

University of the Philippines Los Banos
College of Economics and Management
Department of Agribusiness Management and Entrepreneurship

MGT 111

Introduction to Financial Statements

Prepared by: Mr. Sergs F. Sancon

CASE 1 – TROPICAL PARADISE HEALTH AND BEAUTY SPA

PART 1

Gloria De Leon plans to open a health and beauty spa on January 1, 2013. The health and beauty spa will offer services on total health and beauty care from head to foot. The services will include hair trim, hair color, hair perm, hair straightening, manicure, pedicure, hand and foot spa, and facial and body massage.

As early as November 1, 2012, Gloria opened a bank account in the name of the business, Tropical Paradise Health and Beauty Spa, and deposited P100,000 representing her initial investment. She also borrowed money from Manila Bank amounting to P100,000 to provide financing for her business. This loan was payable after 2 years.

On November 15, she negotiated with Jose Santos, owner of the Star and Moon Mall, for a business space inside the mall where Gloria can put up her business. She and Mr. Santos agreed to a monthly rent of P10,000 starting January 1, 2013.

On December 1, she went to Bleems Furniture Store and bought tables, chairs and mirrors needed in the shop. Total cost of the furniture amounted to P8,000.

On December 15, she also went to Benson Appliance Store and purchased an electric fan, air-conditioner and a television set. The sales invoice issued by Benson for these purchases amounted to P95,000. Gloria paid P25,000 on the date of purchase. The balance of P70,000 will be settled after one month.

On December 20, Gloria went to Quiapo where she bought health and beauty supplies like hair shampoo, hair conditioner, hair colors, nail polish, acetone, cuticle remover, lotions, soaps, alcohol, cotton, powder, etc. She paid P5,000 for these supplies.

At a nearby mall, she purchased scissors, combs and brushes, portable hair dryer, and towels. Gloria paid a total of P5,500 for all the items. None of these items had a unit cost exceeding P200.

To help her in the business, Gloria hired hairdresser with a monthly salary of P8,000, a masseuse with a monthly salary of P7,000 and a manicurist/pedicurist with a monthly salary of P5,000. All of them will start working on January 1, 2013.

By December 2012, Gloria was ready to open her business.

Questions:

1. Why should Gloria De Leon open a business such as a health and beauty spa?
2. What are the services rendered by this business?
3. What are the assets initially acquired by Gloria for her business?
4. What are the liabilities initially incurred by Gloria for her business?
5. Who provide outside financing for the business?

PART 2

The First Month

By the first week of January 2013, Gloria was very happy because her health and beauty spa started providing services to several customers. At month-end, her records showed that she received a total of P40,000 from various customers for services rendered. All the customers paid except for one who promised to return on February 3, to pay her bill of P2,000.

Upon inspection of her supplies used, Gloria estimated that about P3,000 worth of health and beauty supplies were used in rendering services to the customers.

The employees of the business rendered their services during the entire month of January. Gloria paid them salaries amounting to P20,000. On January 31, 2013, Gloria paid P1,500 to Meralco for electric consumption, P500 to Maynilad for their water consumption, and P10,000 to Jose Santos for the rent of the store space.

Questions:

1. Where did the revenue of the health and beauty spa come from?
2. In the above case, what expenses were incurred by the health and beauty spa?
3. How much is the net income of the business for the month of January?
4. Should Gloria de Leon continue with the business? Why or Why not?
5. What will you suggest to improve financial performance of the business?

PART 3

With an initial investment of P100,000, the first year of operations of Tropical Paradise Health and Beauty Spa proved to be profitable. Business operations resulted in the net income of P50,000.

In July 2013, Gloria made additional cash investment of P100,000 to provided additional working capital. At December 31, 2013, Gloria decided to withdraw P30,000 cash from the business funds for personal needs during New Year's Day celebration.

Questions:

1. What items increased the equity of Gloria de Leon during the year?
2. What items decreased the equity of Gloria de Leon during the year?
3. What is the equity of Gloria de Leon at the end of the initial year of operations?
4. If you are Gloria de Leon, will you still make additional investments during the second year of operations? Why or Why not?
5. What advise will you give the owner of the business regarding withdrawals?

Format:

- Letter size bond paper (8-1/2" x 11")
- 1.5 line spacing
- One inch margin in all sides
- Font: Calibri 11
- Cover page



Deadline: October 6, 2015.

INDIVIDUAL BUSINESS CASE

Presented to the
Department of Agribusiness Management and
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In partial fulfillment
Of the course requirements
In MGT 111
Surname, First Name, M.I.

Date