

# Growth and Fixed Costs

*The financial statements of two Wonderland banks and all their customers were set aside for tax irregularities... something here doesn't add up.*

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## **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.

## **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.

## **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.

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.

## **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.

## **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 whiting 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.

## **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.

## **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.

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.

### **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.

### **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.

### **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.

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

### **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.

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.

### **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.

### **13. Scrumptious Essences**

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

### **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.

### **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.

**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.

**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.

**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.

## Statement of Operations

### Revenue

Total revenue	10,000
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### Costs and expenses

Cost of goods sold	7,800
Occupancy costs	200
Advertising and marketing costs	50
Research & development	800
Salary and benefits	1,000

Total operating expenses	9,850
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Income (loss) from operations	150
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Interest expense	(198)
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One-time settlement in legal dispute	500
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Income before taxes	452
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Income taxes paid	5
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Net income	447
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## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	9,665
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Net Income	447
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Net cash flows from operating activities	447
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Dividend payment	(111)
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Net cash flows from financing activities	(111)
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Cash and cash equivalents: end of period	10,000
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## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
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Inventory	641
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Total current assets	10,641
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Goodwill & Intangible assets	13,000
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Total assets	23,647
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### Liabilities

Accounts payable	800
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Current portion of debt	90
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Total current liabilities	890
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Long-term debt	1,800
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Total liabilities	2,690
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<u>Stockholders' equity</u>	20,957
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## Statement of Operations

### Revenue

Total revenue	50,000
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### Costs and expenses

Cost of goods sold	29,000
Depreciation & amortization	2,500
Salary and benefits	1,500
Total operating expenses	33,000
Income (loss) from operations	17,000
Interest expense	(13,716)
Income before taxes	3,284
Income taxes paid	1,024
Net income	2,260

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	15,240
Net Income	2,260
Depreciation & amortization	2,500
Net cash flows from operating activities	4,760
New debt incurred (repaid)	(10,000)
Net cash flows from financing activities	(10,000)
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	10,400
Material inventory	795
Finished goods inventory	1,589
Total current assets	22,798
Property & fixed assets	250,000
Goodwill & Intangible assets	13,000
Total assets	285,798

### Liabilities

Accounts payable	6,700
Current portion of debt	11,430
Total current liabilities	18,130
Long-term debt	228,600
Total liabilities	246,730
<u>Stockholders' equity</u>	39,068

## Statement of Operations

### Revenue

Total revenue	30,000
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### Costs and expenses

Cost of goods sold	24,000
Depreciation & amortization	3,750
Salary and benefits	900
Total operating expenses	28,650
Income (loss) from operations	1,350
Interest expense	(492)
Income before taxes	858
Income taxes paid	14
Net income	844

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	5,406
Net Income	844
Depreciation & amortization	3,750
Net cash flows from operating activities	4,594
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	6,200
Material inventory	658
Finished goods inventory	1,315
Total current assets	18,173
Property & fixed assets	75,000
Deferred tax asset	10,000
Total assets	103,173

### Liabilities

Accounts payable	5,800
Current portion of debt	410
Total current liabilities	6,210
Long-term debt	8,200
Total liabilities	14,410
<u>Stockholders' equity</u>	88,782

## Statement of Operations

### Revenue

Total revenue	10,000
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### Costs and expenses

Cost of goods sold	7,000
Occupancy costs	200
Salary and benefits	1,000
Total operating expenses	8,200
Income (loss) from operations	1,800
Interest expense	(924)
One-time settlement in legal dispute	(500)
Income before taxes	376
Income taxes paid	14
Net income	362

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	(5,362)
Net Income	362
Net cash flows from operating activities	362
New debt incurred (repayed)	15,000
Net cash flows from financing activities	15,000
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Inventory	575
Total current assets	10,575
Total assets	10,575

### Liabilities

Accounts payable	600
Total current liabilities	600
Long-term debt	8,400
Total liabilities	9,000

<u>Stockholders' equity</u>	1,584
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## Statement of Operations

