

**COOKIE & COFFEE CREATIONS INC.**

**2018 Annual Report**

**Group Members**

|  |  |
| --- | --- |
| **Name** | **Student ID** |
| Kai Ren | 2401212437 |
| Zhuo Gao | 2401212385 |
| ZhiFan Huang | 2401212396 |
| Rui Hu | 2401212392 |
| WeiJie Zhang | 2401212474 |
| ChenHao Lü | 2401212427 |

**Instructor: Nan Liu**

**Contents**

[1. Corporate Profile and Financial Highlights 5](#_Toc181915014)

[1.1 Corporate Profile 5](#_Toc181915015)

[1.2 Financial Highlights 6](#_Toc181915016)

[1.2.1 Income Statement 6](#_Toc181915017)

[1.2.2 Balance Sheet 6](#_Toc181915018)

[1.2.3 Financial Ratios 7](#_Toc181915019)

[2. Management’s Discussion and Analysis 8](#_Toc181915020)

[2.1 Financial Review 8](#_Toc181915021)

[2.2 Financial Condition 8](#_Toc181915022)

[2.3 Results of Operations 10](#_Toc181915023)

[2.4 Liquidity and Capital Resources 10](#_Toc181915024)

[2.5 Significant Accounting Policies and Estimates 12](#_Toc181915025)

[2.6 Market Risks 13](#_Toc181915026)

[2.7 Future Expansion Plan 14](#_Toc181915027)

[3. Financial Statements 16](#_Toc181915028)

[3.1 Income Statement 16](#_Toc181915029)

[3.2 Retained Earnings Statement 16](#_Toc181915030)

[3.3 Balance Sheet 17](#_Toc181915031)

[3.4 Statement of Cash Flow 18](#_Toc181915032)

[4. Notes to the Financial Statement 19](#_Toc181915033)

[4.1 NOTE 1: Summary of Significant Accounting Policies 19](#_Toc181915034)

[4.1.1 Description of Business 19](#_Toc181915035)

[4.1.2 Principles of Consolidation 19](#_Toc181915036)

[4.1.3 Fiscal Year End 19](#_Toc181915037)

[4.1.4 Estimates and Assumption 19](#_Toc181915038)

[4.1.5 Cash and Cash Equivalents 20](#_Toc181915039)

[4.1.6 Receivable and Allowance for Doubtful Accounts 20](#_Toc181915040)

[4.1.7 Inventories 20](#_Toc181915041)

[4.1.8 Property, Plant and Equipment 20](#_Toc181915042)

[4.1.9 Income Taxes 21](#_Toc181915043)

[4.1.10 Revenue Recognition 21](#_Toc181915044)

[4.1.11 Cost of goods sold 21](#_Toc181915045)

[4.1.12 Operating Expenses 21](#_Toc181915046)

[4.2 Note 2: Property, Plant and Equipment 22](#_Toc181915047)

[4.3 Note 3: Accrued Liabilities 22](#_Toc181915048)

[4.4 Note 4: Notes Payable 22](#_Toc181915049)

[4.5 Note 5: Income Tax 23](#_Toc181915050)

[4.6 Note 6: Other Income (Expense), Net 23](#_Toc181915051)

[4.7 Note 7: Earnings per Share 23](#_Toc181915052)

[4.8 Note 8: Cash Dividend 24](#_Toc181915053)

[4.9 Note 9: Shareholder’s Equity 24](#_Toc181915054)

[5. Supplementary Financial Information 26](#_Toc181915055)

[5.1 Horizontal Analysis 26](#_Toc181915056)

[5.1.1 Income statement 26](#_Toc181915057)

[5.1.2 Balance Sheet 27](#_Toc181915058)

[5.1.3 Vertical analysis 29](#_Toc181915059)

[5.1.4 Income statement 29](#_Toc181915061)

[5.1.5 Balance Sheet 30](#_Toc181915062)

# Corporate Profile and Financial Highlights

## Corporate Profile

Cookie & Coffee Creations Inc. is a corporation that Curtis and Natalie established on November 1, 2015, by merging Cookie Creation Inc. and Curtis Coffee Shop. The company is engaged in three main businesses: retailing mixers, operating a coffee shop, and offering cookie-making classes.

The origin of this corporation can be traced back to 2014. In November 2014, Natalie Koebel initiated Cookie Creations Inc., which focused on offering cooking classes. Then, in January 2015, Cookie Creations Inc. developed its business by becoming the exclusive distributor of a line of fine European mixers, which enabled it to sell European mixers. In November 2015, Cookie Creations Inc. merged with a coffee shop business owned by Curtis to become a new corporation, namely Cookie & Coffee Creations Inc. Natalie owned 58.1% equity, and Curtis owned 41.9% equity of the new corporation at the corporation’s inception.

The objective of Cookie & Coffee Creations Inc. is to maintain the company’s standing as a fast-growing, brand-respecting company at home and abroad. To achieve this, Cookie & Coffee Creations Inc. is going to focus on our vision and keep going on our three lines of business to maintain the growth of business and offer better goods and services for more consumers. The first part is the mixer sale. The company is the exclusive distributor of a line of fine European mixers. Due to the high quality of the mixers and the convenient purchasing channel, this business division has attracted a wide range of customers. The second part is operating a coffee shop. Three kinds of products are offered in the coffee shop: muffins, cookies, and coffee. The first two products are manufactured by the company whereas coffee is purchased from a local supplier. With exquisite decoration, the shop aims to provide a cozy and tranquil place for individuals who desire to extricate themselves from the bustle and find a moment of peace. The last part is offering cookie classes. It has turned out that this business division not only contributes to the revenue of the company but also creates close relationships with our customers, schools, and cooking associations, thereby elevating the company’s reputation. These three businesses complement and coordinate with each other, leading to the growth of the company.

***PLEASE NOTE:*** In this Annual Report on Form 10-K (“Form 10-K” or “Report”) for the fiscal year ended October 31, 2018 (“Fiscal 2018”) “), Cookie & Coffee Creations Inc. is referred to as “Cookie & Coffee Creations”, “the Company”, “we”, “us”, or “our”.

## Financial Highlights

In this section, we will demonstrate the financial highlights with respect to the balance sheet and income statement. Subsequently, we will select some important parts based on the calculated financial indicators to be presented here.

### Income Statement

As the Income Statement (partial) provided in **Table 1.**, till the fiscal year ended October 31, 2018, the gross profit is $262,931, the income from operations is $49,166, and the net income is $37,012, compared with the financial data of $254,375, $56,000 and $42,000 in 2017, our operating income in 2018 declines due to the increase of operating and other expenses (SGA), especially for the depreciation expense. The decrease in net income is mainly attributable to the loss on disposal of plant assets, which is a temporary and non-lasting loss. Meanwhile, because our company is going to expand the operating scale by borrowing more money, the increase in interest expense also counts for the decline in net income. In a word, these figures collectively signify the company's proficient capability in generating both sales and gross profit.

