

*Financial Planning Example 1 – Plug Variable*

**Income Statement**

Sales	\$1000
<u>Costs</u>	<u>\$600</u>
Net Income	\$400

**Balance Sheet**

Assets	\$800	Debt	\$400
		<u>Equity</u>	<u>\$400</u>
Total	<u>\$800</u>	Total	<u>\$800</u>

- *Sales projected to grow at 20%*
- *All items on financial statements are proportional to sales*

*Financial Planning Example 2 – External Financing Needed*

<b><u>Income Statement</u></b>		<b><u>Balance Sheet</u></b>			
Sales	\$5000	Assets	\$15000	Debt	\$5000
<u>Costs</u>	<u>\$3000</u>			<u>Equity</u>	<u>\$10000</u>
Net Income	\$2000	Total	<u>\$15000</u>	Total	<u>\$15000</u>

- *Sales projected to grow to \$5750*
- *Costs and Assets vary with Sales, Debt and Equity do not*
- *half of Net Income is paid out as a Dividend*

*Financial Planning Example 3 – Internal Growth Rate*

<b><u>Income Statement</u></b>		<b><u>Balance Sheet</u></b>			
Sales	\$15000	Assets	\$40000	Debt	\$18000
<u>Costs</u>	<u>\$12000</u>			<u>Equity</u>	<u>\$22000</u>
Net Income	\$3000	Total	<u>\$40000</u>	Total	<u>\$40000</u>

- *Costs and Assets vary with Sales, Debt and Equity do not*
- *A dividend of \$1200 was paid and the company wishes to maintain a constant payout ratio.*
- *How much can sales grow without external financing?*

*Financial Planning Example 4 – Sustainable Growth Rate*

<b><u>Income Statement</u></b>		<b><u>Balance Sheet</u></b>			
Sales	\$15000	Assets	\$100000	Debt	\$20000
<u>Costs</u>	<u>\$ 6000</u>			<u>Equity</u>	<u>\$80000</u>
Net Income	\$9000	Total	<u>\$100000</u>	Total	<u>\$100000</u>

- *Costs and Assets vary with Sales, Debt and Equity do not*
- *A dividend of \$2700 was paid and the company wishes to maintain a constant payout ratio.*
- *How much can sales grow while the firm maintains a constant debt to equity ratio and no external equity is issued?*

### *Full Capacity Sales on Fixed Assets Example 1*

*A company is operating at only 85% fixed asset capacity. If current sales are \$500 000, how much can the sales grow before new fixed assets are needed?*

### *Full Capacity Sales on Fixed Assets Example 2*

*A company is operating at 80% fixed asset capacity. Currently, sales are \$500 000, and fixed assets are \$400 000. If the company wants to grow sales to \$700 000, how much in new fixed assets is required to support this growth?*

*Full Capacity Sales and External Financing Needed Example*

**Income Statement**

Sales	\$450
<u>Costs</u>	<u>\$400</u>
Taxable Income	\$50
<u>Taxes (40%)</u>	<u>\$20</u>
Net Income	\$30

**Balance Sheet**

Current Assets 400	Accounts Payable 100
Fixed Assets 500	Long Term Debt 500
	Equity 300

- *Fixed Assets are operating at 75% capacity*
- *Costs, current assets and accounts payable vary with sales*
- *The company paid a \$9 dividend and will maintain this payout ratio*
- *What is the external financing needed to support 40% growth in sales with no new debt or equity issued?*