

Growth and Fixed Costs: Solution

*You come across a pile of financial statements, of two Wonderland banks and all their customers.
You hear that they were set aside for tax irregularities... something here doesn't add up.*

Things to notice about the financial statements:

- There is enough information to match the company profiles to the financial statements, and so put the financial statements in order.
- The number “13024” appears frequently and is in a different font. This should be the most notable thing about the cash flow statements.
- When the statements are put in order, the tax amounts (in the statement of operations) can be converted to numbers to read “Taxes form a red herring.”
- some lines in the Statement of Assets & Liabilities don't add up right: they're off by a number between 1 and 26.

Given the above, the steps to solving this puzzle are:

1. Match statements to company descriptions

This gives an ordering of the financial statements.

The keys to matching are:

- Size of a company: there are a few initial revenue numbers: 100,000; 50,000; 30,000; 10,000.
- Speed a company gets paid or pays its bills: “Receivables days” and “payables days” are well-defined concepts.
- Amount of inventory a company holds:
Restaurants, for instance, hold inventory only for a few days because most of it is perishable.
Note that the puzzle should be solvable without knowing those things in advance, since “payables days”, “receivables days”, and “inventory days” are referred to in a company description, and these are google-able.
- interest paid on loans: higher by customers of First Wonderland, lower by customers of the Standard Bank.
- “Intangible assets” or brand worth, held by companies with consumer brands
- “Goodwill” some companies have accumulated by acquiring companies for more than the acquisitions' book values
- And a few special items, such as:
 - legal fees awarded from one company to another
 - dividends paid by companies owned by the Red Queen or White King

2. Find errors in the financial statements; convert to letters

These are lines that don't “add up”. Each statement has a line off by a value < 26 ; these can be converted to letters (1 = A, 2 = B, etc) to spell the clue phrase “SEARCHHBSPPHARVARDEDU” or Search hbsp.harvard.edu .

3. Search for the out-of-place number

If you search hbsp.harvard.edu for “13024”— every company's cash balance at the end of the period, the only number introduced that's not a multiple of 100, and the amount of other items such as legal fees or goodwill—you get a case with subtitle “Women are the solution” (for testsolving) or with title “The answer is secondary” during hunt.

Growth and Fixed Costs: Solution

You come across a pile of financial statements, of two Wonderland banks and all their customers. You hear that they were set aside for tax irregularities... something here doesn't add up.

1. Standard Bank of Wonderland

A commercial bank offering loans with competitive interest rates to Wonderland businesses; it has also issued a consumer credit card. Walrus is a major shareholder.

lower interest payments
fee revenues

2. First Wonderland Bank

A bank focused on small Wonderland merchants and loans for Wonderland individuals. First Wonderland has many branches in convenient areas of Wonderland and excellent customer service.

higher occupancy costs
higher salary payments

3. Rust Works Steel & Metal Products

Rust Works Steel & Metal Products is an industrial conglomerate that mines raw materials and makes steel and other industrial goods in a highly-automated operation. It sells to Travels with Turtles as well as to Solid Manufacturing, Inc. The mines it owns are expected to be in operation for close to a century; other fixed assets are also long-lived, but are occasionally sold.

low salary costs
long depreciation years
(fixed assets / depr.)

Rust Works Steel & Metal Products is slow to pay its bills and slow to collect payment from its customers. Similarly, its customers have high "days payable" and "days receivable" amounts.

high payables & receivables days

4. Travels with Turtles

A popular, well-known travel company that owns its own infrastructure and cars, each of which require replacement every couple of decades. Travels with Turtles is financed with a loan from Standard Bank of Wonderland; some years it loses money.

Good brand recognition
20-yr depreciation
Deferred tax asset.

5. Wonderland Dyes and Potions

This innovative company is the premier producer of dyes and flavors in Wonderland: Its ingredients are key for manufacture of blacking and whitening as well as toothpaste and any size-changing food or drink. Wonderland D&P owns top-of-the-line chemical manufacturing equipment. It is known to demand quick payment from its customers, and this reputation helps its customers keep their accounts receivable balances low as well.

high fixed assets
low accounts receivable

6. Solid Manufacturing, Inc.

This contract manufacturer for Dovetail Design also makes tooling for White Rabbit Timepieces and other customers. It is heavily invested in precision manufacturing equipment and its margins are razor-thin.

high depreciation, high fixed assets.

7. Dovetail Design & Manufacturing

Leading provider of computational plug-ins for mechanical "computers" which are increasingly popular in Wonderland. Dovetail offers modules that perform simple differentiation and integration that can be connected into simple parlour games; it continuously develops new products.

R&D expenditure

Dovetail contracts with Solid Manufacturing, Inc. for the high-precision manufacturing of its widgets. Its name is known throughout Wonderland, and its products are sold in a variety of Wonderland shops and resellers. Carpenter owns a majority stake and refuses to bank with Standard Wonderland.

intangible brand asset
First Wonderland:
(higher interest rate)

8. Emblaze

The Cheshire Cat's line of toothpaste. The majority of ingredients are purchased from Wonderland Dyes and Potions; its materials are cheap but its advertising is expensive, as is its manufacturing equipment which must be replaced about every ten years. Like most customers of Wonderland Dyes and Potions, Emblaze is paid promptly and pays its bills promptly as well.

good gross margin
high advertising cost
high fixed assets;
10-yr depreciation
low receivables days;
low payables days

9. The White and The Black

One of many manufacturers of blacking and whiting, this small company is dependent on the only supplier for its key ingredients, Wonderland Dyes and Potions. Owned by Gryphon, who prides himself on managing cash flow and keeping inventory days low.

weak competitive position: low margin
low payables, rec'bles & inventory

10. White Rabbit Timepieces

This independent watch manufacturer has a strong brand and strives to reach exclusive Wonderland customers. Many Wonderland shops carry one or two types of Rabbit watches; in contrast, the company store carries each of hundreds of models and sizes. Distribution shops pay Rabbit only after a watch has sold.