**Table 1. Income Statement**

**For the Year Ended October 31 (partial)**

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Sales** | $ 485,625 | $ 462,500 |
| **Gross profit** | 262,931 | 254,375 |
| **Income from operations** | 49,166 | 56,000 |
| **Net income** | 37,012 | 42,000 |

### Balance Sheet

In terms of the Balanced Sheet provided in **Table 2.**, we noticed that the significant change is the amount of equipment. It increased from $75,500 in 2017 to $102,000 in 2018. It is because of our recent actions that in order to improve the efficiency of our operation, we have purchased equipment. Still, we can find a sharp increase in the accumulated depreciation, it coincides with the depreciation expense in the income statement as well.

It can also be observed that the amount of cash we had at the end of 2018 increased by almost four times compared to 2017. This significantly enhances the company's liquidity.

The final highlight on the balance sheet that concerns us the most is the dividend distribution. We are consistent in distributing dividends to our shareholders. During 2018, we declared cash dividends totaling $27,000, the same as during 2017, despite the decline in our net income. On the one hand, the company's gross profit remained on an upward trend, which means that sales and marketing are still growing at a high rate. On the other hand, we also continue to create value for our shareholders in the form of share price appreciation, dividend payments and other possible payouts. As a result of years of successful operations, in 2018 we declared a $27,000 cash dividend to our shareholders!

**Table 2. Balance Sheet**

**For the Year Ended October 31 (partial)**

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Assets** |  |  |
| Cash | $ 22,334 | $ 5,550 |
| Equipment | 102,000 | 75,500 |
| Accumulated depreciation | (25,200) | (9,100) |
| **Liabilities and Stockholders’ Equity** |  |  |
| Dividends payable | $ 27,000 | $ 27,000 |
| Common stock | 25,180 | 25,180 |
| Retained earnings | 20,812 | 10,800 |

### Financial Ratios

Based on the basic data, we have also calculated and presented some financial indicators, which are presented in **Table 3.** Firstly, we find the working capital rose from -$16,170 in 2017 to -$9,558 in 2018. It is due to the increase in cash and accounts receivables, which signifies the company's enhanced ability to meet its short-term debt obligations.

Earnings per share decreased from 1 to 0.67 due to the reduction in net income. Net income decreased from $42,000 to $37,012 in 2018, mainly attributable to the increase in depreciation expense and other operating expenses. The purchase of new equipment led to an increase in depreciation expense just like we mentioned above. Despite the decline in net income in 2018, there is an optimistic outlook that the capital expenditures will benefit the company in the future.

#### Table 3. Financial Ratios

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Working Capital** | (9,558) | (16,170) |
| **Earnings per share** | 0.76 | 1.00 |

# Management’s Discussion and Analysis

## Financial Review

This financial review discusses the Company’s financial condition, results of operations, liquidity and capital resources, significant accounting policies and estimates, market risks and future expansion plan on the financial condition. It is suggested to be read in conjunction with the Financial Statements that follow this part.

## Financial Condition

The Cookie & Coffee Creations Inc.'s overall financial and profitability in 2018 is quite healthy.

For the year ended 2018, as shown in Table 4, the Company generated $63,284 in cash flows from operating activities, demonstrating strong cash generation capabilities. The Company strategically utilized its cash for various investment and financing activities. Specifically, $19,000 was invested in the purchase of new equipment, $27,000 was paid out as cash dividends, and $2,000 was used to repay principal on notes payable. These expenditures resulted in a net cash increase of $16,784, underscoring the Company’s solid financial position and effective cash management.

The Company experienced growth in both net sales and gross profit. Net sales increased by 5.0%, rising from $462,500 to $485,625. This growth in sales contributed to an increase in gross profit, which rose from $254,375 to $262,931. The improvement in both sales and gross profit reflects the Company’s proficiency in driving revenue and maintaining profitability.

Despite the growth in sales and gross profit, the Company’s net income decreased from $42,000 to $37,012. This decline was primarily attributable to an increase in depreciation expense and other operating expenses. The rise in depreciation expense was mainly due to the purchase of new equipment, which is expected to enhance future operational efficiency and capacity.

Total assets of the Company increased from $88,160 to $116,081. This growth was primarily driven by increases in cash, net assets, and plant and equipment. Shareholders’ equity also saw an improvement, as shown in Table 4, rising by about 21.9% from $50,230 to $61,242. The increase in shareholders’ equity was mainly due to an addition of $10,012 in retained earnings, reflecting the Company’s ability to reinforce its equity base through retained profits.

#### Table 4. Interception of Important Financial Indicators

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Net cash provided by operating activities** | $ 63,284 |  |
| **Net cash used by other activities** | (46,500) |  |
| **Net increase in cash** | (46,500) |  |
| **Net sales** | 485,625 | $ 462,500 |
| **Gross profit** | 262,931 | 254,375 |
| **Net income** | 37,012 | 42,000 |
| **Total assets** | 116,081 | 88,160 |
| **Shareholders’ equity** | 61,242 | 50,230 |
| **Retained earnings** | 20,812 | 10,800 |
| **Total liabilities** | 54,839 | 37,930 |

The Company’s net working capital rose from -$16,170 in 2017 to -$9,558 in 2018 as shown in Table 5. This change was primarily due to a $17,521 increase in current assets, which was more than counterbalanced by a $10,909 rise in current liabilities. Despite the negative working capital, the growth in current assets indicates an improvement in liquidity.

The Company’s current ratio, driven by the increase in cash, improved from 0.57 to 0.80. This reflects a better ability to cover short-term obligations with current assets, although the ratio still indicates some liquidity challenges.

The Company’s ratio of debt to total assets increased from 43.0% to 47.2%, suggesting that the company’s leverage has risen, potentially increasing financial risk. This warrants careful monitoring to ensure that the increased debt levels remain sustainable.

**Table 5. Interception of Important Financial Derivative Indicators**

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Ratios for Profitability:** |  |  |
| Gross profit rate | 0.54 | 0.55 |
| Earnings per share | 0.76 | 1.00 |
| Operating income ratio | 0.10 | 0.12 |
| Profit margin ratio | 0.08 | 0.09 |
| **Indicators for Liquidity:** |  |  |
| Working capital | $(9,558) | $(16,170) |
| Current ratio | 0.80 | 0.57 |
| Current cash debt coverage ratio | 1.46 |  |
| Inventory turnover ratio | 29.02 |  |
| Days in inventory | 12.58 |  |

## Results of Operations

Net sales, gross profit and net income have been analyzed in detail in the Financial Condition chapter. Next, expenses will be analyzed mainly in combination with Table 6. We found that the decrease in net profit was mainly due to a surge in other operating expenses and loss on disposal of plant assets.

