

## Genmo Corporation\*

On the night of February 27, 1994, certain records of the Genmo Corporation were accidentally destroyed by fire. Two days after that the principal owner had an appointment with an investor to discuss the possible sale of the company. The owner needed as much information as could be gathered for this purpose, recognizing that over a longer period of time a more complete reconstruction would be possible.

On the morning of February 28, the following were available: (1) A balance sheet as of December 31, 1992, and an income statement for 1992 (Exhibit 1) and (2) certain fragmentary data and ratios that had been calculated from the current financial statements (Exhibit 2). The statements themselves had been destroyed in the fire. (In ratios involving balance sheet amounts, Genmo used year-end amounts rather than an average.) And (3) the following data (in thousands):

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1993 revenues.....	\$10,281
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Current liabilities, December 31, 1993 .....	2,285
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# EXHIBIT 1 Genmo Corporation Financial Statements

(thousands of dollars)

## BALANCE SHEET

As of December 31, 1992

### Assets

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Current assets:		
Cash.....		\$ 18
Marketable securities.....		494
Accounts receivable.....		728
Inventories.....		972
Prepaid expenses.....		<u>214</u>
Total current assets.....		2,426
Investments.....		898
Real estate, plant, and equipment.....	\$4,727	
Less: Accumulated depreciation.....	<u>2,433</u>	<u>2,294</u>
Special tools.....		171
Goodwill.....		<u>594</u>
Total assets.....		<u>\$6,383</u>

### Liabilities and Shareholders' Equity

Current liabilities:	
Accounts payable.....	\$ 732
Loans payable.....	266
Accrued liabilities.....	1,232
Total current liabilities.....	<u>2,230</u>
Long-term debt.....	250
Other noncurrent liabilities.....	<u>951</u>
Total liabilities.....	<u>3,431</u>

Shareholders' equity:	
Preferred stock.....	25
Common stock.....	54
Additional paid-in capital.....	667
Retained earnings.....	<u>2,206</u>
Total shareholders' equity.....	<u>2,952</u>
Total liabilities and shareholders' equity.....	<u>\$6,383</u>

### Income Statement, 1992

Total revenues.....		\$9,779
Cost of sales (excluding depreciation and amortization)...	\$8,165	
Depreciation.....	278	
Amortization of goodwill and special tools.....	<u>343</u>	
	8,786	
Selling, general, and administrative expenses.....	430	
Provision for income taxes.....	<u>163</u>	
Total costs and expenses.....		<u>9,379</u>
Net income.....		<u>\$ 400</u>

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### EXHIBIT 2 Selected Ratios

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	1993	1992
Acid-test ratio.....	0.671	0.556
Current ratio .....	1.172	1.088
Inventory turnover (times) .....	10.005	8.400
Days' receivables.....	39.66	27.17
Gross margin percentage.....	15.12	16.50
Profit margin percentage.....	2.831	4.090
Invested capital turnover (times) .....	2.091	2.355
Debt/equity ratio (percentage) .....	62.15	40.68
Return on shareholders' equity.....	?	13.55

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## **Questions**

1. Prepare a balance sheet as of December 31, 1993, and the 1993 income statement.
2. What was the return on shareholders' equity for 1993?