

Rocky Mountain Catering, LLC.¹ **Financial Statements Problem Sets²**

In this series of problem sets you will use the information provided to construct a set of balance sheets, income statement and cash flow statement for Rocky Mountain Catering, LLC. There are four separate parts (assignments) in the series: 1) Constructing the Initial Balance Sheet, 2) Preparing the First Year Income Statement, 3) Updating the Year-End Balance Sheet, and 4) Preparing the Cash Flow Statement.

Narrative and transactions

Initial Conditions – January 1, 2022

Jessica and Sean are two experienced BBQ pit masters who also love Dutch-oven cooking and making artisanal sourdough breads. They've cooked for family and friends for many years and have decided to open Rocky Mountain Catering so they can turn their hobby into a business. They're prepared to leave their full-time jobs and launch their new business using \$50,000 from savings and a \$100,000 small business loan offered at 10%.

They've already secured several catering contracts with friends and former business associates and hope they can leverage these and some great reviews on social media to generate enough cash flow to have a successful first year. Using \$40,000 of the funds they have available they've purchased a large mobile smoker (a big BBQ on a trailer - \$20,000), commercial ovens and refrigerators (\$15,000), dutch ovens and miscellaneous kitchen equipment (\$5,000). They've also used \$20,000 to purchase a used van to make deliveries and pull the trailer. The expected useful life of the smoker, van and equipment is 8 years. The firm does not expect to carry any meaningful inventory and orders items as needed for specific catering projects.

The end of their first year – December 31, 2022

In Rocky Mountain Catering's first year of operations Jessica and Sean were busier than they'd even hoped. They had catering revenues of \$600,000 and sold \$150,000 in sourdough at a combined cost of goods sold equaling 40% of their revenue. They leased a commercial kitchen space for \$4,000 per month, spent \$12,000 on social media marketing and a web site, had a combined payroll of \$180,000 including all employer sponsored taxes and benefits, had General & Administrative costs (G&A) of \$125,000, interest expense on their small business loan of \$10,000, and paid \$17,550 in state and federal income taxes. Additionally, they accounted for depreciation of the van and equipment of \$7,500 (1/8th of the original purchase costs).

At the end of this first year they realized their cash flow was strong enough to pay off \$10,000 of the small business loan, purchase a second smoker for \$8,000, and invest in a walk-in refrigerator at a cost of \$20,000. They received all but \$15,000 of their first year revenues in cash and credit card payments

¹ This problem and solution set is intended to present an abbreviated discussion of the included finance concepts and is not intended to be a full or complete representation of them or the underlying foundations from which they are built.

² This problem set was developed by Richard Haskell, PhD (rhaskell@westminstercollege.edu), Gore School of Business, Westminster College, Salt Lake City, Utah (2022)

resulting in an Accounts Receivable balance at the end of the year. They also paid for all but \$10,000 of their purchases leaving them with a \$10,000 Accounts Payable balance.

Rocky Mountain Catering, LLC Problem Set - Part #1
Constructing the Initial Balance Sheet

Answer the following questions given the information provided and reflective of the firm's asset, liability and owner's equity position at start up (before any business activity or transactions). Be specific and give both category labels and dollar values (for example, if the firm has inventory of \$10,000 then show this as Inventory at \$10,000 and not simply as part of Current Assets).

Provide labels and values for each of the following – you may need to specify a more detailed label if an item falls into the category represented, but is part of a sub-category.

- | | |
|--------------------------|---------|
| 1) Current Assets | 90,000 |
| 2) Gross Fixed Assets | 60,000 |
| 3) Net Fixed Assets | 60,000 |
| 4) Total Assets | 150,000 |
| 5) Current Liabilities | 0, |
| 6) Long-Term Liabilities | 100,000 |
| 7) Total Liabilities | 100,000 |
| 8) Owner's Equity | 50,000 |

Prepare an initial Balance Sheet given the information provided. This should include all of the expected balance sheet categories and result in a regularly structured balance sheet in which Total Asset equal Total Liabilities plus Owner's Equity.

