**California Electric Vehicles, Inc**

**Part 2: Balance Sheet Analysis**

Name and date submitted:

(11 questions, 37 points)



Instructions

Create space in the template below for your answers. DO NOT ERASE the questions or the point totals.

This scenario deals with the “Balance sheet”. Balance sheets are covered in your textbook beginning on p. 304, and “Same size balance sheets” are covered beginning on p. 312. Go back and review this before doing this assignment!

Scenario

It is now December 31st, 2022, and California Electric Vehicles, Inc. (CEV) has been up and running for two full years, from Jan. 1, 2021 to Dec. 31, 2022. Sally Smitherton has moved on to another job opportunity, and you did such a good job of advising them initially that when she left they offered you the job of Chief Financial Officer - which you accepted on the condition that you would receive stock in the company if they met their targets.

Your first task is to prepare a “Same size balance sheet” for the first two years of operation (stop right now and go to p. 313 of your textbook to see an example. Then download and open the Excel template which is posted next to this handout. Select the ‘Balance Sheet’ tab along the bottom).

The “Same size balance sheet” (on your Excel template) shows the company’s position on Dec. 31, 2021 and Dec. 31, 2022, and compares the Assets, Liabilities, and Shareholder’s Equity for the two years.

1. (6 pts) Fill-in the table below. Reminder: figures which are surrounded by parentheses - like this ($1,000) - are negative numbers.

|  |  |  |
| --- | --- | --- |
|  | 2022 (This year) | 2021 (Last year) |
| Total Assets |  |  |
| Total Liabilities |  |  |
| Total Shareholder’s Equity |  |  |

1. In order to finance the company back in January 2021, you estimated that you would need around $2,000,000 in seed capital. In order to raise this capital you borrowed $500,000 from a bank, and in addition you found 5 investors who were willing to invest a total of $1,500,000 (they received stock in the company and henceforth became known as “shareholders”). The $500,000 bank loan, plus the $1,500,000 shareholder’s investment, gave you the needed $2,000,000 seed capital.
   1. (1 pts) How much of that $500,000 bank loan does CEV still owe the bank on Dec. 31, 2021? (Hint: it’s between $450,000-500,000)
   2. (1 pts) How much of that $500,000 bank loan does CEV still owe the bank on Dec. 31, 2022?
2. Shareholders: As mentioned above, the original 5 shareholders contributed a total of $1,500,000 back on Jan. 1, 2021.
   1. (1 pts) How much is their investment worth on Dec. 31, 2021? (book value in dollars) (Hint: it’s between $350,000-400,000)
   2. (1 pts) How much is their investment worth on Dec. 31, 2022? (book value in dollars)
3. Shares of stock:
   1. (1 pts) In both 2021 and 2022, how many total shares of stock are there? (“shares outstanding”)
   2. What is the book value per share
      1. (1 pts) As of Dec. 31, 2021?
      2. (1 pts) As of Dec. 31, 2022?
4. Who controls the company? The shareholders are as follows

|  |  |  |
| --- | --- | --- |
|  | No. of shares | % of the total |
| Smithers | 300,000 |  |
| Callahan | 400,000 |  |
| McGilly (CEO) | 150,000 |  |
| Chang | 300,000 |  |
| Columbo | 350,000 |  |
|  | 1,500,000 | 100% |

* 1. (1 pts) Can the CEO, McGilly, call the shots?
  2. (1 pts) Can any two (2) shareholders gang up and impose their will on the other three?
  3. (1 pts) On Jan. 1, 2021 (first day of operation), the shares were valued at $1 each. Therefore, how much did McGilly (the CEO) contribute to the company in dollars?
  4. (5 pts) Fill-in the (5) missing values in column #3 (% of the total)

1. (5 pts) “% change” (see p. 312 of your textbook for the formula!): On the “Same size balance sheet”, there is a column called “% change”. Notice there is an example given for the Total Current Assets (-55%). On your spreadsheet, calculate and enter the correct values for “% change” inside the 5 yellow cells which have boxes around them.
   * 1. Total Long-Term Assets
     2. Total Assets
     3. Total Liabilities
     4. Total Shareholder’s Equity
     5. Total Liabilities & Equity
2. Define the terms (Hint: these terms begin on p. 305)
   1. (1 pts) Asset
   2. (1 pts) Liability
   3. (1 pts) Owner’s Equity
3. Define the terms
   1. (1 pts) Current asset
   2. (1 pts) Current liabilities
4. Define the terms
   1. (1 pts) Long-term assets
   2. (1 pts) Long-term liabilities
5. Define the terms (you will need to hunt a little for these)
   1. (1 pts) Accounts receivable
   2. (1 pts) Accounts payable
6. On day one, the company had raised $2,000,000 in cash from a bank loan plus five investors. One year later, on Dec. 31, 2021, the “cash on hand” had dwindled to just a little over $1,000,000, and by Dec. 31, 2022 the “cash on hand” had dwindled to just a little over $125,000.
   1. (1 pts) What happened to all the cash? Be specific! To receive credit, your answer must include an analysis of the Income Statement for these two years. Be specific.
   2. (1 pts) Do you have enough cash to get through the 3rd year, 2023? Again, to receive credit you will need to include an analysis of the 2023 Income Statement in your answer.