



**STUDYDADDY**

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# Investment Decisions for Big Spenders Inc.

## Background

You are an Analyst for the professional service firm, FINACC LLP. Your firm specializes in providing a wide variety of internal business solutions for different clients. It is your first day on the job and a Manager in the Consulting area asks you for some help with an investment decision for one of your large clients, Big Spenders Inc. Ready to make an impression on your first day, you start reading the background information provided by the Manager.

## Additional Information

Big Spenders Inc. has been working on diversifying its portfolio of investments and requires accounting advice for a decision between two car cleaning and detailing companies. Your responsibility is to perform a comparative analysis of the profitability of two potential equity investments. Your engagement manager on this job has given you a brief background on the operations of the two companies:

Auto Wash Bot Ltd. (AWBL) has recently completed the research and development of a new touch screen app for all mobile devices. This new technology is both more user friendly than the current technology on the market. Auto Wash Bot Ltd has just signed a major contract to provide the Auto Wash Bot terminal to a major producer of mobile devices. The founder of the business would like to sell a 50% interest in the business for \$100,000 in order to finance further expansion of operations.

Popeye’s Muscle Wash Ltd (PMWL) is a self-service, coin operated car wash located in a busy residential area. The company provides all of the services of a typical car wash, including soap, wax, vacuuming as well as pressure washing. PMWL has been long established and enjoys the loyalty and repeat business of many local residents. The current owner is getting up in age and would like to sell 100% ownership interest in the business for \$100,000 to pursue retirement. The current year’s income statement is consistent with prior years.

One of the first tasks in the analysis of the potential equity acquisition is an assessment of each company’s current and future profitability. Your manager has provided you with copies of each company’s income statement (see below). Next, you are to calculate the expected return on the investment for each company. You have been asked to discuss any other issues that you believe are relevant to the investment decision.

The Consulting Manager would like you to prepare the report and have it on his desk for review first thing tomorrow morning. Once reviewed, this report will be submitted to Big Spenders Inc. in order to support their decision.

### Auto Wash Bot Ltd.

Income Statement

For the Year Ended December 31, 2015

|                      |           |
|----------------------|-----------|
| Revenue              | \$375,000 |
| Cost of Goods Sold   | 86,250    |
| Gross Profit         | 288,750   |
| Other Expenses       |           |
| Advertising          | 35,400    |
| Office Expense       | 22,750    |
| Research             | 195,000   |
| Wages and Salaries   | 40,000    |
| Total Other Expenses | 293,150   |
| Income Before Taxes  | (4,400)   |
| Income Tax           | 0         |
| Net Income           | \$(4,400) |

### Popeye’s Muscle Wash Ltd

Income Statement

For the Year Ended December 31, 2015

|                         |           |
|-------------------------|-----------|
| Revenue                 | \$375,000 |
| Cost of Goods Sold      | 163,125   |
| Gross Profit            | 211,875   |
| Other Expenses          |           |
| Advertising             | 5,200     |
| Office Expense          | 17,400    |
| Repairs and Maintenance | 85,000    |
| Wages and Salaries      | 50,000    |
| Total Other Expenses    | 157,600   |
| Income Before Taxes     | 54,275    |
| Income Tax*             | 8,413     |
| Net Income              | \$45,862  |

\*Tax rate of 15.5% used.

**Note to students:** Issues are hidden within the case. It is your responsibility to read the case facts and identify the critical issues required for discussion and analysis.

## Evaluation

Case Analysis 1 will be marked in its entirety out of 100. The following rubric indicates the criteria students are to adhere to, and their relative weights to the assignment overall. The instructor may also generate a class case discussion, upon which a grade scaling might be deemed appropriate.

|       | Activity/Competencies Demonstrated   | % of Final Grade |
|-------|--|------------------|
| 1.    | Identification and Analysis of Issues (80%)  |                  |
|       | a. Analysis of I/S for Auto Wash Bot   | /25              |
|       | b. Analysis of I/S for Popeye’s  | /15              |
|       | c. Return on Investment  | /25              |
|       | d. Riskiness of Earnings/Conclusion  | /15              |
| 2.    | Recommendation (10%)   |                  |
|       | a. Provides appropriate recommendation given the case facts and analysis completed | /10              |
| 3.    | Attention to Detail (10%)  |                  |
|       | a. Spelling, grammar, and formatting   | /10              |
| Total |  | /100             |

## Submission status



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