Income Statement ~~as at~~ Retail for y/e 30/04/20..

Sales 250+300 — 550

- cost of sales

Opening 60

+purchases 250+150

-closing -50 — -410

Gross profit — 140

less expenses ~~loan repayment 10~~ Balance sheet

Wages 54+1

Running expenses 50

rent 16

loss on van 5

depr 5

bad debts 5+2 — -153

Operating ~~profit~~/loss — -13

- interest 3+1 — -4

~~profit~~/loss before tax — -17

- tax 3+1 — -4

net ~~profit~~ loss — -21

~~23~~/25

21

~~Statement~~ Balance sheet as at 30/09/2013 of retailer.

ASSETS.

NON CURRENT ASSETS

Delivery van 30 -30 +50 ✓ 45 ✓

-dep -5 ✓

Assets

Inventories 50 ✓

trade rec 300 -180 -7 ✓

prepaid 4 ✓ 167 ✓

212 ✓

Total Assets 212

EQUITY AND LIABILITIES

Equity

equity 30 ✓

Drawings -10 ✓

loss -21 – -1

22/25

Long term liabilities 20 ✓

Loan 50 -10 -20

Liabilities Accruals 1+1+1 ✓

Trade payables 20 +150 -120 -20 30 ✓

Bank overdraft 140 130

Loan due +20 ✓

193

Total equity and liabilities 212

Analysis.

Company made a marginal loss. Expenses were greater than gross profit by 3 thousand. Writing off bad debts and making a loss on sale of van contributed to this.

Gross profit margin is $\frac{140}{550}$ = 25% which is ok. However the loss % for operating profit was less than 1%. but it is a loss.

The main movement in cash balance came from creditors and debtors. Repaying the loan earlier contributed largely to bank overdraft of 140. Rent, loan int, and tax all contributed to declining bank balance. Company should of controlled it's finances better.

Current ratio $= \frac{CA}{CL}$ = 0.91 : 1 which is well below ideal ratio of 2:1
Acid test ratio = $\frac{CA - Stock}{CL}$ 0.65 : 1 meaning company has 65cent available for each £1 owed far from ideal of 1:1

These two ratios measure liquidity of firm which is quite low at present.

Return on capital employed is negative at ~~-33%~~ -10% because of a loss in income statement

Gearing is currently 68%. company is high geared, at the start it was 166% but which was reduced. 68% is still far from ideal of under 50%

See Next page →

Cash

Start 10

goods −250

[illegible] 100

−20 [illegible] −20

Sold +250

[illegible] +100

−wages −54

running exp −50

−rent −20

−int paid −3

loan paid −10

−tax −3

−dividend −10

−[illegible] −25

−depr −5 −35

−bill −5

cash = 40

−15

NOT CASH

Van

3rd vdl = 30000−3000+50000

acc depr 20−20+5

[illegible] cost 30000

−25000

5000 loss

Vans 30−30+50

bank −25 25

exp bill 5

| Asset | | Cost | NBV |
|---|---|---|---|
| Vans | 30−30+50 | 5 | 45 |
| bank | | | |
| −bill −cost | | | |

30000−3000 +50000

−5000 4500 cost 4500

bank −5 −25000 −305 −35 −3500

+1500

depr. 5

bill 5.

1500

depr 5 −10

−bill 5 4500

Next year company should consider:
- Tighter controll of expenditure
- Create a larger gross profit per unit.
- Try to minimise bad debts or reclaim them
- If unnecessary, no capital expenditure i.e. new vehicles
- Try to raise cash by selling more stock, loan or shares.
- Reduce interest rate on loan if possible.

Company is loss making in first year. Action required. More stringent financial control needed. ✓

Cash

Cash control throughout year was not tight enough. There was adverse fluctuation in balance at the start due to money owing to creditors and from debtors. This accounted for first set of fluctuation. After trade receivable cash was received bank balance declined the whole way down. It had no other source of cash inflow. Some of the more notable expenses include wages of 59000, running expenses of 5000, purchase of van 25000 and a combination of other expenses which were paid. Company should consider alternative revenue streams or possibly reducing wages ~~&~~ expenses by negotiation with the parties involved

Drawings

x Use Table as per Lectures for more marks.

12/20.