are unimportant, same as liabilities towards banks (16,7% of profitability). We can also see a positive willing in investements (notable on negative free cash flow) but positive in complete statement of the company.

The market appreciated the Company's management as shown by the positive Market Value Added of \$ 14.895. Thanks its positive results, the company reinforced confidence among its investors and boosting the reputation of the company across the market. Additionally, the company decided to pay out the 40% of its net income as common dividends for a total of \$ 12.554.

Due to these positive results in terms of Economic Value Added it can be expected that the Company will attract new investments, to support a steady growth in the future in its profitable core business.

Below company's data, balance sheet, income statement & cash flow statement

Annual Report & Ratios Analysis

Assets	2013	2012
Cash and cash equivalents	\$91.450	\$74.625
Short-term investments	\$11.400	\$15.100
Accounts receivable	\$103.365	\$85.527
Inventories	\$38.444	\$34.982
Total current assets	\$244.659	\$210.234
Net fixed assets	\$67.165	\$42.436
Total assets	\$311.824	\$252.670

Table 1: Assets - Cumberland industries December 31 Balance Sheets (in thousands of dollars)

Liabilities and equity	2013	2012
Accounts payable	\$30.761	\$23.109
Accruals	\$30.477	\$22.656
Notes payable	\$16.717	\$14.217
Total Current liabilities	\$77.955	\$59.982
Long-term debt	\$76.264	\$63.914
Total liabilities	\$154.219	\$123.896
Common stock	\$100.000	\$90.000
Retained Earnings	\$57.605	\$38.774
Total common equity	\$157.605	\$128.774
Total liabilities and equity	\$311.824	\$252.670

Table 2: Liabilities and equity - Cumberland industries December 31 Balance Sheets (in thousands of dollars)

Key Input Data for Cumberland Industries:

Sales Revenue	\$455.150
EBITDA as a percent of sales	15%
Depr. as a % of Fixed Assets	11%
Tax rate	40%
Interest Expense	\$ 8.575
Dividend Payout Ratio	40%
Stock price	\$17,25
Numbers of shares (in thousands)	10000
A-T cost of capital	12%

Table 3: Cumberland industries December 31 Input data (in thousands of dollars)

Income statement	2013	2012
Sales	\$455.150	\$364.120
Expenses excluding depreciation and amortization	\$386.877,5	\$321.108,74
EBITDA	\$68.273	\$43.011
Depreciation (Cumberland has no amortization charges)	\$7.388	\$6.752
EBIT	\$60.884	\$36.259
Interest Expense	\$ 8.575	\$7.829
EBT	\$52.309	\$28.430
Taxes (40%)	\$20.924	\$11.372
Net Income	\$31.386	\$17.058
Common dividends	\$12.554	\$6.823
Addition to retained earnings	\$18.831	\$10.235

Table 4: Cumberland industries December 31 Income Statement (in thousands of dollars)

Statement of Retained Earnings	
Balance of Retained Earnings, December 31, 2012	\$38.774
Add: Net Income, 2013	\$11.400
Less: Common dividends paid, 2013	\$12.554
Balance of Retained Earnings, December 31, 2013	\$57.605

Table 5: Statement of Retained Earnings - Cumberland industries December 31 (in thousands of dollars)

1 Formulas

Net Operating Working Capital

$$\begin{aligned}
 NOWC_{13} &= \text{Operating current assets} - \text{Operating current liabilities} \\
 &= \$233.259 - \$61.238 \\
 &= \$172.021
 \end{aligned}
 \tag{1}$$

$$\begin{aligned}
 NOWC_{12} &= \text{Operating current assets} - \text{Operating current liabilities} \\
 &= \$195.134 - \$45.765 \\
 &= \$149.369
 \end{aligned}
 \tag{2}$$

Total Net Operating Capital

$$\begin{aligned}
 TOC_{13} &= NOWC + \text{Fixed assets} \\
 &= \$172.021 + \$67.165 \\
 &= \$239.186
 \end{aligned}
 \tag{3}$$

Statement of Cash Flows	
Operating Activities	
Net Income	\$31.386
Depreciation	\$7.388
Increase in accounts receivable	\$(17.838)
Increase in inventories	\$(3.462)
Increase in accounts payable	\$7.652
Increase in accruals	\$7.821
Net cash provided by operating activities	\$32.947
Investing Activities	
Cash used to acquire gross fixed assets	\$(32.117)
Decrease in short-term investments	\$3.700
Net cash provided by operating activities	\$(28.417)
Financial Activities	
Increase in notes payable	\$2.500
Increase in long-term debt	\$12.350
Increase in common stock	\$10.000
Payment of common dividends	\$(12.554)
Net cash provided by financing activities	\$12.295
Net increase/decrease in cash	\$16.825
Add: Cash balance at the beginning of the year	\$74.625
Cash balance at the end of the year	\$91.450

Table 6: Statement of Retained Earnings - Cumberland industries December 31 (in thousands of dollars)

$$\begin{aligned}
TOC_{12} &= \text{NOWC} + \text{Fixed assets} \\
&= \$149.369 - \$42.436 \\
&= \$149.369
\end{aligned}
\tag{4}$$

Net Operating Profit After Taxes

$$\begin{aligned}
NOPAT_{13} &= \text{EBIT} \times (1 - T) \\
&= \$60.884 \times 60\% \\
&= \$36.531
\end{aligned}
\tag{5}$$

$$\begin{aligned}
OCF_{13} &= \text{NOPAT} - \text{Depreciation} \\
&= \$36.531 + \$7.388 \\
&= \$191.805
\end{aligned}
\tag{6}$$

Operating Cash Flow

$$\begin{aligned}
OCF_{13} &= \text{NOPAT} - \text{Depreciation} \\
&= \$36.531 + \$7.388 \\
&= \$191.805
\end{aligned}
\tag{7}$$

Free Cash Flow

$$\begin{aligned}
FCF_{13} &= \text{OCF} - \text{Gross investment in operating capital} \\
&= \$43.919 - \$54.769 \\
&= \$(10.850)
\end{aligned}
\tag{8}$$

or Free Cash Flow

$$\begin{aligned}
FCF_{13} &= \text{NOPAT} - \text{Net investment in operating capital} \\
&= \$36.351 - \$47.381 \\
&= \$(10.850)
\end{aligned}
\tag{9}$$

Market Value Added

$$\begin{aligned}
MVA &= \text{Stock price} \times \text{Numbers of shares} \\
&= 17,25\% \times \$10.000 \\
&= \$14.895
\end{aligned}
\tag{10}$$

Economic Value Added

$$\begin{aligned}
MVA &= \text{NOPAT} - \text{Operating Capital} \times \text{After-tax cost of capital} \\
&= \$36.531 - 239.186 \times 12\% \\
&= \$7.828
\end{aligned}
\tag{11}$$