

Donut Shop Practice Problems

You run a successful store, Go Nuts for Donuts, which had the following revenues and expenses during 2018. You sold 100,000 donuts for \$1.50. The ingredients used to make the donuts cost \$30,000. You bought \$20,000 worth of new inventory during the year. The salary to the donut making team was \$25,000. The cashiers earned \$25,000 as well. You still owe \$5,000 to employees for earned wages not yet paid. You had to write off \$1,000 in inventory due to a mechanical issue with the ovens. (Assume this is under COGS) You replace the oven at the end of the year for 5,000 and assume a useful life of 5 years. The old oven had the same original cost and useful life and was in its 5th year of use. (Assume straight-line depreciation, no salvage value, and no other depreciation expenses). You had recurring legal expenses of \$1,500 and bought and used office supplies worth \$500. You own 50% of the company and hold 10,000 shares at the beginning of the year. At the midway point of the year, you sell an additional 10,000 shares for \$100,000 total. You had \$200 in interest income. The tax rate is 21%. You took out a \$10,000 in long-term debt with an interest rate of 10% (none of this debt matures within 24 months). You had an additional \$4,000 in interest payments. You paid out a dividend of \$0.50 a share in November. Use this information to answer the following questions.

1. What is the gross profit margin?
2. What is EBIT? EBITDA?
3. What is EPS?

If Go Nuts for Donuts Balance sheet showed the following on 1/1/2018: \$20,000 in inventory, \$67,000 in PP&E, \$38,000 in cash, \$40,000 in long-term debt, \$4,000 in Accrued Expenses, \$50,000 in Common stock.

4. What is the balance of each account listed above on 12/31/2018
5. What is Retained Earnings on 12/31/2018. (Assume there are no other accounts listed on the balance sheet)
6. What is the cash from operating activities? financing activities?(per the Cash flow statement)

Answer

- 1) 62%
- 2) 66,000;67,000
- 3) 1.93
- 4) Inventory: 9,000; PP&E: 71,000; Cash: 193,348;
LTD: 50,000; Accrued Expenses: 9,000 Common Stock: 150,000
- 5) 64,348
- 6) 65,438;95,000