The Company’s cost of goods sold (COGS) rose from $208,125 in 2017 to $222,694 in 2018, reflecting an increase of $14,569, or 7.0 percent. This upward trend was mirrored in operating expenses, which grew by $15,390, or 7.8 percent, reaching $213,765 compared to $198,375 in the previous year.

The Company’s other expenses has a notable change, increasing from $0 in 2017 to $2,903 in 2018. This change was primarily driven by a $2,500 rise in losses on the disposal of plant assets. Despite this increase, the overall financial impact of other expenses remains relatively modest.

**Table 6. Expenses Records**

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Cost of goods sold** | $222,694 | $208,125 |
| **Total operating expenses** | 213,765 | 198,375 |
| **Depreciation expense** | 17,600 | 9,100 |
| **Other operating expenses** | 48,186 | 42,925 |
| **Other expenses** | 2,903 |  |
| **Loss on disposal of plant assets** | 2,500 |  |
| **Income tax expense** | 9,251 | 14,000 |

For profitability, looking back again at Table 5 in the previous section, it can be found that the Company’s gross margin declined by 0.9 percentage points. Earnings per share (EPS) also decreased, dropping from 1 share in 2017 to 0.67 shares in 2018, indicating a reduction in net income.

The Company’s operating income ratio fell by 2 percentage points, primarily due to the rise in net sales and the concurrent decrease in operating income. Similarly, the profit margin contracted by 1.5 percentage points, as the increase in net sales was offset by a decline in net profit margin.

## Liquidity and Capital Resources

In terms of liquidity, again looking back at Table 5 mentioned earlier, the Company’s working capital increased from $-16,170 in 2017 to $-9,558 in 2018, reflecting $6,612. At the same time, the current ratio increased significantly by 23.1 percentage points, from 0.57 percentage points in 2017 to 0.8 percentage points in 2018. These ratios mean that the company's liquidity and ability to pay its short-term debt have improved. The current cash debt coverage is 1.46, which indicates that net cash provided by operating operations is sufficient to cover current liabilities. The inventory turnover rate is 29.02 and the number of days on stock is 12.58, indicating that the average sales time is 12.58 days.

#### Table 7. Statement of Cash Flow

#### For the Year Ended October 31

|  |  |  |
| --- | --- | --- |
|  |  | **2018** |
| **Cash inflow from operating activities** |  |  |
| Cash receipts from customers | $ 485,085 |  |
| Less: Cash payments for SGA | (189,945) |  |
| Cash payments to suppliers | (224,441) |  |
| Cash payments for interest | (215) |  |
| Cash payments for income taxes | (7,200) |  |
| **Net cash inflow from operating activities** |  | $ 63,284 |
| **Cash inflow from investing activities** |  |  |
| Cash inflow from sale of equipment | 500 |  |
| Less: Cash outflow to purchase new equipment | (19,000) |  |
| **Net cash inflow from investing activities** |  | (18,500) |
| **Cash inflow from financing activities** |  |  |
| Issuance of preferred stock | 1,000 |  |
| Less: Payment of cash dividends | (27,000) |  |
| Principal repayment of notes payable | (2,000) |  |
| **Net cash inflow from financing activities** |  | (28,000) |
| **Net increase in cash** |  | 16,784 |
| **Cash at Oct 31, 2017** |  | 5,550 |
| **Cash at Oct 31, 2018** |  | $ 22,334 |

In terms of capital resources, as shown in Table 7, the Company’s cash inflows from operating activities amounted to $63,284 in 2018. Cash receipts from customers were $485,085. Major cash outflows in operating activities included $224,441 paid to suppliers and $189,945 for selling, general, and administrative (SGA) expenses.

The Company’s cash inflows from investing activities totaled -$18,500 in 2018, reflecting a cash outflow of $19,000 for new equipment purchases, partially offset by an inflow of $500 from the sale of equipment.

For cash inflows from financing activities, the total was $28,000 in 2018. This consisted of $27,000 in cash dividends paid, $2,000 in principal payments on notes payable, and $1,000 in cash inflows from the issuance of preferred stock.

The Company’s net cash increase for the year was $16,784, indicating a strong and healthy cash generation by the company.

## Significant Accounting Policies and Estimates

The preparation of the company’s financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. This note describes Cookie & Coffee Creations Inc.’s significant accounting policies and estimates. These are the specific principles, methods, and practices that the company consistently uses to prepare and present its financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Following is a summary and discussion of the more significant accounting policies that management believes to have a significant impact on the Company’s operating results, financial position, cash flows and footnote disclosure.

Accrue-Basis Principle: The financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. All significant accounting policies are consistently applied and disclosed in conformity with GAAP requirements.

Revenue Recognition: Cookie & Coffee Creations Inc. recognizes revenue when control of the goods or services is transferred to the customer. Revenue is measured based on the transaction price, which includes any discounts, returns, or rebates the customer is expected to take. The company exercises judgment to estimate any sales returns and rebates, which are based on historical data and expected customer behavior. Changes in customer demand or economic conditions may affect these estimates.

Inventory Valuation: Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the LIFO method under the periodic inventory system. The company estimates potential obsolescence or slow-moving inventory items, applying write-downs when necessary. This involves a judgment about which products are likely to become obsolete or need price reductions.

Valuation of long-lived assets: Long-lived assets, primarily Property, plant, and equipment (PP&E), are recorded at historical cost and depreciated using the straight-line method over their estimated useful lives, typically ranging from 5 to 30 years depending on the asset type. Management estimates the useful lives of long-lived assets, which requires judgment about future market conditions, potential obsolescence, and maintenance needs. A revision in useful life estimates can significantly impact depreciation expense and asset values. Depreciation expenses are recognized based on adjusting entries.

Allowance for Doubtful Accounts: Cookie & Coffee Creations Inc. maintains an allowance for expected credit losses, representing amounts expected to be uncollectible from customers. The allowance is based on historical default rates, customers' credit ratings, and current economic conditions.

## Market Risks

Cookie & Coffee Creations Inc. is exposed to various market risks that may impact its financial performance and cash flows. These risks include fluctuations in interest rates, economic rates, commodity prices, and competitors. The company actively monitors these risks and employs risk management strategies to mitigate potential adverse effects on financial results.

Interest rate risks: Interest rate risks primarily relate to the company’s liabilities. As of October 31, Cookie & Coffee Creations Inc.'s note payable was $10000, and part of it is variable-rate debt. A hypothetical increase in interest rates would increase interest expense, negatively impacting net income and cash flows. The company closely monitors interest rate changes and constantly changes investment and lending decisions to control this risk.

