

San Diego Computer Recyclers, LLC Case Study

Part 3 “Year One and Beyond”

Despite, the initial sales volume in the first year of operations being 30% less than what management had forecasted in its business plan, the company is profitable after a year in operations. In the latter half of the year, the company began to generate positive cash flow from operations compared to the first half, in which it was burning its cash reserves in order to meet its working capital requirements. Nevertheless, as the year is winding down, Julie Brown has asked to meet with you in order to do some year end tax planning.

Julie is aware that even though the company is an LLC taxed as a partnership for federal income tax purposes, the company will owe state income taxes. Secondly, the shareholders had taken guaranteed payments during the course of the year as their salaries. She is not sure if any of them had made estimated tax payments during the year and will be requesting the company to make a distribution to them to cover their tax liabilities when they file in their income taxes. You also inform her that in addition to their guaranteed payments, the shareholders will have to pay tax on their distributive share of income because the LLC is a pass through entity. She needs your assistance in determining the projected tax liabilities for the company and potential tax liabilities for the shareholders. She needs to address these issues at her board meeting coming up next week. In addition, she needs to determine if the company has enough cash to pay dividends to its preferred stockholders. She has provided you with the company's current financial statements as of the end of third quarter 2007 (see Exhibits 1 and 2).

Accrual Basis

Balance Sheet
As of September 30, 2007

	<u>Sep 30, 07</u>
ASSETS	
Current Assets	
Checking/Savings	
CB & T Checking	(32,190)
Dreyfus CMA	286,084
Payment Bond Time Deposit(DTSC)	28,850
Union Bank Checking	43,904
Total Checking/Savings	<u>326,649</u>
Accounts Receivable	
Accounts Receivable	555,787
Total Accounts Receivable	<u>555,787</u>
Other Current Assets	
Machine Inventory	(20,000)
Petty Cash	128
Prepaid Insurance	10,011
Prepaid Recovery Payments	38,575
Prepaid Taxes	800
Undeposited Funds	48
Total Other Current Assets	<u>29,562</u>
Total Current Assets	911,998
Fixed Assets	
Baler	123,802
Cellular Phones & Radios	1,874
Equipment-Office	18,859
Forklifts	25,289
Leasehold Improvements	40,440
Scales	4,962
Seperating Machine	150,713
Shredder	45,574
Tool Box Set	3,161
Work Benches	6,404
Total Fixed Assets	<u>421,079</u>
Other Assets	
Business Start Up Expenses	9,324
Lease Deposit	54,432
Organizational Expenses	860
Security Deposit	8,235
Total Other Assets	<u>72,851</u>
TOTAL ASSETS	<u><u>1,405,928</u></u>

Balance Sheet

As of September 30, 2007

	<u>Sep 30, 07</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	37,285
Total Accounts Payable	<u>37,285</u>
Credit Cards	
American Express	11,213
Capital One Visa	3,227
Total Credit Cards	<u>14,441</u>
Other Current Liabilities	
Customer Deposits	14
Insurance Payable	3,641
Payroll Liabilities	645
Sales Tax Payable	0
Transaction Escrow	(16,500)
Total Other Current Liabilities	<u>(12,200)</u>
Total Current Liabilities	39,525
Long Term Liabilities	
H West Capital Lease	73,362
Yale Capital Lease - 002	8,644
Yale Capital Lease -001	12,719
Total Long Term Liabilities	<u>94,725</u>
Total Liabilities	134,251
Equity	
Class A Preferred Capital	808,879
Class B Junior Preferred	90,000
Class C Common Capital	225,000
Retained Earnings	498
Net Income	147,300
Total Equity	<u>1,271,677</u>
TOTAL LIABILITIES & EQUITY	<u><u>1,405,928</u></u>

Income Statement

For the period January 1, 2007 through September 30, 2007

	<u>Jan - Sep 07</u>
Ordinary Income/Expense	
Income	
Brokerage Revenue	14,600
CEWs	1,282,372
Downstream Recycling	337,671
Non CEW E-Waste	178,653
Purchase Discounts	190
Returned Check Charges	12
Sales Discounts	(231)
Total Income	1,813,267
Cost of Goods Sold	
Cost of Goods Sold	455,876
Direct Labor	215,876
Equipment Rental	10,628
Freight	85,534
Fuel	9,106
Machinery Maintenance & Repairs	5,611
Truck Expenses	3,055
Warehouse Supplies	14,680
Waste Disposal-Trash	9,035
Total COGS	809,401
Gross Profit	1,003,866
Expense	
Advertising/Marketing/Promotion	19,014
Automobile Expense	7,874
Bank Service Charges	633
Cleaning Supplies	101
Custom Fees	2,074
Dues and Subscriptions	2,781
Employee Benefits	21,829
Equipment Leases	4,681
Guaranteed Payments	310,722
Insurance	33,555
Licenses and Permits	985
Maintenance	4,884
Occupational Services	3,903
Office Supplies	5,669
Payroll Expenses	24,903
Postage	1,397
Printing and Reproduction	5,298
Professional Development	3,099
Professional Fees	46,185
Rent	256,568
Repairs	8,107

Accrual Basis

Income Statement

For the period January 1, 2007 through September 30, 2007

	<u>Jan - Sep 07</u>
Shipping	1,725
Taxes	31,830
Technology Development	6,550
Telephone	9,139
Tool Supplies	5,098
Travel	16,152
Utilities	24,303
Total Expense	<u>859,059</u>
Net Ordinary Income	144,807
Other Income/Expense	
Other Income	
Interest Income	11,408
Other Income	13
Total Other Income	<u>11,421</u>
Other Expense	
Interest Expense	8,928
Total Other Expense	<u>8,928</u>
Net Other Income	<u>2,493</u>
Net Income	<u><u>147,300</u></u>