Rocky Mountain Catering, LLC			
Balance Sheet (USD)			
Year Ending December 31			
	Initial Condition		Initial Condition
Current Assets		Current Liabilities	
Cash & Securities	90,000	Accounts Payable	-
Accounts Receivable	-	Other	-
Inventory	-	Total	-
Total Current Assets	90,000		
		Long Term Debt	
Fixed Assets		Small Business Loan	100,000
Smoker/BBQ	20,000	Mortgages Bonds	-
Ovens & Refrigerators	15,000	General Purpose Bonds	-
Van	20,000	Total	100,000
Kitchen Equipment	5,000		
Total Gross Fixed Assets	60,000		
Accumulated Depreciation	-	Owner's Equity	
Total Net Fixed Assets	60,000	Founder's Equity/Common Stock	50,000
		Accumulated Retained Earnings	-
		Total	50,000
Total Assets	150,000	Total Liabilities and Owner's Equity	150,000

Rocky Mountain Catering, LLC Problem Set - Part #2
Preparing the First Year Income Statement

Answer the following questions given the information provided and reflective of the firm's revenues, cost of goods sold, operating expenses, non-operating expenses, income taxes, and retained earnings. Be specific and give both category labels and dollar values (for example, if the firm has revenue from sales of \$10,000 and revenue from rentals of \$5,000, then show these as separate revenues lines and not simply as part of Total Revenues).

Provide labels and values for each of the following – you may need to specify a more detailed label if an item falls into the category represented, but is part of a sub-category.

1) Revenues	750,000
2) Cost of Goods Sold	300,000
3) Gross Profit	450,000
4) Operating Expenses	372,500
5) Operating Income	77,500
6) Non-Operating Expenses	10,000
7) Taxable Income	67,500
8) Taxes Paid	17,550
9) Net Income	49,950
10) Retained Earnings	49,950

Prepare a first year Income Statement given the information provided. This should include all of the expected categories and result in a regularly structured income statement.

Rocky Mountain Catering, LLC		
Income Statement (USD)		
January 1 - December 31		
	Initial Condition	2021
Revenue		
Catering	-	600,000
Artisinal Sourdough	-	150,000
Total Revenue	-	750,000
Cost of Goods Sold		
Cost of Goods Sold	-	300,000
Gross Profit	-	450,000
Operating Expenses		
Rent	-	48,000
Marketing	-	12,000
Payroll	-	180,000
G&A	-	125,000
Depreciation	-	7,500
Total Operating Expenses	-	372,500
Operating Income (EBIT)	-	77,500
Non-Operating Expenses		
Interest Paid	-	10,000
Total Interest Paid	-	10,000
Taxable Income	-	67,500
Taxes Paid	-	17,550
Net Income	-	49,950

Rocky Mountain Catering, LLC Problem Set - Part #3
Updating the Year-end Balance Sheet

Answer the following questions given the information provided and reflective of the firm's asset, liability and owner's equity positions at the end of the first year of operations. Be specific and give both category labels and dollar values (for example, if the firm has inventory of \$10,000 then show this as Inventory at \$10,000 and not simply as part of Current Assets).

Provide labels and values for each of the following – you may need to specify a more detailed label if an item falls into the category represented, but is part of a sub-category.

- | | |
|--------------------------|---------|
| 1) Current Assets | 119,450 |
| 2) Gross Fixed Assets | 88,000 |
| 3) Net Fixed Assets | 80,500 |
| 4) Total Assets | 199,950 |
| 5) Current Liabilities | 10,000 |
| 6) Long-Term Liabilities | 90,000 |
| 7) Total Liabilities | 100,000 |
| 8) Owner's Equity | 99,950 |

Prepare a first-year balance sheet given the information provided. This should include all of the expected categories and result in a regularly structured balance sheet in which Total Asset equal Total Liabilities plus Owner's Equity.