Economic risks: Cookie & Coffee Creations Inc.’s business may be affected by economic conditions. Taking cookie-making classes is not a necessity, so in a bad economy, the company's revenue can take a big hit. In addition, the poor economic environment may also increase the risk of bad debts. Changes in the economic environment can also lead to pressures in the material supply chain, such as the possibility of rising raw material costs if there is a downturn in the food industry. To control this risk, the company is developing various businesses and monitoring cash flows regularly to solve the potential economic risks.

Commodity risks: Cookie & Coffee Creations Inc. relies on several key raw materials, including coffee, cookies, sugar, and grains, for its manufacturing processes. These commodities are subject to price volatility due to market supply and demand, geopolitical events, and other economic factors. A hypothetical increase in the price of these raw materials would increase our company’s production costs. To mitigate this exposure, the company has entered into futures contracts on certain commodities. However, if commodity prices fall, it may incur opportunity costs.

Competitors risks: Because the cookie and coffee manufacturing industry does not have high industry barriers, the company has to face a large number of competitors. In order to reduce the risk of competitive failure, we choose to continuously improve our manufacturing processes, maintain a stable customer base, and explore new market opportunities. In addition, the company is constantly developing unique products that reduce the fungibility of our company.

## Future Expansion Plan

The company plans to borrow an additional $20000 on November 1, 2018, to buy more kitchen equipment. This loan would be repaid over a 4-year period. The terms of loan provide for equal semi-annual payments of $2500 on May 1 and November 1 of each year, plus interest of 6% on the outstanding balance.

Journal Entries: Take the next financial year as an example, part of the journal entries should be presented as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Journal Entries (partial)** | | | |
| **Date** | **Assets** | **Dr.** | **Cr.** |
| **Nov 1** | Cash | $ 20,000 |  |
|  | Notes Payable |  | $ 20,000 |
|  | Equipment | 20,000 |  |
|  | Cash |  | 20,000 |
| **May 1** | Notes Payable | 2,500 |  |
|  | Cash |  | 2,500 |
|  | Interests Expense | 600 |  |
|  | Cash |  | 600 |

Impact on the balance sheet: On November 1, 2018, both the Cash account and Note Payable account will increase by $20000. After the purchase of equipment, the Cash account will be credited and the Equipment account will be debited. In summary, the long-term assets in the Property, Plant, and Equipment (PPE) account will rise, and the long-term liabilities in the Notes Payable account will also increase by the same amount. On May 1, 2019, both the Cash account and Note Payable account will decrease by $2500. Because of the interest of 6% on the outstanding balance, Cash and Retained Earnings will decrease by $600 (20000\*6%\*6/12).

Direct impact on the income statement: On November 1, 2018, the income statement will not be affected because there is no revenue or expense. However, on May 1, 2019, the company will recognize the Interest Expense by $600. This expense will result in a decrease in Net Income for the next financial year.

Indirect impact on the income statement: There are also some indirect impacts on the income statement. First, the equipment bought will be depreciated over its useful life. The depreciation expense will affect the income statement, decreasing the Net Income. Besides, new equipment may improve the production capacity of the company's products, which is conducive to expanding the scope of business, so that more customers can meet the demand for cookies and coffee. This could boost revenue as well as Net Income. The decision to take on new borrowing for purchasing equipment requires careful consideration of whether the increase in revenue will offset the expense of depreciation and interest.

Impact on financial condition: After borrowing money and purchasing equipment, PPE, current liabilities, and long-term liabilities will increase, while the value of current assets remains the same.

As for liquidity, the working capital and current ratio will decrease, resulting in a reduction in the company's liquidity. With lower liquidity, the company may struggle to pay off loan payments, and other immediate obligations.

As for solvency, because the value of total assets and total liabilities increase by the same amount, debt to total asset ratio will increase, indicating that the company is becoming more leveraged, meaning it is taking on more debt relative to its assets.

In summary, this decision to borrow $20000 for new equipment may cause higher financial risk, reduced solvency, and potentially strained liquidity. But it may also increase the company's profitability and expand its market.

# Financial Statements

## Income Statement

|  |  |  |
| --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Income Statement**  **For the Year Ended October 31** | | |
|  | **2018** | **2017** |
| **Sales** | $485,625 | $462,500 |
| **Less: Cost of goods sold** | 222,694 | 208,125 |
| **Gross profit** | 262,931 | 254,375 |
| **Less: Operating expenses** |  |  |
| Salaries and wages expense | 147,979 | 146,350 |
| Depreciation expense | 17,600 | 9,100 |
| Other operating expenses | 48,186 | 198,375 |
| Total operating expenses | 213,765 | 198,375 |
| **Income from operations** | 49,166 | 56,000 |
| **Less: Other expenses** |  |  |
| Interest expense | 403 | 0 |
| Loss on disposal of plant assets | 2,500 | 0 |
| Total other expenses | 2,903 | 0 |
| **Income before income tax** | **46,263** | **56,000** |
| **Income tax expense** | **9,251** | **14,000** |
| **Net income** | **$ 37,012** | **$ 42,000** |

## Retained Earnings Statement

|  |  |
| --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Retained Earnings Statement**  **For the Year Ended October 31** | |
|  | **2018** |
| **Retained earnings, November 1, 2017** | $ 10,800 |
| **Add: Net income** | 37,012 |
| **Less: Dividends** | 27,000 |
| **Retained earnings, October 31, 2018** | $ 20,812 |

## Balance Sheet

|  |  |  |
| --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Balance Sheet**  **October 31** | | |
|  | **2018** | **2017** |
| **ASSTES** |  |  |
| **Current assets** |  |  |
| Cash | $ 22,334 | $ 5,550 |
| Accounts receivable | 3,250 | 2,710 |
| Inventory | 7,897 | 7,450 |
| Prepaid expenses | 5,800 | 6,050 |
| **Total current assets** | **39,281** | **21,760** |
| **Property, plant and equipment** |  |  |
| Equipment | 102,000 | 75,500 |
| Less: Accumulated depreciation | (25,200) | (9,100) |
| Net property, plant and equipment | 76,800 | 66,400 |
| **Total assets** | **$116,081** | **$ 88,160** |
|  |  |  |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** |  |  |
| **Current liabilities** |  |  |
| Accounts payable | $ 1,150 | $ 2,450 |
| Income taxes payable | 9,251 | 7,200 |
| Dividends payable | 27,000 | 27,000 |
| Salaries and wages payable | 7,250 | 1,280 |
| Interest payable | 188 | 0 |
| Note payable — current portion | 4,000 | 0 |
| **Total current liabilities** | **48,839** | **37,930** |
| **Long-term liabilities** |  |  |
| Note payable — long-term portion | 6,000 | 0 |
| Total long-term liabilities | 6,000 | 0 |
| **Total liabilities** | **54,839** | **37,930** |
| **Stockholders’ equity** |  |  |
| Preferred stock, no par, $6 cumulative — 3,000 and 2,800 shares issued, respectively | 15,000 | 14,000 |
| Common stock, $1 par — 25,180 shares issued | 25,180 | 25,180 |
| Additional paid in capital — treasury stock | 250 | 250 |
| Retained earnings | 20,812 | 10,800 |
| **Total stockholders’ equity** | **61,242** | **50,230** |
| **Total liabilities and stockholders’ equity** | **$116,081** | **$88,160** |

