

## **Chips**

Chips is a cookie company (LLC) that started business on January 1, 2016. Its owners started the business in hopes of getting a 10% return on their investment. The original four owners pooled together \$100,000 to start the business. For the remainder of their capital, they obtained a \$150,000 Line of Credit.

Chips operates 3 stores in the Boise, Idaho area. They are all located in upper-end shopping centers. They have long-term leases for all 3 stores. Their product offering is simple – they sell cookies.

Their fixed assets consist of baking and refrigeration equipment, as well as a limited store front. Some of the fixed assets are categorized as equipment and some of them are categorized as Leasehold Improvements.

Each store is separately managed by a full-time manager. The manager is paid a salary and benefits. In addition, each store has an FTE (Full-Time Equivalent) of an average of 3 workers in the store during the day (hours are from 10am to 8pm daily, Monday through Saturday). They are paid at an hourly rate. Generally, 2 employees are baking in the back while the store front has 1 employee.

The owners do not draw a salary. Instead, they hope to increase the value of the company through retained earnings (annual income). They have not been able to distribute any of the profits as the profits have been minimal.

For accounting purposes, the cost of goods sold (direct costs) consist only of the materials used in baking the cookies and supplies for distribution to customers. Labor costs and equipment depreciation are accounted for as fixed expense (indirect costs).

Most of the marketing is done through social media, as well as circulars required by the shopping centers.

Chips has hired a payroll service to take care of its weekly payroll and have contracted with an IT Support company that provides services (including web support) and bill on an as-needed basis. These are included in professional services costs.

On the balance sheet, inventory consists solely of cooking ingredients and supplies for distribution to customers. Cookies are baked fresh every day, with the baking staff starting work 2 hours before the store opens and leaving 2 hours before it closes.

Fixed Assets (Equipment and Leasehold Improvements) are all depreciated over 10 years.

All sales are considered cash sales, even if paid by credit card.

Accounts Payable are all to Chips' cooking ingredients suppliers. They have 2/10 Net 30 payment terms with their suppliers. They have never taken the discount.

Taxes expenses as of the end of the year are also listed as a payable. As an LLC, taxes are paid by the individual owners, but an approximation of the taxes is calculated to fully account for the expense.

For accounting purposes, all of the Line of Credit Balance is accounted for as long-term debt.