



WILLIAM J. BRUNS

Maria Hernandez & Associates

In June 2004, Maria Hernandez found herself out of a job for the second time in six months. As she left the building that had housed her failed dot-com employer, carrying a small box of personal belongings, her mind was already embracing a plan that would have her start her own business. At least, in her own business she would control part of her own destiny instead of being subject to the decisions of others.

Hernandez was a graduate of the Massachusetts College of Art. After working three years for an advertising agency where she specialized in advertising layout, she used part of her savings to take a technical course in webpage design. Her first job after completing her training was with a startup retail dot-com that ran through its initial cash and loans in less than one year. It took her only one week to find her latest employer, but in less than six months it had folded, too. She loved her work as a webpage designer, and she had confidence in her own abilities and skill. Her art training allowed her to blend design, color, and webpage layout in attractive and effective ways. But having been burned twice by startup dot-com employers, she was also reluctant to go to work for a third.

Within days she had put together a simple business plan to create a webpage design consultancy to offer webpage designs to anyone. She would head the company and employ other designers as well to meet demand. There were plenty of potential customers in Boston, and she knew that several of her former colleagues from art school could be interested in the better pay that webpage design could support.

On June 20, 2004, she transferred all of her savings, \$30,000, to a new bank account with the company name, and two days later she added \$20,000 borrowed from her father to the account. After that things moved quickly as she rented a second floor office for \$3,000 a month, paying one month's rent in advance as a security deposit to apply to the end of the lease, and \$3,000 for July 2004. She purchased some used computer equipment with software from her last employer, and ordered stationary and office supplies that cost \$5,000 when they were delivered on June 29.

Maria Hernandez & Associates opened for business on July 2, 2004. Although Maria was not an accountant, she took stock of her company's financial position as she began to seek her first contracts. The company had spent all but \$12,000 of the cash that had been put into the bank account, but it had some assets as well.

Assets		Liabilities and Owner's Equity	
Cash in bank	\$12,000	Loan	\$20,000
Office supplies	5,000	Maria's equity	30,000
Equipment and software	27,000		
Prepaid rent	6,000		

Professor William J. Bruns prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2001 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

Maria was a little worried that the cash had gone so quickly, but she also had confidence in herself and her willingness to work hard.

In the first few days, Maria lined up two webpage design projects from local businesses. She spent part of each day working on the projects, and the remainder of her time was spent looking for new clients. By early August she had four other designers at work and a steady stream of new work coming in by way of referrals. She also felt far too busy to attend to any financial aspects of the business. When clients paid, the money went into the bank account. The associates were paid weekly, and she paid rent and other bills when they were received. In the ninth week of operations, Maria's father telephoned her to ask how things were going, and she could not answer the question with any confidence. It was time for an accounting, and the end of August would be a good time to do it.

Hernandez found the following information she had accumulated during the two months of operations:

1. Clients had paid \$40,000 for completed work, and two clients still owed a total of \$7,000 for work that had been completed and delivered to them. There were no projects underway as the office closed on August 31 for the Labor Day weekend.
2. Additional office supplies had been purchased for cash of \$900, and office supplies and stationery that had cost \$4,200 were still on hand.
3. Rent of \$6,000 for August and September was paid in cash. Utility bills, a repair of equipment, and the salaries paid to designers (including Maria Hernandez) were paid in cash totaling \$33,000.
4. Additional equipment and software was purchased on August 27 for \$11, 000, with half of that amount being paid in cash and the remainder due one month later.

As Maria Hernandez thought about the first two month's operations, she was perplexed by the fact that cash in the bank had decreased by \$5,400 even though she was sure the business was operating profitably.

She also wondered how to account for the following:

1. She had agreed to pay her father interest on his loan of 6% per year, but no interest had been paid so far.
2. The equipment and software were working out well, but Hernandez knew that they had a technological life of no more than three years from the time that she had purchased them.

In brief, Maria Hernandez felt that the first two months had been successful, but she was puzzled about how to draft meaningful reports to mail to her father.

Questions

1. How would you have reported on operations of Maria Hernandez & Associates through August 31, 2004? Had the company made a profit as Maria Hernandez believed? If so, how would you explain why the cash in the bank has declined?
2. How would you report the status of the business on August 31, 2004?