### Revenue

Total revenue	40,000
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### Costs and expenses

Cost of goods sold	26,000
Depreciation & amortization	4,000
Advertising and marketing costs	2,000
Salary and benefits	4,000
Total operating expenses	36,000
Income (loss) from operations	4,000
Interest expense	(252)
Income before taxes	3,748
Income taxes paid	1,018
Net income	2,730

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	3,270
Net Income	2,730
Depreciation & amortization	4,000
Net cash flows from operating activities	6,730
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	1,100
Material inventory	712
Finished goods inventory	1,425
Total current assets	13,237
Property & fixed assets	40,000
Total assets	53,237

### Liabilities

Accounts payable	900
Current portion of debt	210
Total current liabilities	1,110
Long-term debt	4,200
Total liabilities	5,310
<u>Stockholders' equity</u>	47,942



## Statement of Operations

### Revenue

Total revenue	30,000
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### Costs and expenses

Cost of goods sold	19,500
Occupancy costs	600
Salary and benefits	3,000
Total operating expenses	23,100
Income (loss) from operations	6,900
Interest expense	(1,656)
One-time settlement in legal dispute	(500)
Income before taxes	4,744
Income taxes paid	1,008
Net income	3,736

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	(8,736)
Net Income	3,736
Net cash flows from operating activities	3,736
New debt incurred (repayed)	15,000
Net cash flows from financing activities	15,000
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Inventory	1,603
Total current assets	11,603
Goodwill & Intangible assets	13,000
Deferred tax asset	10,000
Total assets	34,618

### Liabilities

Accounts payable	1,800
Current portion of debt	1,380
Total current liabilities	3,180
Long-term debt	27,600
Total liabilities	30,780
<u>Stockholders' equity</u>	3,838

## Statement of Operations

### Revenue

Total revenue	20,000
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### Costs and expenses

Cost of goods sold	1,625
Depreciation & amortization	500
Occupancy costs	1,000
Salary and benefits	2,300
Banking fees	13,889

Total operating expenses	19,314
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Income (loss) from operations	686
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Interest expense	(96)
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Income before taxes	590
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Income taxes paid	100
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0	109
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Net income	490
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## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	9,010
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Net Income	490
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Depreciation & amortization	500
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Net cash flows from operating activities	990
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Cash and cash equivalents: end of period	10,000
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## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
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Inventory	36
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Total current assets	10,036
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Property & fixed assets	10,000
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Goodwill & Intangible assets	500
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Total assets	20,543
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### Liabilities

Accounts payable	1,500
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Current portion of debt	80
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Total current liabilities	1,580
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Long-term debt	1,600
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Total liabilities	3,180
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<u>Stockholders' equity</u>	17,363
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## Statement of Operations

### Revenue

Total revenue	10,000
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### Costs and expenses

Cost of goods sold	8,200
Depreciation & amortization	500
Salary and benefits	1,000
Total operating expenses	9,700
Income (loss) from operations	300
Interest expense	(176)
Income before taxes	124
Income taxes paid	5
Net income	119

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	9,681
Net Income	119
Depreciation & amortization	200
Net cash flows from operating activities	319
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	200
Material inventory	75
Finished goods inventory	150
Total current assets	10,425
Property & fixed assets	10,000
Total assets	20,428

### Liabilities

Accounts payable	200
Current portion of debt	80
Total current liabilities	280
Long-term debt	1,600
Total liabilities	1,880
<u>Stockholders' equity</u>	18,548

## Statement of Operations

### Revenue

Revenue from interest	5,588
Other revenue	40,000
Total revenue	45,588

### Costs and expenses

Interest paid	3,500
Provision for loan loss	1,000
Occupancy costs	600
Salary and benefits	7,978
Total operating expenses	13,078
Income (loss) from operations	32,510
Income before taxes	32,510
Income taxes paid	10,001
Net income	22,509

