

SunTruck Sunglasses Case Study

Name

Institution

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Step 1. Financing

Based on the letter from the organization, Shaun's identified constraints are:

- The need for \$150,000 to increase the capacity for five additional pop-up stands.
- The need for additional funds to increase marketing efforts to stimulate demand.
- The need to maintain or increase his profit margins.
- The desire to enhance the organization's credibility for future capital raising.

Based on the financial statements provided, Shaun's business has a positive net income, operating cash flow, and free cash flow. However, his business also has a high debt-to-equity ratio, a low current ratio, and a low operating cash flow-to-sales ratio. The information means that his company is highly leveraged, has inferior liquidity, and is inefficient at converting sales into cash. Depending on Shaun's constraints, some of the best financing options are Small-business grants or online loans. However, the latter is easier to get but costly, while the former has no interest but is challenging to get as they may have limited availability and strict requirements.

Step 2: Accounting Cycle

According to Laurinavicius (2023), the accounting cycle typically consists of the following steps:

- Identify and analyze transactions
- Record transactions in journals
- Post journal entries to ledgers
- Prepare an unadjusted trial balance
- Record adjusting entries

- Prepare an adjusted trial balance
- Prepare financial statements
- Record closing entries
- Prepare a post-closing trial balance
- Reverse entries (optional)

Based on the email, the junior accountant is working on the expenses from the last quarter for the revised income statement. The email implies that the junior accountant has already completed the first six steps of the accounting cycle and is now on the seventh step: preparing financial statements. Therefore, the best action for the junior accountant to complete next is to prepare the revised income statement according to the instructions given by the senior accountant. After preparing the revised income statement, the junior accountant can proceed with the remaining steps of the accounting cycle. These steps will finalize the accounting records for the last quarter and prepare them for the next accounting period.

Step 3: Financial Statements

The balance sheet is the appropriate financial statement for the junior accountants to give the investor the information they want. The balance sheet shows the assets, liabilities, and shareholders' equity of a specific date, as Fernando (2022) explains. The balance sheet's liabilities section shows Sunstruck's current debt level. The balance sheet can help the investor evaluate Sunstruck's solvency, liquidity, and risk profile. Solvency is Sunstruck's ability to pay its long-term debt. Liquidity is Sunstruck's ability to pay its short-term debt. The risk profile refers to Sunstruck's exposure to default risk, interest rate risk, and financial distress. By providing the balance sheet to the investor, the junior accountants can show the investor what they need to

know to make an investment decision, including assessing the debt compared to determine risk and service debt.

Step 4: Financial Analysis

A financier should hesitate to invest in Sunstruck as a financier. While Sunstruck has a positive net income and a high net profit margin, it also has low liquidity, high solvency, and low efficiency. According to CFI Team's (2022) financial guide, the above information suggests that Sunstruck may face future cash flow problems, debt repayment issues, and operational challenges. Therefore, before making an investment decision, I would need more information about Sunstruck's business model, competitive advantage, industry outlook, and plans.

References

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