**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