Intangible assets
high receivables

The manufacturing is done by hand using specialized equipment that typically lasts about 15 years.

High inventory

11. Caterpillar Smoke and Gears

Large chain of customer shops owned by Caterpillar; these stores are the only source in Wonderland for some consumer goods such as Gryphon's Blacking and Whiting. In the last few years Caterpillar has acquired two smaller chains of customer shops to move into higher foot-traffic locations; before the acquisitions Caterpillar Smoke and Gears had several money-losing years.

good gross margins.
goodwill asset.
deferred tax asset.

Caterpillar Smoke and Gears lost a trademark battle last year to White's Chess Supply and Sundries, and is financed via loans from Standard Bank of Wonderland.

Legal fee;
debt-financed.

12. White's Chess Supply and Sundries

Chain of consumer shops, owned by the court of the White King, that deals in many kinds of consumer goods and funds upkeep of the King's court. Staff's activities include development of new chess pieces and use of new materials in boards and pieces.

pays dividends
R&D

13. Scrumptious Essences

This chain of shops has an exclusive license to sell size-changing DrinkmeTM and EatmeTM products, which it makes using materials purchased from Wonderland Dye. Scrumptious Essences also does some experimenting on potions' effect on mirrors.

high gross margins
low payables days
R&D costs

14. Tweedle Brothers Essential Supplies

This small customer shop, like many in Wonderland, sells looking glasses, toothpaste, and magic potions. The brothers own their building and staff the counter themselves whenever possible. The shop only keeps the most commonly needed items and is often out-of-stock. Tweedle Brothers is slow to pay its bills.

low margins
some depreciation
low salary costs
low inventory
high accounts payables.

15. Hatter's Tea-stop

Tea shop owned by the Mad Hatter, who spends some of his time developing new tea combinations. Offers customers who are having an unbirthday the unusual option to pay after 30 days, but then often has trouble collecting payment.

R&D costs.
high receivables days
high gross margin
(from low tea costs)

16. Little Mouse Tea

Tea shop formerly part of Hatter's Tea-stop that split off a few years ago and subsequently lost a suit filed by the same. Benefited from low prices for raw tea across Wonderland this year. The corporate split was funded by a loan which will come due in a few years.

one-time legal payment
high gross margin
debt-financed

17. Humpty Dumpty Sundries

Another sundries shop, one of the best-respected names among sundry shops in Wonderland. Offers guaranteed availability of the widest range of goods anywhere in Wonderland; suppliers grumble about Humpty Dumpty's fairly long days payable.

intangible asset
high inventory
high payables

18. The Purple Walrus

This oyster bar owned by Walrus is not very popular and not very unpopular. Staff are known to be grumpy, but the oysters are always fresh. The bar has borrowed heavily from Standard Bank of Wonderland, the smallest business to do so, and has good relationships with vendors of lemon juice and wine as well as with the landlord.

smaller intangible asset
staff are underpaid;
inventory is low
payables not too high
No oyster vendors...

For years, the tax agency has puzzled over the Purple Walrus's low profitability and wondered where the revenues are going.

"banking fees" are
hiding revenue

19. Wonderland Pie Holdings

This company owns several restaurant brands in Wonderland. It advertises heavily for all its brands, but since many locations are out-of-the-way and staff tends to be grumpy, the restaurants are generally not that popular. It is owned by the Red Queen, who receives some cash from it every year. She takes pride in the fact that Wonderland Pie is bigger than other restaurateurs (but they have noticed that she still pays her vendors a lot for ingredients).

Marketing high, rent low
intangible asset is low
relatively low salaries
dividend payment
Goodwill asset

20. Right Raven Pub

A small pub owned by a group of the Red Queen's guards that operates out of a house in the court and receives food and beer deliveries daily. The guards are happy waiters and bartenders, even though they expect the Queen to take any of the pub's profits.

no rental costs
inventory < 3 days'
profits are kept low;
salaries are high

Right Raven is financed via a large loan from First Wonderland that they expect to roll over when it comes due in several years.

high long-term debt;
no current portion

12. White's Chess Supply and Sundries

Chain of consumer shops, owned by the court of the White King, that deals in many kinds of consumer goods and funds upkeep of the King's court. Staff's activities include development of new chess pieces and use of new materials in boards and pieces.

pays dividends
R&D

Statement of Operations

Revenue

Total revenue	600,000
---------------	---------

Costs and expenses

Cost of goods sold	468,000	gross margin: 22%
Occupancy costs	12,000	
Advertising and marketing costs	3,000	
Research & development	48,000	Chess set development
Salary and benefits	60,000	10% of revenue

Total operating expenses	591,000
--------------------------	---------

Income (loss) from operations	9,000
-------------------------------	-------

Interest expense	(5,786)	interest rate: 11%
------------------	---------	--------------------

One-time settlement in legal dispute	500
--------------------------------------	-----

Income before taxes	3,714
---------------------	-------

Income taxes paid	5	Taxes form a red herring: 5 → E
-------------------	---	---------------------------------

Net income	3,709
------------	-------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	611,268
--	---------

Net Income	3,709
------------	-------

Net cash flows from operating activities	3,709
--	-------

Dividend payment	(927)	Court upkeep
------------------	-------	--------------

Net cash flows from financing activities	(927)
--	-------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Inventory	38,466
-----------	--------

Total current assets	652,516
----------------------	---------

Goodwill & Intangible assets	6,140	Overpayment for acquisitions
------------------------------	-------	------------------------------

Total assets	658,657	Correct sum is 658656: off by 1 → A
--------------	---------	-------------------------------------

Liabilities

Accounts payable	48,500
------------------	--------

Current portion of debt	2,630
-------------------------	-------

Total current liabilities	51,130
---------------------------	--------

Long-term debt	52,600
----------------	--------

Total liabilities	103,730
-------------------	---------

Stockholders' equity	554,927
----------------------	---------

Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	30.0	(Inventory) / (COGS per day)

19. Wonderland Pie Holdings

This company owns several restaurant brands in Wonderland. It advertises heavily for all its brands, but since many locations are out-of-the-way and staff tends to be grumpy, the restaurants are generally not that popular. It is owned by the Red Queen, who receives some cash from it every year. She takes pride in the fact that Wonderland Pie is bigger than other restaurateurs (but they have noticed that she still pays her vendors a lot for ingredients).