## Statement of Cash Flow

|  |  |  |
| --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Statemen of Cash Flows — Indirect Method**  **For the Year Ended October 31** | | |
|  |  | **2018** |
| **Cash flows from operating activities** |  |  |
| Net income |  | $ 37,012 |
| Depreciation expense | $ 17,600 |  |
| Loss on sale of equipment | 2,500 |  |
| Increase in account receivable | (540) |  |
| Increase in inventory | (447) |  |
| Decrease in prepaid expenses | 250 |  |
| Decrease in accounts payable | (1,300) |  |
| Increase in income taxes payable | 2,051 |  |
| Increase in salaries and wages payable | 5,970 |  |
| Increase in interest payable | 188 | 26,272 |
| Net cash provided by operating activities |  | 63,284 |
| **Cash flows from investing activities** |  |  |
| Cash inflow from sale of equipment | 500 |  |
| Cash outflow to purchase new equipment | (19,000) |  |
| Net cash used by investing activities |  | (18,500) |
| **Cash flows from financing activities** |  |  |
| Issuance of preferred stock | 1,000 |  |
| Payment of cash dividends | (27,000) |  |
| Principal repayment of notes payable | (2,000) |  |
| Net cash used by financial activities |  | (28,000) |
| **Net increase in cash** |  | **16,784** |
| **Cash at beginning of period** |  | **5,550** |
| **Cash at end of period** |  | **22,334** |
| **Noncash investing and financing activities** |  |  |
| **Issuance of notes payable to purchase equipment** |  | $12,000 |

# Notes to the Financial Statement

## NOTE 1: Summary of Significant Accounting Policies

### Description of Business

Cookie&Coffee has been with us for a semester, and we have witnessed its establishment, transformation, and maturity. We can provide a more detailed summary: Cookie & Coffee Creations Inc. ("Cookie & Coffee" or the "Company") was founded in November 2015 as a result of the merger between Cookie Creation Inc., established in November 2014, and Curtis Coffee Shop. The company operates in three main areas: managing coffee shops, retailing a variety of bakery-related products such as mixers, specialty coffees, muffins, and cookies, and offering cookie-making classes.

### Principles of Consolidation

The consolidated financial statements represent the financial records of Cookie & Coffee Creations Inc. and its subsidiaries (together, the “Company”) for the fiscal period from October 31, 2017, through October 31, 2018. All significant transactions and balances between the companies have been eliminated. The subsidiaries' financial statements align with the same reporting period and accounting policies as the parent company. Subsidiaries' results are included in the consolidated accounts from the date the Group gains control and remain consolidated until control is relinquished. The Directors have prepared and approved these consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

### Fiscal Year End

The company's fiscal year ended on October 31, 2018. Fiscal years from 2017 to 2018 include 52 weeks.

### Estimates and Assumption

Preparing financial statements in line with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that influence the reported values of assets, liabilities, revenues, and expenses. These estimates encompass various factors, including estimated selling prices of products and support services, useful lives of intangible assets and property, allowances for doubtful accounts, tax accounting considerations (such as deferred tax asset valuation allowances and uncertain tax positions), fair valuation of contingent considerations in business combinations, and sales commission expenses. Management regularly reviews and adjusts these estimates based on historical data and other relevant information. Given the unpredictability of future events and their potential impacts, actual outcomes may differ significantly from these estimates and assumptions.

### Cash and Cash Equivalents

We define cash equivalents as highly liquid investments with original maturities of three months or less, including credit card receivables from customer sales, and value them at cost. Our cash management approach involves funding major bank disbursement accounts daily to cover checks as they are presented. This can occasionally cause outstanding checks to exceed the actual cash balances in certain banks, resulting in book overdrafts. These overdrafts are reported as current liabilities within accrued liabilities on our consolidated balance sheets.

### Receivable and Allowance for Doubtful Accounts

The Company records accounts receivable at net realizable value, which mainly includes amounts due from customers for product, service, and equipment sales. To estimate the allowance for doubtful accounts, the Company considers various factors, such as historical experience with collections, the financial condition of customers, known disputes, and the aging profile of receivable balances. This approach ensures that accounts receivable are accurately reflected based on expected collect-ability, helping to provide a clearer picture of potential credit risks.

### Inventories

Inventories, primarily consisting of mixers held for sale, are valued at the lower of cost or net realizable value. The cost is determined using methods such as average cost, first-in, first-out (FIFO), or last-in, first-out (LIFO) under a periodic inventory system. The company applies the LIFO method, which ensures that the cost of goods sold reflects the current prices of inventory. Estimating the net realizable value of inventories involves assessing factors like quantity, technical conditions, and price risks.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment charges, including capital lease assets. Cost includes all direct costs, such as acquisition costs and costs necessary to make the asset ready for use, and in some cases, internal labor and administrative costs. Normal repairs and maintenance costs are treated as expenses when incurred, while major renewals and improvements that extend the useful life of the property are capitalized. Depreciation expense is recognized on a straight-line basis, based on the estimated useful lives of items of property, plant and equipment until they are reduced to their estimated residual values. The following are the estimated useful lives of these assets:

#### Table 8. Useful life and Salvage value

|  |  |  |
| --- | --- | --- |
| Kinds | Useful life | Salvage value |
| Baking equipment | 5 years | No salvage value |
| Vans | 5 years | Salvage value of 6,500 |

### Income Taxes

The Company uses the balance sheet method for accounting income tax, applying tax rates of 25% in 2017 and 20% in 2018. Deferred tax assets and liabilities are recognized to reflect the anticipated tax effects in future periods resulting from differences between the financial statement carrying values of assets and liabilities and their respective tax bases.

### Revenue Recognition

The Company generates revenues from two sources: (1) sales revenues, including revenues from the sale of blenders, coffee, muffins and cookies, and (2) service revenues from related specialized instructional programs.

Revenue is recognized when the obligations under the terms of the contract with the customer are fulfilled and control of the promised product or service is transferred to the customer, in an amount that reflects the consideration the Company expects to receive therefrom. Revenue represents the value of sales to customers, net of discounts, sales taxes and allowances for returns. Discounts include sales rebates, price discounts, customer incentives, certain promotions and similar items. In the European Mixer sales, revenue is generally recognized when the goods are shipped or delivered to the customer, depending on the terms of shipment, and in the Cookie Making instructional business, revenue is recognized when the customer receives the instructional services.