Rocky Mountain Catering, LLC					
Balance Sheet (USD)					
Year Ending December 31					
	Initial Condition	2021		Initial Condition	2021
Current Assets			Current Liabilities		
Cash & Securities	90,000	104,450	Accounts Payable	-	10,000
Accounts Receivable	-	15,000	Other	-	-
Inventory	-	-	Total	-	10,000
Total Current Assets	90,000	119,450			
Fixed Assets			Long Term Debt		
Smoker/BBQ	20,000	28,000	Small Business Loan	100,000	90,000
Ovens & Refrigerators	15,000	35,000	Mortgages Bonds	-	-
Van	20,000	20,000	General Purpose Bonds	-	-
Kitchen Equipment	5,000	5,000	Total	100,000	90,000
Total Gross Fixed Assets	60,000	88,000			
Accumulated Depreciation	-	(7,500)	Owner's Equity		
Total Net Fixed Assets	60,000	80,500	Founder's Equity/Common Stock	50,000	50,000
			Accumulated Retained Earnings	-	49,950
			Total	50,000	99,950
Total Assets	150,000	199,950	Total Liabilities and Owner's Equity	150,000	199,950

Rocky Mountain Catering, LLC Problem Set - Part #4
Preparing the Cash Flow Statement

Answer the following questions given the information provided and reflective of the cash flow as of the end of the first year of operations. Be specific and give both category labels and dollar values.

Provide labels and values for each of the following – you may need to specify a more detailed label if an item falls into the category represented, but is part of a sub-category.

1) Net Income	49,950
2) Depreciation	7,500
3) Decrease (increase) in Receivables	-15,000
4) Decrease (increase) in Inventory	0
5) Increase (decrease) accounts payables	10,000
6) Cash Provided (used) by Operations	52,450
7) Additions (reductions) to Gross Fixed Assets	-28,000
8) Cash Provided (used) by Investments	-28,000
9) Additions (reductions) to Debt	-10,000
10) Net Issues (repurchases) of Equity	0
11) Owners Distributions	0
12) Cash Provided (used) by Financing Activities	-10,000
13) Net Increase (decrease) in Cash	14,450
14) Beginning Cash Balance	90,000
15) Ending Cash Balance	104,450

Prepare a cash flow statement given the information provided. This should include all of the expected categories and result in a regularly structured cash flow statement in which Cash Flow From (used by) Operations plus Cash Flow from (used by) Investing and Cash Flow from (used by) Financing result in a Net Increase (decrease) in Cash Flow.

Rocky Mountain Catering, LLC		
Cash Flow Statement (USD)		
January 1 - December 31		
		2021
Cash Provided (used) by Operations		
Net Income		49,950.000
Plus Depreciation		7,500.000
Change in Working Capital		
Decrease (increase) in Receivables		(15,000.000)
Decrease (increase) in Inventories		-
Increase (decrease) in Accts. Payable		10,000.000
Increase (decrease) in Other Current Liabilities		-
Cash Provided (used) by Operations		52,450.000
Cash Provided (used) by Investments		
Reductions (additions) to Fixed Assets		(28,000.000)
Cash Provided (used) by Investments		(28,000.000)
Cash Provided (used) by Financing Activities		
Additions (reductions) to Debt		(10,000.000)
Net Issues (repurchases) of Stock		-
Owner's Distributions		-
Cash Provided (used) by Fin. Activities		(10,000.000)
Net increase (decrease) in cash		14,450.000
Beginning Cash Balance		90,000.000
Ending Cash Balance		104,450.000

Rocky Mountain Catering, LLC Problem Set - Part #5
Preparing the Statement of Stakeholder's Equity

Answer the following questions given the information provided and reflective of the cash flow as of the end of the first year of operations. Be specific and give both category labels and dollar values.

Provide labels and values for each of the following – you may need to specify a more detailed label if an item falls into the category represented, but is part of a sub-category.

1) Beginning Equity Value	50,000
2) Net Income	49,950
3) Additions (reductions) to Paid-In Capital	0
4) Dividends & Distributions	0
5) Ending Equity Balance	99,950

Prepare a statement of stakeholder's equity given the information provided. This should include all of the expected categories and result in a regularly structured statement of stakeholder's equity in which investors are able to see changes in their equity positions and what has motivated those changes.

Rocky Mountain Catering, LLC			
Statement of Stakeholder's Equity (USD)			
Year Ending December 31			
		Initial Condition	2021
Beginning Equity Balance		0	50,000
Net Income		0	49,950
Additions (reductions) to Paid-In Capital		50,000	-
Dividends & Distributions		0	-
Ending Equity Balance		50,000	99,950