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	7,491
Net Income	22,509
Net cash flows from operating activities	22,509
Purchases of treasury shares	(10,000)
Proceeds from issuance (repurchase) of long-term debt	(10,000)
Net cash flows from financing activities	(20,000)
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Property & fixed assets	4,559
Mortgage loans	12,000
Loan assets	38,800
Total assets	65,359

### Liabilities

Deposits	50,000
Total liabilities	50,000
<u>Stockholders' equity</u>	15,361

## Statement of Operations

### Revenue

Total revenue	30,000
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### Costs and expenses

Cost of goods sold	24,000
Occupancy costs	600
Advertising and marketing costs	150
Salary and benefits	3,000
Total operating expenses	27,750
Income (loss) from operations	2,250
Interest expense	(209)
Income before taxes	2,041
Income taxes paid	707
0	1,018
Net income	1,334

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	8,666
Net Income	1,334
Net cash flows from operating activities	1,334
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Inventory	1,973
Total current assets	11,973
Goodwill & Intangible assets	13,000
Total assets	24,973

### Liabilities

Accounts payable	5,700
Current portion of debt	95
Total current liabilities	5,795
Long-term debt	1,900
Total liabilities	7,695

<u>Stockholders' equity</u>	17,292
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## Statement of Operations

### Revenue

Total revenue	40,000
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### Costs and expenses

Cost of goods sold	31,200
Depreciation & amortization	300
Advertising and marketing costs	200
Research & development	3,200
Salary and benefits	4,000
Total operating expenses	38,900
Income (loss) from operations	1,100
Interest expense	(275)
Income before taxes	825
Income taxes paid	5
Net income	820

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	11,880
Net Income	820
Depreciation & amortization	300
Net cash flows from operating activities	1,120
Net cash flows from investing activities	(3,000)
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	3,300
Material inventory	855
Finished goods inventory	1,710
Total current assets	15,885
Property & fixed assets	3,000
Goodwill & Intangible assets	13,000
Total assets	31,885

### Liabilities

Accounts payable	7,900
Total current liabilities	7,900
Long-term debt	2,500
Total liabilities	10,400
<b>Stockholders' equity</b>	<b>21,485</b>

## Statement of Operations

### Revenue

Revenue from interest	24,654
Revenue from fees	34,689
Total revenue	59,343

### Costs and expenses

Interest paid	16,000
Provision for loan loss	5,000
Occupancy costs	100
Salary and benefits	1,780
Special payment to small business owner	14,689
Total operating expenses	37,569
Income (loss) from operations	21,774
Income before taxes	21,774
Income taxes paid	7,020
Net income	14,754

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	5,246
Net Income	14,754
Net cash flows from operating activities	14,754
Proceeds from issuance (repurchase) of long-term debt	(10,000)
Net cash flows from financing activities	(10,000)
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Property & fixed assets	5,934
Loan assets	397,900
Other assets	13,000
Total assets	426,834

### Liabilities

Deposits	400,000
Total liabilities	400,000

<u>Stockholders' equity</u>	26,840
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## Statement of Operations

### Revenue

Total revenue	30,000
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### Costs and expenses

Cost of goods sold	19,500
Occupancy costs	600
Research & development	2,400
Salary and benefits	3,000
Total operating expenses	25,500
Income (loss) from operations	4,500
Interest expense	(99)
Income before taxes	4,401
Income taxes paid	1,018
Net income	3,383

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	6,617
Net Income	3,383
Net cash flows from operating activities	3,383
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Inventory	1,603
Total current assets	11,603
Total assets	11,609

### Liabilities

Accounts payable	600
Current portion of debt	45
Total current liabilities	645
Long-term debt	900
Total liabilities	1,545
<u>Stockholders' equity</u>	10,064



## Statement of Operations

### Revenue

Total revenue	50,000
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### Costs and expenses

Cost of goods sold	32,500
Depreciation & amortization	6,250
Salary and benefits	5,000
Total operating expenses	43,750
Income (loss) from operations	6,250
Interest expense	(666)
Income before taxes	5,584
Income taxes paid	1,009
0	106
Net income	4,575