Marketing high, rent low
intangible asset is low
relatively low salaries
dividend payment
Goodwill asset

Statement of Operations

Revenue

Total revenue	2,400,000	
Costs and expenses		
Cost of goods sold	2,040,000	gross margin: 15%
Occupancy costs	48,000	
Advertising and marketing costs	60,000	
Salary and benefits	210,000	9% of revenue
Total operating expenses	2,358,000	
Income (loss) from operations	42,000	
Interest expense	(6,108)	interest rate: 6%
Income before taxes	35,892	
Income taxes paid	10,014	Taxes form a red herring: 14→ N
Net income	25,878	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	574,767	
Net Income	25,878	
Net cash flows from operating activities	25,878	
New debt incurred (repaid)	61,405	
Dividend payment	(48,000)	Cash to Red Queen
Net cash flows from financing activities	13,405	
Cash and cash equivalents: end of period	614,050	

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
Inventory	44,712	
Total current assets	658,762	
Goodwill & Intangible assets	614,050	Overpayment for acquisitions
Total assets	1,272,816	Correct sum is 1272812: off by 4→ D

Liabilities

Accounts payable	290,700	
Current portion of debt	5,090	
Total current liabilities	295,790	
Long-term debt	101,800	
Total liabilities	397,590	
Stockholders' equity	875,226	

Payables days	44.9	(Accounts payable) / (operating expenses / 365)
Inventory days	7.99	(Inventory) / (COGS per day)

3. Rust Works Steel & Metal Products

Rust Works Steel & Metal Products is an industrial conglomerate that mines raw materials and makes steel and other industrial goods in a highly-automated operation. It sells to Travels with Turtles as well as to Solid Manufacturing, Inc. The mines it owns are expected to be in operation for close to a century; other fixed assets are also long-lived, but are occasionally sold.

low salary costs
long depreciation years
(fixed assets / depr.)

Rust Works Steel & Metal Products is slow to pay its bills and slow to collect payment from its customers. Similarly, its customers have high “days payable” and “days receivable” amounts.

high payables & receivables days

Statement of Operations

Revenue

Total revenue	3,000,000	
Costs and expenses		
Cost of goods sold	1,740,000	gross margin: 42%: high
Depreciation & amortization	150,000	Depreciation is 1/100 fixed assets
Salary and benefits	90,000	3% of revenue: mostly automated
Total operating expenses	1,980,000	
Income (loss) from operations	1,020,000	
Interest expense	(786,630)	interest rate: 6%
Income before taxes	233,370	
Income taxes paid	70,024	Taxes form a red herring: 24→ X
Net income	163,346	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	900,704	
Net Income	163,346	
Depreciation & amortization	150,000	
Net cash flows from operating activities	313,346	
New debt incurred (repaid)	(600,000)	
Net cash flows from financing activities	(600,000)	
Cash and cash equivalents: end of period	614,050	

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
Accounts receivable	625,000	
Material inventory	47,671	Manufacturing inventory
Finished goods inventory	95,342	
Total current assets	1,382,064	Correct sum is 1382063: off by 1→ A
Property & fixed assets	15,000,000	
Goodwill & Intangible assets	6,140	Overpayment for acquisitions
Total assets	16,388,204	

Liabilities

Accounts payable	406,800	
Current portion of debt	655,525	
Total current liabilities	1,062,325	
Long-term debt	13,110,500	
Total liabilities	14,172,825	
Stockholders' equity	2,215,379	

Depreciation years	100	(fixed assets) / depreciation
Receivables days (days sales outstanding)	76.0	(Accounts receivable) / (Revenue/365)
Payables days	74.9	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

6. Solid Manufacturing, Inc.

This contract manufacturer for Dovetail Design also makes tooling for White Rabbit Time-pieces and other customers. It is heavily invested in precision manufacturing equipment and its margins are razor-thin.

high depreciation, high fixed assets.

Statement of Operations

Revenue

Total revenue	1,800,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,440,000	gross margin: 20%
Depreciation & amortization	225,000	
Salary and benefits	54,000	3% of revenue

Total operating expenses	1,719,000
--------------------------	-----------

Income (loss) from operations	81,000
-------------------------------	--------

Interest expense	(29,862)	interest rate: 6%
------------------	----------	-------------------

Income before taxes	51,138
---------------------	--------

Income taxes paid	10,006	Taxes form a red herring: 6→ F
-------------------	--------	--------------------------------

Net income	41,132
------------	--------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	347,918
--	---------

Net Income	41,132
------------	--------

Depreciation & amortization	225,000
-----------------------------	---------

Net cash flows from operating activities	266,132
--	---------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	375,000
---------------------	---------

Material inventory	39,452
--------------------	--------

Finished goods inventory	78,904
--------------------------	--------

Total current assets	1,107,406
----------------------	-----------

Property & fixed assets	4,500,000
-------------------------	-----------

Deferred tax asset	614,050	Tax credit from money-losing years
--------------------	---------	------------------------------------

Total assets	6,221,456
--------------	-----------

Liabilities

Accounts payable	353,200
------------------	---------

Current portion of debt	24,885
-------------------------	--------

Total current liabilities	378,085
---------------------------	---------

Long-term debt	497,700
----------------	---------

Total liabilities	875,785
-------------------	---------

Stockholders' equity	5,345,679	Correct value is 5345671: off by 8→ H
----------------------	-----------	---------------------------------------

Depreciation years	20	(fixed assets) / depreciation
Receivables days (days sales outstanding)	76.0	(Accounts receivable) / (Revenue/365)
Payables days	74.9	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

16. Little Mouse Tea

Tea shop formerly part of Hatter's Tea-stop that split off a few years ago and subsequently lost a suit filed by the same. Benefited from low prices for raw tea across Wonderland this year. The corporate split was funded by a loan which will come due in a few years.