### Cost of goods sold

The cost of goods sold comprises the actual product cost, transportation expenses from suppliers to the company, and the transportation costs from the company’s distribution centers to customers. It is adjusted by supplier payments that do not cover specific, incremental, or identifiable costs.

### Operating Expenses

Operating expenses include all operating costs of the Company, except cost of goods sold, as described above.

## Note 2: Property, Plant and Equipment

The Company's long-lived assets during fiscal year 2018 consisted only of equipment.On November 1, 2017, the Company purchased equipment valued at $14,000 (paid $2,000 in cash and $12,000 recorded as a note payable) and additionally purchased another piece of equipment for an additional $13,000 in cash.At the beginning of fiscal year 2018, the Company disposed of a piece of equipment that had an original value of $4,500 and a book value of $3, 000 of old equipment and received $500 in cash while spending $4,000 in cash to purchase new equipment to replace it. As a result, there was a net increase of $26,500 in the equipment balance at the end of fiscal year 2018 (= $14,000 + $13,000 + $4,000 - $4,500). Accumulated depreciation increased from $9,100 at October 31, 2017 to $25,200 at October 31, 2018, and net fixed assets increased from $66,400 to $76,800, net.

#### Table 9. Property, Plant and Equipment

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Equipment | $102,000 | $75,500 |
| Less: Accumulated depreciation | 25,200 | 9,100 |
| Net Property, plant and equipment | $ 76,800 | $66,400 |

## Note 3: Accrued Liabilities

The company’s accrued liabilities include costs related to salaries and wages, income taxes, dividends, and interest. These liabilities arise because these payments are made several months after the related expenses have been incurred. Below is a breakdown with more detailed information on these accrued liabilities.

#### Table 10. Accrued Liabilities

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Accrued salaries and wages | $7,250 | $1,280 |
| Accrued income taxes | 9,251 | 7,200 |
| Accrued dividends | 27,000 | 27,000 |
| Accrued interest | 188 | 0 |
| Total accrued liabilities | $43,689 | $35,480 |

## Note 4: Notes Payable

The company entered into a $12,000 note payable agreement to acquire additional equipment, on November 1, 2017. The terms specified equal semi-annual installment payments of $2,000 due on May 1 and November 1 each year, along with 5% interest on the remaining principal balance. On October 31, 2018, a payment of $2,000 plus interest was made for the installment due on May 1, 2018, reducing the outstanding notes payable balance to $10,000. Additionally, $4,000 of the remaining principal will be settled in the upcoming year, classifying it as a current liability, while the remaining $6,000 is considered a long-term liability.

#### Table 11. Notes Payable

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Note payable — current portion | $ 4,000 | $0 |
| Note payable — long-term portion | 6,000 | 0 |
| Total notes payable | $10,000 | $0 |

## Note 5: Income Tax

COOKIE & COFFEE CREATIONS INC has income tax expense of $14,000 and $9,251 in 2017 and 2018 respectively, while this company does not have to pay any deferred taxes or foreign taxes.

#### Table 12. Income Tax

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Income before income tax | $46,263 | $56,000 |
| Effective income tax rate | 20% | 25% |
| Income tax expense | 92,51 | 14,000 |
| Net Income | $37,012 | $42,000 |

## Note 6: Other Income (Expense), Net

At the start of 2018, the company sold equipment with an original cost of $4,500 and a book value of $3,000 for $500 in cash. The loss on the disposal of the equipment amounted to $2,500 (calculated as $3,000 - $500). As a result, t other income (expense), net includes the following items.

#### Table 13. Other Income (Expense), Net

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Interest expense | $403 | $0 |
| Loss on disposal of plant assets | 2,500 | 0 |
| Total other expense | $2,903 | $0 |

## Note 7: Earnings per Share

Earnings per share (EPS) amounts provided for 2017 and 2018 represent basic EPS and a dual presentation of basic and diluted EPS is not required，as the company does not disclose potential diluted securities, which are necessary for calculating diluted EPS. The EPS for 2017 is 1.00, while the EPS for 2018 is 0.76, reflecting a decrease due to lower net income and an increase in the number of preferred stock shares in 2018. Detailed calculations of EPS are provided below.

#### Table 14. Earnings per Share

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Net income | $37,012 | $42,000 |
| Less: Preferred dividend ($6×preferred shares) | 18,000 | 16,800 |
| Earnings to common stockholders | 19,012 | 25,200 |
| Average common shares outstanding (#) | 25,180 | 25,180 |
| Earnings per share (Basic EPS) | 0.76 | 1.00 |

## Note 8: Cash Dividend

In line with the company’s consistent dividend policy, cash dividends are declared on October 1 and paid one month later. On October 1, 2017, the company declared a cash dividend of $27,000, which was paid on November 1, 2017. A similar dividend of $27,000 was declared on October 1, 2018, with payment scheduled for November 1, 2018. The following provides the detailed cash dividends for both preferred and common stock for the years ending October 31, 2017, and 2018:

#### Table 15. Cash dividend

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Cash dividends——preferred stock | $18,000 | $16,800 |
| Cash dividends——common stock | 9,000 | 10,200 |
| Total cash dividends | $27,000 | $27,000 |

## Note 9: Shareholder’s Equity

Cookie Chronicle was established on November 1, 2015, and its common stock was converted from the assets of the previous two companies, Curtis' Coffee and Cookie Creations. The two common stockholders, Curtis and Natalie, hold 10,550 and 14,630 shares of common stock, respectively, totaling 25,180 shares, with a par value of $1 per share. At the same time, the company issued 750 shares of common stock, with a par value of $1 per share, to a lawyer. On June 30, 2016, the company repurchased 750 shares of common stock issued to the lawyer for only $500 in cash, resulting in an additional $250 in paid-in capital. Therefore, the value of the common stock is $25,180.

Regarding preferred stock, the company issued $10,000 worth of preferred stock (1,000 shares) to Curtis' father and Natalie's grandmother in November 2015. Additionally, in January 2016, the company issued preferred stock to Natalie's brother for $4,000 in cash. As of the year ending October 31, 2017, the company had 2,800 shares of preferred stock worth $14,000. In 2018, the company issued 200 shares of preferred stock for $1,000 in cash. Therefore, as of the year ending October 31, 2018, the company owned 3,000 shares of preferred stock worth $15,000.

#### Table 16. Shareholder’s Equity

#### Year Ended on October 31

|  |  |  |
| --- | --- | --- |
| **Items** | **2018** | **2017** |
| Common stock | $25,180 | $25,180 |
| Preferred stock | 1,5000 | 14,000 |
| Additional paid-in capital — treasury stock | 250 | 250 |
| Retained Earnings | 20,812 | 10,800 |
| Total shareholder’s equity | $61,242 | $50,230 |

# Supplementary Financial Information

## Horizontal Analysis

In this part, we calculated the amount change and percentage change of each account from 2017 to 2018 and analyze the potential reasons.

