Charlottesville Gift Shop

Alex Reed owns a small retail gift shop in Charlottesville, Virginia. His shop focuses on souvenirs related to the three former presidents from the Charlottesville area as well as the local University. The income statement for 2013 is shown below in Exhibit 1.

Alex enjoys running the shop, but based on 2013's profitability he is considering the possibility of closing his business. He owns the real estate that his business sits upon, and estimates that if he shut down his business he could instead rent out this real estate at a rate of $19,500 per year. His income statement does not contain an expense for his own service as manager (as owner, he considers himself to be working for profits instead of a salary), although a few years ago he had been employed in a similar capacity in another store at a salary of $30,000 a year. He had an appraiser estimate the value of his firm, and the appraiser concluded that the assets (e.g., inventory and equipment) of the business excluding real estate could be sold for approximately $100,000. Funds invested in a money market account would earn him approximately 6% per year. He has a business loan of $20,000 at a 7% annual interest rate.

For this case you can ignore the effect of income taxes.

Exhibit 1

Net Sales	$110,000	
Cost of Goods Sold	40,000	
Gross Margin		$70,000
Expenses		
Salaries and Wages	$20,000	
Advertising	1,500	
Taxes, Insurance, Repairs, and Depreciation on Real Estate	13,000	
Depreciation on Equipment	700	
Interest on Loan	1,400	
Miscellaneous Expenses	1,500	
Total Expenses		$38,100
Net Income		31,900

Requirements

1. Did Alex make a profit from his gift shop shop during 2013? Consider this from the point of view of both accounting and economics.

2. Was Alex a successful business executive? Should he have sold his gift shop?