

ICB Members' Newsletter

Pauline Musgrave runs a tea shop and café in a North Yorkshire town. In addition to normal passing trade she provides afternoon teas on contract to a coach company who organise day trips to the area.

At 30 September 2005 the balances from her accounting records showed:

Capital	£37,500
Drawings	£19,500
Purchases	£105,750
Sales	£168,900
Stock (1/10/04)	£9,300
Debtors	£3,750
Creditors	£5525
VAT Owed	£1,600
Wages	£31,500
Motor Vehicle Running Costs	£1,120
Rent and Rates	£8,750
Heat, Light and Power	£1,840
Telephone	£450
General Expenses	£750
Motor Vehicle (NBV)	£13,500
Fixtures and Fittings (NBV)	£4,000
Cash in Hand	£300
Cash in Bank	£11,790
Admin and Insurances	£1,225

Additional notes:

- Stock valuation 30/09/05 £12,300
- Rent is pre-paid by £450
- A further £210 is due owing, for motor vehicle expenses
- The motor vehicle is to be depreciated by a further £3,375 and fixtures and fittings by £600

From this information you produce Pauline's final accounts for year ended 30 September 2005.

Pauline Musgrave
Trading and Profit and Loss Account for Year Ended 30 September 2005

2004		£	2005
162500	Sales		168900
	Stock at 1/10/04	9300	
	Add Purchases	105750	
		115050	
	Less Stock 30/9/05	12300	
101450	Cost of Sales		102750
61050	Gross Profit		66150
	<u>Expenses</u>		
29500	Wages	31500	
1750	Heat, Light and Power	1840	
8100	Rent and Rates	8300	
1150	Motor Vehicle Running Costs	1330	
400	Telephone	450	
600	General Expenses	750	
950	Admin and Insurance	1225	
	Depreciation:		
4500	Motor Vehicle	3375	
1333	Fixtures and Fittings	600	
48283			
£12767	Net profit for year		49370 £16780

Balance Sheet as at 30 September 2005

		NBV
	<u>Fixed Assets</u>	
13500	Motor Vehicle	10125
4000	Fixtures and Fittings	3400
<u>17500</u>		<u>13525</u>
	<u>Current Assets</u>	
9300	Stock	12300
3100	Debtors	3750
-	Pre-payment	450
250	Cash in Hand	300
13100	Cash at Bank	11790
<u>25750</u>		<u>28590</u>
	<u>Less Current Liabilities</u>	
4250	Creditors	5525
	Accruals	210
1500	VAT	1600
<u>5750</u>		<u>7335</u>
<u>20000</u>	Net Current Assets	<u>21255</u>
<u>37500</u>		<u>£34780</u>
	Financed By:	
42833	Capital	37500
12767	Add Profit for Year	16780
<u>55600</u>		<u>54280</u>
18100	Less Drawings	19500
<u>37500</u>		<u>34780</u>
		<u>£34790</u>

Last year you presented Pauline with an analysis of her accounts in terms of a series of ratios.

Pauline Musgrave Tea Shop			
Ratio	2004	2005	Comment
% Gross Profit to Sales	37.57%		
% Net Profit to Sales	7.86%		
Current Ratio	4.48:1		
Acid Test	2.86:1		
Stock Turnover	1.1 months		
Wages % of Sales	18.15%		
Asset Turnover	4.33		
Return on Capital Employed	34.05%		

Complete the ratios for 2005 and comment on these performance indicators.

The suggested answer will be published next month.

When you present your comments on the analysis to Pauline she presents you with three possible business ventures she is considering.

You will recall that in a previous newsletter we discussed the concept of break-even analysis.

Prepare answers to Pauline for the scenarios attached.

Pauline Musgrave (Tea Shop)

Pauline decides to open a kiosk in the tea shop to sell speciality ice-cream.

A freezer cabinet would need to be purchased for £1500, it would have a five year life. Annual maintenance and insurance would be £100 and electricity £300 per year. There would be a 2% loss of stock due to “sell by date” and other factors. Pauline plans to mark up the cost of stock by 25% to achieve a selling price. What level of sales would be required for the venture to break-even?

Pauline is also considering investing £35000 in a children’s play area. She plans to write off the asset over a 10 year period, straight-line depreciation. Maintenance costs would be £650 and Insurance of equipment £850.

Staffing would cost a further £8000 per year.

The play area would operate for 40 weeks per year and the proposed charge per child per day is £5.

Calculate the number of children (visitors) that would be required per week to break-even.

She also plans to run a special afternoon tea to celebrate the Queen’s 80th birthday.

Pauline plans to charge £7.50 per head and the variable cost associated with this are £3.50 per head.

The staffing for preparation and waiting on will be £100, (the only relevant fixed cost).

How many customers for the tea would she require to break-even?