one-time legal payment
high gross margin
debt-financed

Statement of Operations

Revenue

Total revenue	600,000	
Costs and expenses		
Cost of goods sold	420,000	gross margin: 30%: low-priced raw tea
Occupancy costs	12,000	
Salary and benefits	60,000	10% of revenue
Total operating expenses	492,000	
Income (loss) from operations	108,000	
Interest expense	(57,068)	interest rate: 11%
One-time settlement in legal dispute	(500)	
Income before taxes	50,432	
Income taxes paid	10,018	Taxes form a red herring: 18→ R
Net income	40,414	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	(326,364)
Net Income	40,414
Net cash flows from operating activities	40,414
New debt incurred (repaid)	900,000
Net cash flows from financing activities	900,000
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
Inventory	34,521
Total current assets	648,571
Total assets	648,571

Liabilities

Accounts payable	40,400
Total current liabilities	40,400
Long-term debt	518,800
Total liabilities	559,200
Stockholders' equity	89,389

Correct value is 89371: off by 18→ R

Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	30.0	(Inventory) / (COGS per day)

8. Emblaze

The Cheshire Cat's line of toothpaste. The majority of ingredients are purchased from Wonderland Dyes and Potions ; its materials are cheap but its advertising is expensive, as is its manufacturing equipment which must be replaced about every ten years. Like most customers of Wonderland Dyes and Potions, Emblaze is paid promptly and pays its bills promptly as well.

good gross margin
high advertising cost
high fixed assets;
10-yr depreciation
low receivables days;
low payables days

Statement of Operations

Revenue

Total revenue	2,400,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,560,000	gross margin: 35%
Depreciation & amortization	240,000	
Advertising and marketing costs	120,000	
Salary and benefits	240,000	10% of revenue

Total operating expenses	2,160,000
--------------------------	-----------

Income (loss) from operations	240,000
-------------------------------	---------

Interest expense	(15,402)	interest rate: 6%
------------------	----------	-------------------

Income before taxes	224,598
---------------------	---------

Income taxes paid	70,018	Taxes form a red herring: 18→ R
-------------------	--------	---------------------------------

Net income	154,580
------------	---------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	219,470
--	---------

Net Income	154,580
------------	---------

Depreciation & amortization	240,000
-----------------------------	---------

Net cash flows from operating activities	394,580
--	---------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	66,600
---------------------	--------

Material inventory	42,740
--------------------	--------

Finished goods inventory	85,479
--------------------------	--------

Total current assets	808,869
----------------------	---------

Property & fixed assets	2,400,000
-------------------------	-----------

Total assets	3,208,869
--------------	-----------

Liabilities

Accounts payable	59,100
------------------	--------

Current portion of debt	12,835
-------------------------	--------

Total current liabilities	71,935
---------------------------	--------

Long-term debt	256,700
----------------	---------

Total liabilities	328,635
-------------------	---------

Stockholders' equity	2,880,236
----------------------	-----------

Correct value is 2880234: off by 2→ B

Depreciation years	10
--------------------	----

Receivables days (days sales outstanding)	10.1
---	------

Payables days	9.98
---------------	------

Inventory days	29.9
----------------	------

(fixed assets) / depreciation
(Accounts receivable) / (Revenue/365)
(Accounts payable) / (operating expenses / 365)
(Inventory) / (COGS per day)

11. Caterpillar Smoke and Gears

Large chain of customer shops owned by Caterpillar; these stores are the **only source** in Wonderland for some consumer goods such as Gryphon's Blacking and Whiting. In the last few years Caterpillar **has acquired two smaller chains** of customer shops to move into higher foot-traffic locations; before the acquisitions Caterpillar Smoke and Gears had several **money-losing years**.

good gross margins.

goodwill asset.

deferred tax asset.

Caterpillar Smoke and Gears **lost a trademark battle** last year to White's Chess Supply and Sundries, and is **financed via loans** from Standard Bank of Wonderland.

Legal fee;

debt-financed.

Statement of Operations

Revenue

Total revenue	1,800,000	
Costs and expenses		
Cost of goods sold	1,170,000	gross margin: 35%
Occupancy costs	36,000	
Salary and benefits	180,000	10% of revenue
Total operating expenses	1,386,000	
Income (loss) from operations	414,000	
Interest expense	(93,036)	interest rate: 6%
One-time settlement in legal dispute	(500)	
Income before taxes	320,464	
Income taxes paid	100,018	Taxes form a red herring: 18→ R
Net income	220,446	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	(506,396)
Net Income	220,446
Net cash flows from operating activities	220,446
New debt incurred (repayed)	900,000
Net cash flows from financing activities	900,000
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
Inventory	96,164	
Total current assets	710,214	
Goodwill & Intangible assets	614,050	Overpayment for acquisitions
Deferred tax asset	614,050	Tax credit from money-losing years
Total assets	1,938,322	Correct sum is 1938314: off by 8→ H

Liabilities

Accounts payable	113,900	
Current portion of debt	77,530	
Total current liabilities	191,430	
Long-term debt	1,550,600	
Total liabilities	1,742,030	
Stockholders' equity	196,292	

Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

18. The Purple Walrus

This oyster bar owned by Walrus is not very popular and not very unpopular. Staff are known to be grumpy, but the oysters are always fresh. The bar has borrowed heavily from Standard Bank of Wonderland, the smallest business to do so, and has good relationships with vendors of lemon juice and wine as well as with the landlord.

For years, the tax agency has puzzled over the Purple Walrus's low profitability and wondered where the revenues are going.

smaller intangible asset
staff are underpaid;
inventory is low
payables not too high
No oyster vendors...