### Income statement

#### Table 17. Horizontal analysis of income statements

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Condensed Income Statements**  **For the Years Ended October 31** | | | | |
|  |  |  | **Increase (Decrease)**  **during 2018** | |
|  |  |  |
|  | **2018** | **2017** | **Amount** | **Percent** |
| Sales | $ 485,625 | $ 462,500 | $ 23,125 | 5.0 |
| Cost of goods sold | 222,694 | 208,125 | 14,569 | 7.0 |
| Gross profit | 262,931 | 254,375 | 8,556 | 3.4 |
| Operating expenses |  |  |  |  |
| Salaries and wages expense | 147,979 | 146,350 | 1,629 | 1.1 |
| Depreciation expense | 17,600 | 9,100 | 8,500 | 93.4 |
| Other operating expenses | 48,186 | 42,925 | 5,261 | 12.3 |
| Total operating expenses | 213,765 | 198,375 | 15,390 | 7.8 |
| Income from operations | 49,166 | 56,000 | (6,834) | (12.2) |
| Other expenses |  |  |  |  |
| Interest expense | 403 | 0 | 403 | - |
| Loss on disposal of plant assets | 2,500 | 0 | 2,500 | - |
| Total other expenses | 2,903 | 0 | 2,903 | - |
| Income before income tax | 46,263 | 56,000 | (9,737) | (17.4) |
| Income tax expense | 9,251 | 14,000 | (4,749) | (33.9) |
| Net income | $ 37,012 | $ 42,000 | $ (4,988) | (11.9) |

As Table 17. shows, in the fiscal year 2018, the company achieved a 5.0% increase in sales revenue ($23,125), and the Cost of Goods Sold (COGS) grew by 7.00% ($14,569), which slightly offset the revenue increase. As a result, the gross profit growth was only 3.4%. This increase in sales revenue is attributed to the expansion of the company's operational capacity and improved brand recognition.

The company made significant investments in equipment in 2018, and accordingly, depreciation expenses increased by 93.4%. This factor, along with increases in other operating expenses, contributed to an overall growth in operating expenses of 7.8%, totaling $15,390. This rise in expenses included a 12.3% increase in other operating costs, with a minor 1.1% increase in salaries and wages, reflecting effective human resource management. The increase in operating expenses ultimately led to a 12.2% decrease in operating income.

Impacted by both the reduction in operating income and the increase in interest expenses, income before income tax decreased by 17.4% and income tax expenses decreased by 33.9%.

Overall, despite a robust 5.0% sales revenue growth, the net income for 2018 declined by 11.9% ($4,988), as increased investments in equipment raised operating and financial expenses. To improve future financial performance, the company could benefit from more effective management of operating expenses and strategic planning to balance sales growth with expense control.

### Balance Sheet

#### Table 18. Horizontal analysis of balance sheets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Condensed Balance Sheets**  **October 31** | | | | |
|  |  |  | **Increase (Decrease)**  **during 2018** | |
| **Assets** | **2018** | **2017** | **Amount** | **Percent** |
| Current Assets |  |  |  |  |
| Cash | $ 22,334 | $ 5,550 | $ 16,784 | 302.4 |
| Accounts receivable | 3,250 | 2,710 | 540 | 19.9 |
| Inventory | 7,897 | 7,450 | 447 | 6.0 |
| Prepaid expenses | 5,800 | 6,050 | (250) | (4.1) |
| Total Current Assets | 39,281 | 21,760 | 17,521 | 80.5 |
| Property, plant and equipment |  |  |  |  |
| Equipment | 102,000 | 75,500 | 26,500 | 35.1 |
| Accumulated depreciation-equipment | (25,200) | (9,100) | (16,100) | 176.9 |
| Net property, plant and equipment | 76,800 | 66,400 | 10,400 | 15.7 |
| Total assets | $ 116,081 | $ 88,160 | $ 27,921 | 31.7 |
| **Liabilities and Stockholders’ Equity** |  |  |  |  |
| Current Liabilities |  |  |  |  |
| Accounts payable | $ 1,150 | $ 2,450 | $ (1,300) | (53.1) |
| Income taxes payable | 9,251 | 7,200 | 2,051 | 28.5 |
| Dividends payable | 27,000 | 27,000 | 0 | .0 |
| Salaries and wages payable | 7,250 | 1,280 | 5,970 | 466.4 |
| Interest payable | 188 | 0 | 188 | - |
| Note payable-current portion | 4,000 | 0 | 4,000 | - |
| Total current liabilities | 48,839 | 37,930 | 10,909 | 28.8 |
| Long-term liabilities |  |  |  |  |
| Note payable-long-term portion | 6,000 | 0 | 6,000 | - |
| Total Long-term liabilities | 6,000 | 0 | 6,000 | - |
| Total liabilities | 54,839 | 37,930 | 16,909 | 44.6 |
| Stockholder's equity |  |  |  |  |
| Preferred stock, no par, $6 cumulative, 3,000 and 2,800 shares issued,  respectively | 15,000 | 14,000 | 1,000 | 7.1 |
| Common stock, $1 par - 25,180 shares issued and outstanding | 25,180 | 25,180 | 0 | .0 |
| Additional paid in capital-treasury stock | 250 | 250 | 0 | .0 |
| Retained earnings | 20,812 | 10,800 | 10,012 | 92.7 |
| Total stockholder's equity | 61,242 | 50,230 | 11,012 | 21.9 |
| Total liabilities and stockholders’ equity | $ 116,081 | $ 88,160 | $ 27,921 | 31.7 |

From the two-year comparative balance sheets, it is clear that COOKIE & COFFEE CREATIONS INC. underwent significant changes in its financial position from 2017 to 2018. In the assets section, total assets increased by 31.7%, with a substantial rise in cash holdings by 302.4%. This surge in cash inflow has notably strengthened the company’s liquidity and overall financial stability. Additionally, accounts receivable grew by 19.9%, and inventory saw a modest increase of 6%, reflecting ongoing business growth. Equipment investments rose by 35.1%, showing the company’s focus on expanding operational capacity.

In the liabilities section, total liabilities climbed by 44.6%, driven primarily by an increase in both current and long-term liabilities. Current liabilities grew by 28.8%, while a new note payable issued during the year contributed significantly to the rise in long-term liabilities. Salaries and wages payable increased dramatically by 466.4%, indicating a delay in payment as the company expanded its workforce. Conversely, accounts payable decreased by 53.1%, highlighting the company's ability to meet its short-term obligations.

Shareholders' equity also saw a significant change, increasing by 21.9% due to a notable 93% rise in retained earnings, alongside the issuance of $1,000 in preferred stock. This growth in retained earnings indicates enhanced profitability and a strong commitment to reinvesting in the business.

Overall, the fiscal year 2018 marked a period of substantial asset expansion and strategic financial management. The company’s increased assets were primarily financed through new debt for sustained growth and operational scalability in the years to come.

