

Growth and Fixed Costs: Solution

The financial statements of two Wonderland banks and all their customers 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.

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 costs and low profitability; they wonder 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—though management claims they are. 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 restauranteurs (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—though management claims they are. 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 (repayed)	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	193,800	
Current portion of debt	5,090	
Total current liabilities	198,890	
Long-term debt	101,800	
Total liabilities	300,690	
Stockholders' equity	972,126	

Payables days	29.9	(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 (repayed)	(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

Depreciation & amortization 225,000

Salary and benefits 54,000

gross margin: 20%

depr. is high: 13% of operating exp.

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

Manufacturing inventory

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 (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	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
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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
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Income (loss) from operations	240,000
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Interest expense	(15,402)	interest rate: 6%
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Income before taxes	224,598
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Income taxes paid	70,018	Taxes form a red herring: 18 → R
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Net income	154,580
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Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	219,470
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Net Income	154,580
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Depreciation & amortization	240,000
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Net cash flows from operating activities	394,580
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Cash and cash equivalents: end of period	614,050
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Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
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Accounts receivable	66,600
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Material inventory	42,740	Manufacturing inventory
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Finished goods inventory	85,479
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Total current assets	808,869
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Property & fixed assets	2,400,000
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Total assets	3,208,869
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Liabilities

Accounts payable	59,100
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Current portion of debt	12,835
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Total current liabilities	71,935
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Long-term debt	256,700
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Total liabilities	328,635
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Stockholders' equity	2,880,236	Correct value is 2880234: off by 2 → B
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Depreciation years	10	(fixed assets) / depreciation
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Receivables days (days sales outstanding)	10.1	(Accounts receivable) / (Revenue/365)
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Payables days	9.98	(Accounts payable) / (operating expenses / 365)
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Inventory days	29.9	(Inventory) / (COGS per day)
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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.

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 costs and low profitability; they wonder where the revenues are going.

"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 whitening, 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	Manufacturing inventory
Finished goods inventory	8,986	
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	Manufacturing inventory
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
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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
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Income (loss) from operations	270,000
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Interest expense	(6,248)	interest rate: 11%
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Income before taxes	263,752
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Income taxes paid	80,004	Taxes form a red herring: 4→ D
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Net income	183,748
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Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	430,302
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Net Income	183,748
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Net cash flows from operating activities	183,748
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Cash and cash equivalents: end of period	614,050
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Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
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Inventory	96,164
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Total current assets	710,214
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Total assets	710,232
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Correct sum is 710214: off by 18→ R

Liabilities

Accounts payable	41,900
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Current portion of debt	2,840
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Total current liabilities	44,740
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Long-term debt	56,800
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Total liabilities	101,540
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Stockholders' equity	608,692
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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	Low equipment: operates out of someone's house.
Total assets	616,853	

Liabilities

Accounts payable	46,300
Total current liabilities	46,300
Long-term debt	542,740
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
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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
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Income (loss) from operations	375,000
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Interest expense	(40,116)	interest rate: 6%
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Income before taxes	334,884
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Income taxes paid	110,019	Taxes form a red herring: 19→ S
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Net income	224,865
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Consolidated Statement of Cash Flows

Cash and cash equivalents: beginning of period	1,214,185
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Net Income	224,865
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Depreciation & amortization	375,000
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Net cash flows from operating activities	599,865
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New debt incurred (repayed)	(1,200,000)
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Net cash flows from financing activities	(1,200,000)
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Cash and cash equivalents: end of period	614,050
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Statement of Assets & Liabilities

Assets

Cash and cash equivalents	614,050
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Accounts receivable	83,300
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Material inventory	53,425	Manufacturing inventory
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Finished goods inventory	106,849
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Total current assets	857,627	Correct sum is 857624: off by 3→ C
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Property & fixed assets	7,500,000
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Total assets	8,357,627
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Liabilities

Accounts payable	71,900
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Current portion of debt	33,430
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Total current liabilities	105,330
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Long-term debt	668,600
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Total liabilities	773,930
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<u>Stockholders' equity</u>	7,583,697
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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	$(\text{Accounts receivable}) / (\text{Revenue}/365)$
Payables days	29.9	$(\text{Accounts payable}) / (\text{operating expenses} / 365)$
Inventory days	29.9	$(\text{Inventory}) / (\text{COGS per day})$

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	gross margin: 60%: high
Depreciation & amortization	3,070,250	Depreciation is 1/20 fixed assets
Advertising and marketing costs	15,000	
Salary and benefits	750,000	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 (repayed)	(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	Value of strong brand
Deferred tax asset	614,050	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	(fixed assets) / depreciation
Receivables days (days sales outstanding)	30.4	(Accounts receivable) / (Revenue/365)
Payables days	74.9	(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)