"banking fees" are
hiding revenue

Statement of Operations

Revenue

Total revenue	1,200,000	small
Costs and expenses		
Cost of goods sold	97,500	Walrus tricks oysters into coming in for free.
Depreciation & amortization	30,702	
Occupancy costs	60,000	
Salary and benefits	92,107	8% of revenue
Banking fees	61,405	Untaxed revenue passed through Walrus's bank
Total operating expenses	341,715	
Income (loss) from operations	858,285	
Interest expense	(5,916)	interest rate: 6%
Income before taxes	852,369	
Income taxes paid	280,009	Taxes form a red herring: 9→ I
Net income	572,360	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	10,988
Net Income	572,360
Depreciation & amortization	30,702
Net cash flows from operating activities	603,062
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
Inventory	2,137	
Total current assets	616,187	
Property & fixed assets	614,050	
Goodwill & Intangible assets	3,000	Value of strong(ish) brand
Total assets	1,233,242	Correct sum is 1233237: off by 5→ E

Liabilities

Accounts payable	28,000	
Current portion of debt	4,930	
Total current liabilities	32,930	
Long-term debt	98,600	
Total liabilities	131,530	
Stockholders' equity	1,101,712	

Depreciation years	20	(fixed assets) / depreciation
Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	8.00	(Inventory) / (COGS per day)

9. The White and The Black

One of many manufacturers of blacking and whiting, this small company is dependent on the only supplier for its key ingredients, Wonderland Dyes and Potions. Owned by Gryphon, who prides himself on managing cash flow and keeping inventory days low.

weak competitive position: low margin
low payables, rec'bles & inventory

Statement of Operations

Revenue

Total revenue	600,000
---------------	---------

Costs and expenses

Cost of goods sold	492,000	gross margin: 18%
--------------------	---------	-------------------

Depreciation & amortization	30,000
-----------------------------	--------

Salary and benefits	60,000	10% of revenue
---------------------	--------	----------------

Total operating expenses	582,000
--------------------------	---------

Income (loss) from operations	18,000
-------------------------------	--------

Interest expense	(10,945)	interest rate: 11%
------------------	----------	--------------------

Income before taxes	7,055
---------------------	-------

Income taxes paid	13	Taxes form a red herring: 13 → M
-------------------	----	----------------------------------

Net income	7,042
------------	-------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	606,808
--	---------

Net Income	7,042
------------	-------

Depreciation & amortization	200
-----------------------------	-----

Net cash flows from operating activities	7,242
--	-------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	16,600
---------------------	--------

Material inventory	4,493
--------------------	-------

Finished goods inventory	8,986	Manufacturing inventory
--------------------------	-------	-------------------------

Total current assets	644,129
----------------------	---------

Property & fixed assets	600,000
-------------------------	---------

Total assets	1,244,148	Correct sum is 1244129: off by 19 → S
--------------	-----------	---------------------------------------

Liabilities

Accounts payable	15,900
------------------	--------

Current portion of debt	4,975
-------------------------	-------

Total current liabilities	20,875
---------------------------	--------

Long-term debt	99,500
----------------	--------

Total liabilities	120,375
-------------------	---------

Stockholders' equity	1,123,773
----------------------	-----------

Depreciation years

20

(fixed assets) / depreciation

Receivables days (days sales outstanding)

10.0

(Accounts receivable) / (Revenue/365)

Payables days

9.97

(Accounts payable) / (operating expenses / 365)

Inventory days

9.99

(Inventory) / (COGS per day)

2. First Wonderland Bank

A bank focused on small Wonderland merchants and loans for Wonderland individuals. First Wonderland has many branches in convenient areas of Wonderland and excellent customer service.

higher occupancy costs
higher salary payments

Statement of Operations

Revenue

Revenue from interest	943,386	Higher interest rate: 11%
Other revenue	2,400,000	
Total revenue	3,343,386	
Costs and expenses		
Interest paid	210,000	
Provision for loan loss	60,000	
Occupancy costs	12,000	
Salary and benefits	585,092	17% of revenue: higher than other bank
Total operating expenses	867,092	
Income (loss) from operations	2,476,293	
Income before taxes	2,476,294	
Income taxes paid	820,001	Taxes form a red herring: 1 → A
Net income	1,656,293	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	185,857
Net Income	1,656,293
Net cash flows from operating activities	1,656,293
Purchases of treasury shares	(614,050)
Proceeds from issuance (repurchase) of long-term debt	(614,050)
Net cash flows from financing activities	(1,228,100)
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
Property & fixed assets	334,339	
Mortgage loans	6,140,500	Consumer loans
Loan assets	2,435,740	
Total assets	9,524,629	
Liabilities		
Deposits	3,000,000	
Total liabilities	3,000,000	
Stockholders' equity	6,524,634	Correct value is 6524629: off by 5 → E

This is one of two bank statements: it has loans as assets, deposits as liabilities, and revenue from interest. This bank's interest is a higher percent of its loan assets.

17. Humpty Dumpty Sundries

Another sundries shop, one of the best-respected names among sundry shops in Wonderland. Offers guaranteed availability of the widest range of goods anywhere in Wonderland; suppliers grumble about Humpty Dumpty's fairly long days payable.

intangible asset
high inventory
high payables

Statement of Operations

Revenue

Total revenue	1,800,000	
Costs and expenses		
Cost of goods sold	1,440,000	gross margin: 20%
Occupancy costs	36,000	
Advertising and marketing costs	9,000	
Salary and benefits	180,000	10% of revenue
Total operating expenses	1,665,000	
Income (loss) from operations	135,000	
Interest expense	(9,141)	interest rate: 11%
Income before taxes	125,859	
Income taxes paid	40,018	Taxes form a red herring: 18→ R
Net income	85,841	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	528,209
Net Income	85,841
Net cash flows from operating activities	85,841
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
Inventory	118,356	
Total current assets	732,406	
Goodwill & Intangible assets	307,025	Value of strong brand
Total assets	1,039,431	

Liabilities

Accounts payable	342,100	
Current portion of debt	4,155	
Total current liabilities	346,255	
Long-term debt	83,100	
Total liabilities	429,355	
Stockholders' equity	610,080	Correct value is 610076: off by 4→ D

Payables days	74.9	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

7. Dovetail Design & Manufacturing

Leading provider of computational plug-ins for mechanical “computers” which are increasingly popular in Wonderland. Dovetail offers modules that perform simple differentiation and integration that can be connected into simple parlour games; it continuously develops new products.

