

Generally accepted accounting principles and sunset boards essay sample



**ASSIGN
BUSTER**

Sunset Boards is a small company that manufactures and sells surfboards in Malibu. Tad Marks, the founder of the company, is in charge of the design and sale of the surfboards, but his background is in surfing, not business. As a result, the company's financial records are not well maintained.

The initial investment in Sunset Boards was provided by Tad and his friends and family. Because the initial investment was relatively small, and the company has made surfboards only for its own store, the investors haven't required detailed financial statements from Tad. But thanks to word of mouth among professional surfers, sales have picked up recently, and Tad is considering a major expansion. His plans include opening another surfboard store in Hawaii, as well as supplying his "sticks" (surfer lingo for boards) to other sellers.

Tad's expansion plans require a significant investment, which he plans to finance with a combination of additional funds from outsiders plus some money borrowed from banks. Naturally, the new investors and creditors require more organized and detailed financial statements than Tad has previously prepared. At the urging of his investors, Tad has hired financial analyst Paula Wolfe to evaluate the performance of the company over the past year. After rooting through old bank statements, sales receipts, tax returns, and other records, Paula has assembled the following information: Sunset Boards currently pays out 50 percent of net income as dividends to Tad and the other original investors, and has a 20 percent tax rate. You are Paula's assistant, and she has asked you to prepare the following:

1. An income statement for 2007 and 2008.

2. A balance sheet for 2007 and 2008.
3. Operating cash flow for each year.
4. Cash flow from assets for 2008.
5. Cash flow to creditors for 2008.
6. Cash flow to stockholders for 2008.

Information

2009 2010

Cost of goods sold \$141, 641 \$178, 839

Cash 20, 437 30, 880

Depreciation 39, 983 45, 192

Interest expense 8, 702 9, 962

SGA Expenses 27, 854 36, 355

Accounts payable 36, 120 40, 908

Fixed assets 176, 400 214, 184

Sales 277, 855 338, 688

Accounts receivable 14, 482 18, 785

Notes payable 16, 464 17, 976

Long-term debt 89, 040 102, 480

Inventory 30, 475 41, 821

New equity 0 16, 800

7. How would you describe Sunset Boards' cash flows for 2008? Write a brief discussion

8. In light of your discussion in the previous question what do you think about Tad's expansion plans?