

## CASE Kim Fuller\*

In the early fall of 1997, Kim Fuller was employed as a district sales engineer for a large chemical firm. During a routine discussion with plant chemists, Fuller learned that the company had developed a use for the recycled material, in pulverized form, made from plastic soda pop bottles. Because the state had mandatory deposits on all beverage bottles, Fuller realized that a ready supply of this material was available. All that was needed was an organization to tap that bottle supply, grind the bottles, and deliver the pulverized plastic to the chemical company. It was an opportunity Fuller had long awaited—a chance to start a business.

In November 1997 Fuller began checking into the costs involved in setting up a plastic bottle grinding business. A used truck and three trailers were acquired to pick up the empty bottles. Fuller purchased one used grinding machine but had to buy a second one new; supplies and parts necessary to run and maintain the machines were also purchased. Fuller also purchased a personal computer with the intention of using it to keep company records. These items used \$65,000 of the \$75,000 Fuller had saved and invested in the company.

A warehouse costing \$162,000 was found in an excellent location for the business. Fuller was able to interest family members enough in this project that three of them, two sisters and a brother, invested \$30,000 each. These funds gave Fuller the \$50,000 down payment on the warehouse. The bank approved a mortgage for the balance on the building. In granting the mortgage, however, the bank official suggested that Fuller start from the beginning with proper accounting records. He said these records would help not only with future bank dealings but also with tax returns and general management of the company. He

suggested Fuller find a good accountant to provide assistance from the start, to get things going on the right foot.

Fuller's neighbor, Marion Zimmer, was an accountant with a local firm. When they sat down to talk about the new business, Fuller explained, "I know little about keeping proper records." Zimmer suggested Fuller should buy an "off-the-shelf" accounting system software package from a local office supply retailer. Zimmer promised to help Fuller select and install the package as well as learn how to use it. In order to select the right package for Fuller's needs, Zimmer asked Fuller to list all of the items purchased for the business, all of the debts incurred, and the information Fuller would need to manage the business. Zimmer explained that not all of this information would be captured by the accounting records and displayed in financial statements. Based on what Fuller told Zimmer, Zimmer promised to create files to accommodate accounting and non accounting information that Fuller could access through the company's personal computer. As Fuller's first lesson in accounting, Zimmer gave Fuller a brief lecture on the nature of the balance sheet and income statement and suggested Fuller draw up an opening balance sheet for the company.

Confident now that the venture was starting on solid ground, Kim Fuller opened the warehouse, signed contracts with two local bottling companies, and hired two grinding machine workers and a truck driver. By February 1998 the new firm was making regular deliveries to Fuller's former employer.

## Questions

1. What information will Fuller need to manage the business? Classify this information in two categories: accounting information and non-accounting information.

2. See what you can do to draw up a beginning of business list of the assets and liabilities of Fuller's company making any assumptions you consider useful. How should Fuller go about putting a value on the company's assets? Using your values, what is the company's opening owners' equity?

3. Now that Fuller has started to make sales, what information is needed to determine "profit and loss"? What should be the general construction of a profit and loss analysis for Fuller's business? How frequently should Fuller do such an analysis?

4. What other kinds of changes in assets, liabilities, and owners' claims will need careful recording and reporting if Fuller is to keep in control of the business?

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Accounting: Text and

Cases, Tenth Edition

I. Financial Accounting 1. The Nature and Purpose of Accounting

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