R&D expenditure

Dovetail contracts with Solid Manufacturing, Inc. for the high-precision manufacturing of its widgets. Its name is known throughout Wonderland, and its products are sold in a variety of Wonderland shops and resellers. Carpenter owns a majority stake and refuses to bank with Standard Wonderland.

intangible brand asset
First Wonderland:
(higher interest rate)

Statement of Operations

Revenue

Total revenue	2,400,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,872,000	gross margin: 22%
Depreciation & amortization	15,000	
Advertising and marketing costs	12,000	
Research & development	192,000	
Salary and benefits	240,000	10% of revenue

Total operating expenses	2,331,000
--------------------------	-----------

Income (loss) from operations	69,000
-------------------------------	--------

Interest expense	(12,529)	interest rate: 11%
------------------	----------	--------------------

Income before taxes	56,471
---------------------	--------

Income taxes paid	10,015	Taxes form a red herring: 15 → O
-------------------	--------	----------------------------------

Net income	46,456
------------	--------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	702,594
--	---------

Net Income	46,456
------------	--------

Depreciation & amortization	15,000
-----------------------------	--------

Net cash flows from operating activities	61,456
--	--------

Net cash flows from investing activities	(150,000)	Investing in its own growth
--	-----------	-----------------------------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	200,000
---------------------	---------

Material inventory	51,288
--------------------	--------

Finished goods inventory	102,575
--------------------------	---------

Total current assets	967,921	Correct sum is 967913: off by 8 → H
----------------------	---------	-------------------------------------

Property & fixed assets	150,000
-------------------------	---------

Goodwill & Intangible assets	307,025	Value of strong brand
------------------------------	---------	-----------------------

Total assets	1,424,946
--------------	-----------

Liabilities

Accounts payable	478,900
------------------	---------

Total current liabilities	478,900
---------------------------	---------

Long-term debt	113,900
----------------	---------

Total liabilities	592,800
-------------------	---------

Stockholders' equity	832,146
----------------------	---------

Depreciation years	10	(fixed assets) / depreciation
Receivables days (days sales outstanding)	30.4	(Accounts receivable) / (Revenue/365)
Payables days	74.9	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

1. Standard Bank of Wonderland

A commercial bank offering loans with competitive interest rates to Wonderland businesses; it has also issued a consumer credit card. Walrus is a major shareholder.

lower interest payments
fee revenues

Statement of Operations

Revenue

Revenue from interest	4,063,281	Lower interest rate: 6%
Revenue from fees	1,261,405	Credit card fees
Total revenue	5,324,686	
Costs and expenses		
Interest paid	1,440,000	
Provision for loan loss	300,000	
Occupancy costs	6,000	
Salary and benefits	159,741	3% of revenue
Special payment to small business owner	61,405	Purple Walrus "Fee" returned to Walrus
Total operating expenses	1,967,146	
Income (loss) from operations	3,357,540	
Income before taxes	3,357,540	
Income taxes paid	1,110,020	Taxes form a red herring: 20→ T
Net income	2,247,520	

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	(1,019,420)
Net Income	2,247,520
Net cash flows from operating activities	2,247,520
Proceeds from issuance (repurchase) of long-term debt	(614,050)
Net cash flows from financing activities	(614,050)
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
Property & fixed assets	532,469
Loan assets	67,107,300
Other assets	614,050
Total assets	68,867,869
Liabilities	
Deposits	36,000,000
Total liabilities	36,000,000
Stockholders' equity	32,867,888

Correct value is 32867869: off by 19→ S

This is one of two bank statements: it has loans as assets, deposits as liabilities, and revenue from interest. This bank's interest is a lower percent of its loan assets, and it has fee revenue from its credit cards.

13. Scrumptious Essences

This chain of shops has an exclusive license to sell size-changing Drinkme™ and Eatme™ products, which it makes using materials purchased from Wonderland Dye. Scrumptious Essences also does some experimenting on potions' effect on mirrors.

high gross margins
low payables days
R&D costs

Statement of Operations

Revenue

Total revenue	1,800,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,170,000	gross margin: 35%
Occupancy costs	36,000	
Research & development	144,000	experimentation
Salary and benefits	180,000	10% of revenue

Total operating expenses	1,530,000
--------------------------	-----------

Income (loss) from operations	270,000
-------------------------------	---------

Interest expense	(6,248)	interest rate: 11%
------------------	---------	--------------------

Income before taxes	263,752
---------------------	---------

Income taxes paid	80,004	Taxes form a red herring: 4→ D
-------------------	--------	--------------------------------

Net income	183,748
------------	---------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	430,302
--	---------

Net Income	183,748
------------	---------

Net cash flows from operating activities	183,748
--	---------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Inventory	96,164
-----------	--------

Total current assets	710,214
----------------------	---------

Total assets	710,232	Correct sum is 710214: off by 18→ R
--------------	---------	-------------------------------------

Liabilities

Accounts payable	41,900
------------------	--------

Current portion of debt	2,840
-------------------------	-------

Total current liabilities	44,740
---------------------------	--------

Long-term debt	56,800
----------------	--------

Total liabilities	101,540
-------------------	---------

Stockholders' equity	608,692
----------------------	---------

Payables days	9.99	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

20. Right Raven Pub

A small pub owned by a group of the Red Queen's guards that operates out of a house in the court and receives food and beer deliveries daily. The guards are happy waiters and bartenders, even though they expect the Queen to take any of the pub's profits.

no rental costs
inventory < 3 days'
profits are kept low;
salaries are high

Right Raven is financed via a large loan from First Wonderland that they expect to roll over when it comes due in several years.

