Financial Statements[1]
Kollmann Distributing, Inc.
In-Class Problem[2]

Kollmann Distributing Inc. is a specialty products distributor serving independently owned retailers throughout California's Sierra Nevada Mountain Range. The firm has been owned and operated by its founder for more than 30 years and provided a strong and consistent income for its shareholders. The firm's CEO has recently decided to retire and is prepared to sell the operation to a small group of long-time employees. The firm accounts for its income and expenses based on a calendar year, and data provided is for year-end 2016. You've been asked to assemble a financial statements preparatory to calculating a valuation for the firm but have simply been given the following chart of accounts:

Accounts Payable	150,000
Accounts Receivable	225,000
Accumulated Retained Earnings	1,035,000
Addition to Retained Earnings	128,510
Admin and Mgt Expense	425,000
Bond Interest Expense	25,000
Bonds	500,000
Buildings	1,050,000
Cash	75,000
Common Stock	500,000
Depreciation	105,000
Dividends (Common)	-
Dividends (preferred)	20,000
Equipment	300,000
Inventory	950,000
Materials Expense	3,250,000
Mortgage Interest Expense	17,500
Mortgages (interest only)	230,000
Operating Interest Expense	1,500
Preferred Stock	275,000
Product Sales	4,250,000
Production Expense	275,000
Service Revenue	65,000
Taxes Paid	67,490
Technology	150,000
Wages Payable	60,000

[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 (2016).

1. **Provide a Balance Sheet for Kollmann Distributing given the information provided.**

Kollmann Distributing
Balance Sheet
as of December 31, 2016

Current Assets		Current Liabilities	
Cash	75,000	Accounts Payable	150,000
Accounts Receivable	225,000	Wages Payable	60,000
Inventory	950,000	Total	210,000
Total	1,250,000		
		Long Term Debt	
Fixed Assets		Mortgages (interest only)	230,000
Buildings	1,050,000	Bonds	500,000
Equipment	300,000	Total	730,000
Technology	150,000		
Total	1,500,000		
		Owner's Equity	
		Common Stock	500,000
		Preferred Stock	275,000
		Accumulated Retained Earnings	1,035,000
		Total	1,810,000
Total Assets	2,750,000	Total Liabilities and Owner's Equity	2,750,000

2. **Provide an Income Statement for Kollmann Distributing given the information provided.**

Kollmann Distributing **Income Statement** **January 1 - December 31, 2016**	
Sales	
Products	4,250,000
Services	65,000
Total Sales	4,315,000
Operating Expenses	
Admin and Mgt	425,000
Distribution/Warehouse	275,000
Products and Materials	3,250,000
Depreciation	105,000
Total Expenses - COGS	4,055,000
Operating Income (EBIT)	260,000
Non-Operating Expenses	
General Interest Expense	1,500
Mortgage Interest Expense	17,500
Bond Interest Expense	25,000
Total Expense - Non-COGS	44,000
Taxable Income	216,000
Taxes Paid	67,490
Net Income	148,510
Distribution of Earnings	
Dividends (Common)	-
Dividends (preferred)	20,000
Addition to Retained Earnings	128,510

3. Provide values for the following management ratios:

a) Return on Equity *(provide your answer in percent form rounded to the nearest 100th of a percent)*

$$\text{ROE} = \frac{\text{Net Income}}{\text{Total Equity}} = \frac{148{,}510}{1{,}810{,}000} = .0820 \text{ or } 8.2\%$$

b) Return on Assets *(provide your answer in percent form rounded to the nearest 100th of a percent)*

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} = \frac{148{,}510}{2{,}750{,}000} = .054 \text{ or } 5.40\%$$

c) Profit Margin *(provide your answer in percent form rounded to the nearest 100th of a percent)*

$$\text{PM} = \frac{\text{Net Income}}{\text{Total Revenue}} = \frac{148{,}510}{4{,}315{,}000} = .0344 \text{ or } 3.44\%$$

d) Quick Ratio *(provide your answer in decimal form rounded to the nearest 100th)*

$$\text{Quick} = \frac{\text{CA} - \text{Inventory}}{\text{CL}} = \frac{1{,}250{,}000 - 950{,}000}{210{,}000} = 1.43$$

e) Current Ratio *(provide your answer in decimal form rounded to the nearest 100th)*

$$\text{Current} = \frac{\text{CA}}{\text{CL}} = \frac{1{,}250{,}000}{210{,}000} = 5.95$$

f) Net Working Capital *(provide your answer in decimal form rounded to the whole dollar)*

$$\text{NWC} = \text{CA} - \text{CL} = 1{,}250{,}000 - 210{,}000 = 1{,}040{,}000$$

4. Give an example of how or why a manager might need to use a Balance Sheet and Income Statement in the operation or management of a firm.

Answers will vary.