Worksheet 3

Name Class Date

**Profit and loss**

Businesses need to know if they are making a profit or a loss. They can do this by keeping an accurate record of revenue received and costs incurred, which is summarised in a profit and loss statement.

**1** The figure below shows a profit and loss account for the first year of trading of Edgar’s Internet Café.

**a** Complete the missing calculations in the boxes marked with a ‘?’.

|  |  |
| --- | --- |
| Edgar’s Internet Café P&L Year 1 | |
| Sales | |
| Food & beverages | 13,943.00 |
| Internet access | 1,231.00 |
| **Other revenue** |  |
| Discounts received | 341.00 |
| **Total sales** | **?** |
|  | |
| Costs | |
| Cost of sales | 8,341.00 |
| Fixed costs | 2,343.00 |
| Loan interest | 157.00 |
| Total costs | ? |
|  | |
| Net income | ? |

|  |
| --- |
| ‘Net income’ means the same as ‘Profit’. |

**b** In his first year of trading, Edgar has not drawn any salary and has not had to pay any wages. However, he can see that his business is growing and he will need to employ a part-time person in the second year.

Imagine that the sales and costs figures stay the same in the second year, and Edgar decides to pay his new employee £5,000.00.

What impact will this have on net income in the second year?

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**c** How much could Edgar afford to pay his new employee before making a loss?

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**2** In his second year, Edgar identifies the following revenue and costs to his business as follows:

Food and beverage sales: £16,731.00

Internet access sales: £3,567.00

Discounts received: £542.00

Cost of sales: £10,009.00

Fixed costs: £7,343.00

Loan interest: £157

Wages: £5,000.00

**a** Using the figures above, complete the table below, the profit and loss statement for Edgar’s Internet Café for Year 2.

|  |  |
| --- | --- |
| Edgar’s Internet Café P&L Year 2 | |
| Sales | |
| Food & beverages |  |
| Internet access |  |
| Other revenue |  |
| Discounts received |  |
| **Total sales** |  |
|  | |
| Costs | |
| Cost of sales |  |
| Fixed costs |  |
| Loan interest |  |
| Wages |  |
| **Total costs** |  |
|  | |
| Net income |  |

**b** Edgar would like to increase his employee’s hours in the third year to three-quarters time, which would increase his wages bill by 50. Calculate the new wages bill.

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**c** What impact would this have on net income, if the revenue figures and other costs remain the same?

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**d** Would Edgar be able to draw any money for himself out of the business at the end of the second year based on your calculations? If yes, how much?

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**3** Calculate the following:

**a** Edgar’s average income from ‘Food and beverages’ across the first 2 years of trading.

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**b** Edgar’s average cost of sales for the first 2 years of trading.

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**c** Edgar’s cost of sales as a proportion of his total sales for each of the first 2 years.

Year 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Year 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**d** Edgar’s profit margin for each of the first two years of trading (profit margin  profit / revenue × 100).

Year 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Year 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**e** The percentage increase in both Edgar’s total sales and his total costs between the first and second years of trading.

Total sales increase: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Total costs increase: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_