

## QUESTIONS

### Question 1 Thaddeus

1. Thaddeus is in business selling a range of luxury goods. Included in his range is a Swiss watch which retails for £675. The cost to Thaddeus of each watch is £400. At 1 January 20X4, the start of Thaddeus' trading year there are 26 watches in inventory. He sells 156 watches during the year, and has 15 left in inventory at the year end.

Prepare Thaddeus' trading account in respect of the Swiss watches for the year ending 31 December 20X4.

### Question 2 Tarak

2. In the year ending 30 November 20X2, Tarak incurs the following expenses in his hairdressing business:

*Materials:* lotions, dyes, shampoos, conditioners, hair gel etc: £1243.

*Staffing costs:* Tarak employs a senior stylist at a salary of £19 800 per year. Also, he employs hourly paid staff to wash hair, make coffee, sweep up, and so on. In the year to 30 November he has paid for 2000 hours of time at an hourly rate of £5.93.

*Premises costs:* Tarak pays an annual rental for his salon of £15 760, plus business rates of £3 994. Electricity costs are £2 888, water rates are £983 and there is general business insurance of £650.

*Administration:* Tarak has incurred phone charges in the year of £987. His accountant charges him £750 for preparing the final accounts and sorting out his tax. In addition, he pays a book-keeper £15 per week (based on a 50 week year) for keeping his accounting records straight. Stationery and other odds and ends amount to £1523.

Tarak's revenue for the year was £99 000.

Prepare Tarak's income statement for the year ending 30 November 20X2 and calculate his net profit percentage.

### Question 3 Urma

3. Urma runs a shop selling fashion clothing for the under-25 age group. She has asked you, her accountant, to look at her business performance for the last three years. She is concerned because her net profit figures do not appear to have increased over that period.

You summarise the following information from the most recent three years accounts:

	20X8	20X7	20X6
	£	£	£
Revenue	279 950	272 111	268 340
Cost of sales	168 810	168 165	166 640
Gross profit	111 140	103 946	101 700
Expenses	74 185	66 117	63 869
Net profit	36 955	37 829	37 831

- calculate the gross profit margin and net profit margin for each of the three years;
- comment upon Urma's business performance trends over the three year period.

### Question 4 Venus

4. Venus runs a shop which sells art and craft supplies. The shop premises and a delivery van are owned by the business. Most of Venus's sales are for cash but she supplies some goods on credit to the nearby art college. She counts and values her inventory on the final day of her trading year, 31 May 20X4, and calculates a total value of £10 466.

She supplies you with the following additional information so that you can prepare her income statement and statement of financial position at 31 May 20X4.

	£
Water rates	399
Purchases	97 150
Sundry expenses	1 225
Trade payables	9 662

Capital at 1 June 20X3	56 414
Amounts owed to HMRC	366
Premises	51 000
Drawings	21 000
Trade receivables	1 520
Shop fittings	1 220
Insurance	684
Revenue	135 667
Inventory at 1 June 20X3	9 979
Amounts owed for VAT	127
Delivery van	5 250
Business rates	1 279
Telephone charges	661
Cash at bank	2 470
Administration costs	2 929
Part-time assistant's wages	5 470

## ANSWERS

### Answer 1 Thaddeus

#### Thaddeus: Trading account for year ending 31 December 20X4 (Swiss watches)

	£	£
Revenue: 156 x £675		105 300
Cost of sales		
Opening inventory: 26 x £400	10 400	
Purchases (missing figure) 145 x £400	58 000	
	<hr/> 68 400	
Closing inventory: 15 x £400	(6 000)	
	<hr/>	62 400
Gross profit: 156 x (£675 - £400)		<hr/> 42 900
		<hr/>

First, calculate the gross profit on sales of 156 watches. It is then possible to calculate a total for cost of sales. The figures for opening and closing inventory are known, so the missing figure is purchases.

### Answer 2 Tarak

#### Tarak: Income statement for the year ending 30 November 20X2

	£	£
Revenue		99 000
Expenses:		
Materials	1 243	
Staffing: senior stylist's salary	19 800	
Staffing: hourly paid staff (2000 x £5.93)	11 860	
Premises rental	15 760	
Business rates	3 994	
Electricity costs	2 888	
Water rates	983	
Business insurance	650	

Phone	987	
Accountant's fees	750	
Book-keeping (£15 x 50)	750	
Stationery and sundry expenses	1 523	
		61 188
Net profit		37 812

Tarak's net profit margin is:

$$\frac{37\,812}{99\,000} \times 100 = 38.2\%$$

### Question 3 Urma

a)

	20X8	20X7	20X6
Gross profit margin	$111\,140/279\,950 \times 100 = 39.7\%$	$103\,946/272\,111 \times 100 = 38.2\%$	$101\,700/268\,340 \times 100 = 37.9\%$
Net profit margin	$36\,955/279\,950 \times 100 = 13.2\%$	$37\,829/272\,111 \times 100 = 13.9\%$	$37\,831/268\,340 \times 100 = 14.1\%$

b)

Urma's revenue has increased over the three year period and so has her gross profit margin. Gross margin has risen from 37.9% to 39.7% - a significant increase in a relatively short period.

However, Urma's net profit margin has fallen. The total figures for net profit are virtually identical in 20X6 and 20X7, but there has been a fall of (£37 829 – 36 955) £874 between 20X7 and 20X8. Expenses have increased significantly. The increase from 20X6 to 20X7 is 3.5% and from 20X7 to 20X8 is 12.2%. Urma should investigate the reasons for these increases and should take action wherever appropriate to reduce her business expenses.

### Answer 4 Venus

Venus: Income statement for the year ending 31 May 20X4

	£	£
Revenue		135 667

Less: cost of sales		
Opening inventory	9 979	
Add: purchases	97 150	
	<hr/>	
	107 129	
Less: closing inventory	(10 466)	
	<hr/>	
		96 663
Gross profit		<hr/>
		39 004

### **Expenses**

Business rates	1 279	
Water rates	399	
Insurance	684	
Part-time assistant's wages	5 470	
Telephone	661	
Administration costs	2 929	
Sundry expenses	1 225	
	<hr/>	
		12 647
		<hr/>
		26 357
		<hr/>

### Venus: Statement of financial position at 31 May 20X4

	£	£
<b>ASSETS</b>		
<b>Non-current assets</b>		
Premises	51 000	
Delivery van	5 250	
Shop fittings	1 220	
	<hr/>	
		57 470
<b>Current assets</b>		
Inventory	10 466	
Trade receivables	1 520	
Cash	2 470	
	<hr/>	
		14 456
		<hr/>
		71 926
		<hr/>

CAPITAL AND LIABILITIES		
Opening capital balance 1 June 20X3	56 414	
Add: net profit for the year	26 357	
	<hr/> 82 771	
Less: drawings	(21 000)	
Closing capital balance 31 May 20X4	<hr/>	61 771
<b>Current liabilities</b>		
Trade payables	9 662	
Payable: HMRC	366	
Payable: HMRC for VAT	127	
	<hr/>	10 155
		<hr/> 71 926
		<hr/>