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	19,175
Net Income	4,575
Depreciation & amortization	6,250
Net cash flows from operating activities	10,825
New debt incurred (repaid)	(20,000)
Net cash flows from financing activities	(20,000)
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	1,300
Material inventory	890
Finished goods inventory	1,781
Total current assets	13,994
Property & fixed assets	125,000
Total assets	138,994

### Liabilities

Accounts payable	1,100
Current portion of debt	555
Total current liabilities	1,655
Long-term debt	11,100
Total liabilities	12,755
<u>Stockholders' equity</u>	126,239

## Statement of Operations

### Revenue

Total revenue	30,000
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### Costs and expenses

Cost of goods sold	20,000
Occupancy costs	600
Research & development	2,400
Salary and benefits	3,000
Total operating expenses	26,000
Income (loss) from operations	4,000
Interest expense	(1,562)
One-time settlement in legal dispute	500
Income before taxes	2,938
Income taxes paid	909
0	1,005
Net income	2,029

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	7,971
Net Income	2,029
Net cash flows from operating activities	2,029
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	6,200
Inventory	1,644
Total current assets	17,844
Total assets	17,844

### Liabilities

Accounts payable	2,100
Current portion of debt	710
Total current liabilities	2,810
Long-term debt	14,200
Total liabilities	17,010
<u>Stockholders' equity</u>	852

## Statement of Operations

### Revenue

Total revenue	50,000
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### Costs and expenses

Cost of goods sold	20,000
Depreciation & amortization	5,000
Advertising and marketing costs	250
Salary and benefits	12,500
Total operating expenses	37,750
Income (loss) from operations	12,250
Interest expense	(6,576)
Income before taxes	5,674
Income taxes paid	1,012
Net income	4,662

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	10,338
Net Income	4,662
Depreciation & amortization	5,000
Net cash flows from operating activities	9,662
New debt incurred (repayed)	(10,000)
Net cash flows from financing activities	(10,000)
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	4,100
Total current assets	14,100
Property & fixed assets	100,000
Goodwill & Intangible assets	13,000
Deferred tax asset	10,000
Total assets	137,100

### Liabilities

Accounts payable	3,100
Current portion of debt	5,480
Total current liabilities	8,580
Long-term debt	109,600
Total liabilities	118,180
<b>Stockholders' equity</b>	<b>18,925</b>

## Statement of Operations

### Revenue

Total revenue	30,000
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### Costs and expenses

Cost of goods sold	23,400
Depreciation & amortization	1,500
Advertising and marketing costs	150
Salary and benefits	3,000
Total operating expenses	28,050
Income (loss) from operations	1,950
Interest expense	(306)
Income before taxes	1,644
Income taxes paid	404
0	501
Net income	1,240

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	7,260
Net Income	1,240
Depreciation & amortization	1,500
Net cash flows from operating activities	2,740
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Accounts receivable	6,200
Inventory	4,808
Total current assets	21,008
Property & fixed assets	30,000
Goodwill & Intangible assets	13,000
Total assets	64,008

### Liabilities

Accounts payable	2,300
Current portion of debt	255
Total current liabilities	2,555
Long-term debt	5,100
Total liabilities	7,655
<u>Stockholders' equity</u>	56,364

## Statement of Operations

### Revenue

Total revenue	10,000
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### Costs and expenses

Cost of goods sold	8,500
Depreciation & amortization	500
Salary and benefits	300
Total operating expenses	9,300
Income (loss) from operations	700
Interest expense	(275)
Income before taxes	425
Income taxes paid	18
Net income	407

## Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	9,093
Net Income	407
Depreciation & amortization	500
Net cash flows from operating activities	907
Cash and cash equivalents: end of period	10,000

## Statement of Assets & Liabilities

### Assets

Cash and cash equivalents	10,000
Inventory	233
Total current assets	10,233
Property & fixed assets	10,000
Total assets	20,233

### Liabilities

Accounts payable	1,900
Current portion of debt	125
Total current liabilities	2,025
Long-term debt	2,500
Total liabilities	4,525
<u>Stockholders' equity</u>	15,713