high long-term debt;
no current portion

Statement of Operations

Revenue

Total revenue	600,000	small
Costs and expenses		
Cost of goods sold	402,000	gross margin: 33%
Depreciation & amortization	30	
Salary and benefits	162,000	27% of revenue
Total operating expenses	564,030	
Income (loss) from operations	35,970	
Interest expense	(59,701)	interest rate: 11%
Income before taxes	(23,731)	
Income taxes paid	(6,993)	Taxes form a red herring: 7 → G
Net income	(16,738)	Guards keep income low since it'd go to the Queen

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	630,758
Net Income	(16,738)
Depreciation & amortization	30
Net cash flows from operating activities	(16,708)
Cash and cash equivalents: end of period	614,050

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
Inventory	2,203
Total current assets	616,253
Property & fixed assets	600
Total assets	616,853

Liabilities

Accounts payable	46,300
Total current liabilities	46,300
Long-term debt	542,740

Total liabilities

Stockholders' equity

Total liabilities	589,040
Stockholders' equity	27,834

Correct value is 27813: off by 21 → U

Depreciation years	20	(fixed assets) / depreciation
Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	2.00	(Inventory) / (COGS per day)

5. Wonderland Dyes and Potions

This innovative company is the premier producer of dyes and flavors in Wonderland: Its ingredients are key for manufacture of blacking and whitening as well as toothpaste and any size-changing food or drink. Wonderland D&P owns top-of-the-line chemical manufacturing equipment. It is known to demand quick payment from its customers, and this reputation helps its customers keep their accounts receivable balances low as well.

high fixed assets
low accounts receivable

Statement of Operations

Revenue

Total revenue	3,000,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,950,000	gross margin: 35%: high
Depreciation & amortization	375,000	
Salary and benefits	300,000	10% of revenue

Total operating expenses	2,625,000
--------------------------	-----------

Income (loss) from operations	375,000
-------------------------------	---------

Interest expense	(40,116)	interest rate: 6%
------------------	----------	-------------------

Income before taxes	334,884
---------------------	---------

Income taxes paid	110,019	Taxes form a red herring: 19→ S
-------------------	---------	---------------------------------

Net income	224,865
------------	---------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	1,214,185
--	-----------

Net Income	224,865
------------	---------

Depreciation & amortization	375,000
-----------------------------	---------

Net cash flows from operating activities	599,865
--	---------

New debt incurred (repayed)	(1,200,000)
-----------------------------	-------------

Net cash flows from financing activities	(1,200,000)
--	-------------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	83,300
---------------------	--------

Material inventory	53,425
--------------------	--------

Finished goods inventory	106,849
--------------------------	---------

Total current assets	857,627
----------------------	---------

Property & fixed assets	7,500,000
-------------------------	-----------

Total assets	8,357,627
--------------	-----------

Liabilities

Accounts payable	71,900
------------------	--------

Current portion of debt	33,430
-------------------------	--------

Total current liabilities	105,330
---------------------------	---------

Long-term debt	668,600
----------------	---------

Total liabilities	773,930
-------------------	---------

Stockholders' equity	7,583,697
----------------------	-----------

Manufacturing inventory

Correct sum is 857624: off by 3→ C

Depreciation years	20	(fixed assets) / depreciation
Receivables days (days sales outstanding)	10.1	(Accounts receivable) / (Revenue/365)
Payables days	9.99	(Accounts payable) / (operating expenses / 365)
Inventory days	30.0	(Inventory) / (COGS per day)

15. Hatter's Tea-stop

Tea shop owned by the Mad Hatter, who spends some of his time developing new tea combinations. Offers customers who are having an unbirthday the unusual option to pay after 30 days, but then often has trouble collecting payment.

R&D costs.
high receivables days
high gross margin
(from low tea costs)

Statement of Operations

Revenue

Total revenue	1,800,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,200,000	gross margin: 33%: low-priced raw tea
Occupancy costs	36,000	
Research & development	144,000	Tea combination development
Salary and benefits	180,000	10% of revenue

Total operating expenses	1,560,000
--------------------------	-----------

Income (loss) from operations	240,000
-------------------------------	---------

Interest expense	(95,711)	interest rate: 11%
------------------	----------	--------------------

One-time settlement in legal dispute	500
--------------------------------------	-----

Income before taxes	144,789
---------------------	---------

Income taxes paid	40,005	Taxes form a red herring: 5 → E
-------------------	--------	---------------------------------

Net income	104,784
------------	---------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	509,266
--	---------

Net Income	104,784
------------	---------

Net cash flows from operating activities	104,784
--	---------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	375,000
---------------------	---------

Inventory	98,630
-----------	--------

Total current assets	1,087,680
----------------------	-----------

Total assets	1,087,680
--------------	-----------

Liabilities

Accounts payable	128,200
------------------	---------

Current portion of debt	43,505
-------------------------	--------

Total current liabilities	171,705
---------------------------	---------

Long-term debt	870,100
----------------	---------

Total liabilities	1,041,805
-------------------	-----------

Stockholders' equity	45,876
----------------------	--------

Correct value is 45875: off by 1 → A

Receivables days (days sales outstanding)	76.0	(Accounts receivable) / (Revenue/365)
Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	29.9	(Inventory) / (COGS per day)

4. Travels with Turtles

A popular, well-known travel company that owns its own infrastructure and cars, each of which require replacement every couple of decades. Travels with Turtles is financed with a loan from Standard Bank of Wonderland; some years it loses money.

Good brand recognition
20-yr depreciation
Deferred tax asset.

