**4.** An increase of sales to $21,840 is an increase of:

Sales increase = ($21,840 – 19,500) / $19,500

Sales increase = .12 or 12%

Assuming costs and assets increase proportionally, the pro forma financial statements will look like this:

Pro forma income statement Pro forma balance sheet

Sales $ 21,840 Assets $109,760 Debt $52,500

Costs 16,800 Equity 79,208

EBIT 5,040 Total $109,760 Total $99,456

Taxes (40%) 2,016

Net income $ 3,024

The payout ratio is constant, so the dividends paid this year is the payout ratio from last year times net income, or:

Dividends = ($1,400 / $2,700)($3,024)

Dividends = $1,568

The addition to retained earnings is:

Addition to retained earnings = $3,024 – 1,568

Addition to retained earnings = $1,456

And the new equity balance is:

Equity = $45,500 + 1,456

Equity = $46,956

So the EFN is:

EFN = Total assets – Total liabilities and equity

EFN = $109,760 – 99,456

EFN = $10,304

**5.** Assuming costs and assets increase proportionally, the pro forma financial statements will look like this:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Pro forma income statement | |  | Pro forma balance sheet | | | | |
| Sales | $4,830.00 |  | CA | $4,140.00 |  | CL | $2,145.00 |
| Costs | 3,795.00 |  | FA | 9,085.00 |  | LTD | 3,650.00 |
| Taxable income | $1,035.00 |  |  |  |  | Equity | 6,159.86 |
| Taxes (34%) | 351.90 |  | TA | $13,225.00 |  | Total D&E | $12,224.86 |
| Net income | $ 683.10 |  |  |  |  |  |  |

The payout ratio is 40 percent, so dividends will be:

Dividends = 0.40($683.10)

Dividends = $273.24

The addition to retained earnings is:

Addition to retained earnings = $683.10 – 273.24

Addition to retained earnings = $409.86

So the EFN is:

EFN = Total assets – Total liabilities and equity

EFN = $13,225 – 12,224.86

EFN = $1,000.14