### Vertical analysis

In this part, we use the vertical analysis to evaluate the relative percentage change of each account and figure out the corresponding reasons.

### Income statement

#### Table 19. Vertical analysis of Income Statements

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Condensed Income Statements**  **For the Years Ended October 31** | | | | |
|  | **2018** | | **2017** | |
|  | **Amount** | **Percent\*** | **Amount** | **Percent\*** |
| Sales | $ 485,625 | 100.0 | $ 462,500 | 100.0 |
| Cost of goods sold | 222,694 | 45.9 | 208,125 | 45.0 |
| Gross profit | 262,931 | 54.1 | 254,375 | 55.0 |
| Operating expenses |  |  |  |  |
| Salaries and wages expense | 147,979 | 30.5 | 146,350 | 31.6 |
| Depreciation expense | 17,600 | 3.6 | 9,100 | 2.0 |
| Other operating expenses | 48,186 | 9.9 | 42,925 | 9.3 |
| Total operating expenses | 213,765 | 44.0 | 198,375 | 42.9 |
| Income from operations | 49,166 | 10.1 | 56,000 | 12.1 |
| Other expenses |  |  |  |  |
| Interest expense | 403 | 0.1 | 0 | .0 |
| Loss on disposal of plant assets | 2,500 | 0.5 | 0 | .0 |
| Total other expenses | 2,903 | 0.6 | 0 | .0 |
| Income before income tax | 46,263 | 9.5 | 56,000 | 12.1 |
| Income tax expense | 9,251 | 1.9 | 14,000 | 3.0 |
| Net income | $ 37,012 | 7.6 | $ 42,000 | 9.1 |

\*Numbers have been rounded to total 100%.

In 2018, the cost of goods sold (COGS) represented 45.9% of sales, up from 45.0% in 2017, indicating a slight increase in the proportion of direct costs to sales. This shift reduced the gross profit as a percentage of sales from 55.0% to 54.1%, reflecting a small contraction in the gross profit margin despite higher sales.

Operating expenses also saw an increase as a proportion of sales, rising from 42.9% to 44.0%. A key driver of this increase was depreciation expense, which grew from 2.0% to 3.6% of sales due to recent capital investments. Additionally, other operating expenses rose from 9.3% to 9.9% of sales, collectively contributing to a decline in income from operations as a percentage of sales from 12.1% in 2017 to 10.1% in 2018.

Other expenses, including interest, increased slightly, accounting for 0.1% of sales in 2018 and contributing to a small rise in total other expenses relative to sales.

Overall, the net income as a percentage of sales decreased from 9.1% in 2017 to 7.6% in 2018. This vertical analysis shows that while sales growth was steady, the increased proportion of operating and other expenses relative to sales impacted overall profitability.

### Balance Sheet

#### Table 20. Vertical analysis of balance sheets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **COOKIE & COFFEE CREATIONS INC.**  **Condensed Balance Sheets**  **October 31** | | | | |
|  | **2018** | | **2017** | |
| **Assets** | **Amount** | **Percent\*** | **Amount** | **Percent\*** |
| Current Assets |  |  |  |  |
| Cash | $ 22,334 | 19.2 | $ 5,550 | 6.3 |
| Accounts receivable | 3,250 | 2.8 | 2,710 | 3.1 |
| Inventory | 7,897 | 6.8 | 7,450 | 8.4 |
| Prepaid expenses | 5,800 | 5.0 | 6,050 | 6.9 |
| Total Current Assets | 39,281 | 33.8 | 21,760 | 24.7 |
| Property, plant and equipment |  |  |  |  |
| Equipment | 102,000 | 87.9 | 75,500 | 85.6 |
| Accumulated depreciation-equipment | (25,200) | (21.7) | (9,100) | (10.3) |
| Net property, plant and equipment | 76,800 | 66.2 | 66,400 | 75.3 |
| Total assets | $ 116,081 | 100.0 | $ 88,160 | 100.0 |
| **Liabilities and Stockholders’ Equity** |  |  |  |  |
| Current Liabilities |  |  |  |  |
| Accounts payable | $ 1,150 | 1.0 | $ 2,450 | 2.8 |
| Income taxes payable | 9,251 | 8.0 | 7,200 | 8.2 |
| Dividends payable | 27,000 | 23.3 | 27,000 | 30.6 |
| Salaries and wages payable | 7,250 | 6.2 | 1,280 | 1.4 |
| Interest payable | 188 | 0.2 | 0 | .0 |
| Note payable-current portion | 4,000 | 3.4 | 0 | .0 |
| Total current liabilities | 48,839 | 42.1 | 37,930 | 43.0 |
| Long-term liabilities |  |  |  |  |
| Note payable-long-term portion | 6,000 | 5.2 | 0 | .0 |
| Total Long-term liabilities | 6,000 | 5.2 | 0 | .0 |
| Total liabilities | 54,839 | 47.2 | 37,930 | 43.0 |
| Stockholder's equity |  |  |  |  |
| Preferred stock, no par, $6 cumulative, 3,000 and 2,800 shares issued,  respectively | 15,000 | 12.9 | 14,000 | 15.9 |
| Common stock, $1 par - 25,180 shares issued and outstanding | 25,180 | 21.7 | 25,180 | 28.6 |
| Additional paid in capital-treasury stock | 250 | 0.2 | 250 | 0.3 |
| Retained earnings | 20,812 | 18.0 | 10,800 | 12.2 |
| Total stockholder's equity | 61,242 | 52.8 | 50,230 | 57.0 |
| Total liabilities and stockholders’ equity | $ 116,081 | 100.0 | $ 88,160 | 100.0 |

\*Numbers have been rounded to total 100%.

In the assets section, the most notable increase is in cash, which grew from 6.3% to 19.2% of total assets. This reflects a significant enhancement in liquidity. Meanwhile, other current assets, such as accounts receivable and inventory, saw slight decreases of under 2%, while equipment remained the dominant asset, constituting a large portion of total assets. However, the growth in accumulated depreciation led to a slight decrease in the proportion of net property, plant, and equipment (PPE) within total assets, shifting from 75.3% to 66.2%.

In the liabilities and equity section, there was a rise in liabilities as a percentage of total assets, increasing from 43.0% in 2017 to 47.2% in 2018. This uptick is attributed primarily to the issuance of new long-term notes payable. Additionally, salaries and wages payable grew, aligning with the company’s workforce expansion. Conversely, stockholders’ equity decreased as a percentage of total assets, falling from 57.0% to 52.8%, though retained earnings increased in absolute terms, moving from 12.3% to 17.9% of the capital structure, highlighting greater reliance on internally generated funds.

Overall, the balance sheet composition for 2018 demonstrates a shift towards a debt-financed capital structure while retaining substantial liquidity reserves.