Statement of Operations

Revenue

Total revenue	3,000,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,200,000
Depreciation & amortization	3,070,250
Advertising and marketing costs	15,000
Salary and benefits	750,000

gross margin: 60%: high
Depreciation is 1/20 fixed assets
25% of revenue

Total operating expenses	5,035,250
--------------------------	-----------

Income (loss) from operations	(2,035,250)
-------------------------------	-------------

Interest expense	(3,033,126)
------------------	-------------

interest rate: 6%

Income before taxes	(5,068,376)
---------------------	-------------

Income taxes paid	(1,679,995)
-------------------	-------------

Taxes form a red herring: 5→ E

Net income	(3,388,381)
------------	-------------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	1,546,231
--	-----------

Net Income	(3,388,381)
------------	-------------

Depreciation & amortization	3,070,250
-----------------------------	-----------

Net cash flows from operating activities	(318,131)
--	-----------

New debt incurred (repaid)	(614,050)
----------------------------	-----------

Net cash flows from financing activities	(614,050)
--	-----------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	250,000
---------------------	---------

Total current assets	864,050
----------------------	---------

Property & fixed assets	61,405,000
-------------------------	------------

Goodwill & Intangible assets	307,025
------------------------------	---------

Deferred tax asset	614,050
--------------------	---------

Value of strong brand
Tax credit from money-losing years

Total assets	63,190,125
--------------	------------

Liabilities

Accounts payable	1,034,600
------------------	-----------

Current portion of debt	2,527,605
-------------------------	-----------

Total current liabilities	3,562,205
---------------------------	-----------

Long-term debt	50,552,100
----------------	------------

Total liabilities	54,114,305
-------------------	------------

Stockholders' equity	9,075,838
----------------------	-----------

Correct value is 9075820: off by 18→ **R**

Depreciation years	20
--------------------	----

Receivables days (days sales outstanding)	30.4
---	------

Payables days	74.9
---------------	------

(fixed assets) / depreciation
(Accounts receivable) / (Revenue/365)
(Accounts payable) / (operating expenses / 365)

10. White Rabbit Timepieces

This independent watch manufacturer has a strong brand and strives to reach exclusive Wonderland customers. Many Wonderland shops carry one or two types of Rabbit watches; in contrast, the company store carries each of hundreds of models and sizes. Distribution shops pay Rabbit only after a watch has sold.

Intangible assets
high receivables

The manufacturing is done by hand using specialized equipment that typically lasts about 15 years.

High inventory

Statement of Operations

Revenue

Total revenue	1,800,000
---------------	-----------

Costs and expenses

Cost of goods sold	1,404,000	gross margin: 22%
--------------------	-----------	-------------------

Depreciation & amortization	90,000
-----------------------------	--------

Advertising and marketing costs	9,000
---------------------------------	-------

Salary and benefits	180,000	10% of revenue
---------------------	---------	----------------

Total operating expenses	1,683,000
--------------------------	-----------

Income (loss) from operations	117,000
-------------------------------	---------

Interest expense	(16,242)	interest rate: 6%
------------------	----------	-------------------

Income before taxes	100,758
---------------------	---------

Income taxes paid	30,001	Taxes form a red herring: 1 → A
-------------------	--------	---------------------------------

Net income	70,757
------------	--------

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	453,293
--	---------

Net Income	70,757
------------	--------

Depreciation & amortization	90,000
-----------------------------	--------

Net cash flows from operating activities	160,757
--	---------

Cash and cash equivalents: end of period	614,050
--	---------

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
---------------------------	---------

Accounts receivable	375,000
---------------------	---------

Inventory	288,493
-----------	---------

Total current assets	1,277,543
----------------------	-----------

Property & fixed assets	1,800,000
-------------------------	-----------

Goodwill & Intangible assets	307,025	Value of strong brand
------------------------------	---------	-----------------------

Total assets	3,384,568
--------------	-----------

Liabilities

Accounts payable	138,300
------------------	---------

Current portion of debt	13,535
-------------------------	--------

Total current liabilities	151,835
---------------------------	---------

Long-term debt	270,700
----------------	---------

Total liabilities	422,535
-------------------	---------

Stockholders' equity	2,962,049	Correct value is 2962033: off by 16 → P
----------------------	-----------	---

Depreciation years	15	(fixed assets) / depreciation
Receivables days (days sales outstanding)	76.0	(Accounts receivable) / (Revenue/365)
Payables days	29.9	(Accounts payable) / (operating expenses / 365)
Inventory days	74.9	(Inventory) / (COGS per day)

14. Tweedle Brothers Essential Supplies

This small customer shop, like many in Wonderland, sells looking glasses, toothpaste, and magic potions. The brothers own their building and staff the counter themselves whenever possible. The shop only keeps the most commonly needed items and is often out-of-stock. Tweedle Brothers is slow to pay its bills.

low margins
some depreciation
low salary costs
low inventory
high accounts payables.

Statement of Operations

Revenue

Total revenue	600,000	small
---------------	---------	-------

Costs and expenses

Cost of goods sold	510,000	gross margin: 15%
Depreciation & amortization	30,000	
Salary and benefits	18,000	3% of revenue

Total operating expenses	558,000	
--------------------------	---------	--

Income (loss) from operations	42,000	
-------------------------------	--------	--

Interest expense	(10,802)	interest rate: 11%
------------------	----------	--------------------

Income before taxes	31,198	
---------------------	--------	--

Income taxes paid	10,008	Taxes form a red herring: 8→ H
-------------------	--------	--------------------------------

Net income	21,190	
------------	--------	--

Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	562,860	
--	---------	--

Net Income	21,190	
------------	--------	--

Depreciation & amortization	30,000	
-----------------------------	--------	--

Net cash flows from operating activities	51,190	
--	--------	--

Cash and cash equivalents: end of period	614,050	
--	---------	--

Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050	
---------------------------	---------	--

Inventory	13,973	
-----------	--------	--

Total current assets	628,023	
----------------------	---------	--

Property & fixed assets	600,000	
-------------------------	---------	--

Total assets	1,228,023	
--------------	-----------	--

Liabilities

Accounts payable	114,600	
------------------	---------	--

Current portion of debt	4,910	
-------------------------	-------	--

Total current liabilities	119,510	
---------------------------	---------	--

Long-term debt	98,200	
----------------	--------	--

Total liabilities	217,710	
-------------------	---------	--

Stockholders' equity	1,010,335	Correct value is 1010313: off by 22→ V
----------------------	-----------	--

Depreciation years	20	(fixed assets) / depreciation
Payables days	74.9	(Accounts payable) / (operating expenses / 365)
Inventory days	10.0	(Inventory) / (COGS per day)