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**KATHY HOLLAND - LANDLADY OF THE FORESTERS**

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## THE CASE STUDY

### KATHY HOLLAND - LANDLADY OF THE FORESTERS

Kathy is the tenant landlady of the Foresters, the pub where Andrew and Richard meet in 'Understand Accounting'. We are now going back in time to when she formed a limited liability company to negotiate a tenancy agreement with the brewers and set about getting ready to start trading. Given below are figures extracted from these records summarising the position up to the end of the first year of trading. Your task is to enter these on to the spreadsheet that is provided for you and then to prepare her financial statements.

### INFORMATION KATHY TOLD US

	£,000
Kathy put into the business as share capital (£1 shares)	15.0 cash
The bank agreed to loan it the sum of	60.0 cash
It would charge an interest rate of	10%
The repayment schedule was to be in equal instalments spread over	5.0 years.
The tenancy agreement made with the Brewers was for a term of	5.0 years.
The company paid for this in cash. It cost	30.0 cash
The outgoing tenant sold his existing trading inventories for a ca:	15.0 cash
He also sold various furniture and fittings for a cash sum of	20.0 cash
Kathy considered that the fixed assets would have no residual va	0.0
and would last for	10.0 years.
The company bought a car for the business. This was a cash purch	18.0 cash
The working life of the car was intended to be for	5.0 years.
The car was expected to be disposed of for	3.0
On average each customer spent on each visit on drinks, includin	9.6
Only this percentage of customers buy food	25%
Each customer spends on food, on average, including VAT at 20%	9.0
The Foresters is open	365 days

*Your first task should be to enter these transactions (that constitute the business set-up situation), into the spreadsheet provided. Subtotals have been set up for you. This will be the company's balance sheet before trading commences. (Its opening balance sheet). Next you need to enter the trading transactions that are described below onto the worksheet. Many of them are similar to the ones you met in Andrew's taxi business. Some of them will be new to you because Kathy's business buys and sells drinks and associated items. If at the end of its trading year she had some trading inventories left over that could be sold the following year, it would be unfair to charge these to the profit and loss account this year. To allow for this we need to calculate the 'cost of bar sales' by adding the opening inventories to the purchases and deducting the closing inventories. We ignore any sales tax (VAT in the UK) when making this calculation, as this is neither a trading expense nor revenue; the company is just acting as tax collectors for the Government. As you will see, we give sales tax (VAT) its own column. None of the figures in the financial statements have any VAT in them, except for accounts receivable and payable.*

## DATA

During the year the following transactions took place. The company: -

	£				
Bought beer and other products excluding VAT	120.0	on credit	Payment of half of next year's rates and insurance	6.0	cash
Vat relating to the products bought	24.0		Receipt of bank interest earned on positive bank current account balances		
Food purchases for cash, with no inventory (no vat charged)	20.0	cash	during the year of	1.6	
Gross payroll, including £30,000 to Kathy as manager	70.0	cash	Provision for dividends declared per share (in pence and to be paid next year)	150.0	pence
Payroll net of PAYE (=Pay As You Earn)	56.0	cash	So dividend declared is	22.5	
PAYE (paid, eventually as cash, see row 92)	14.0		Provision for tax, not payable until the following year	10.4	
Rates and insurance for the year	10.0	cash	<i>Remember, this is not a tax textbook and this provision is included here to illustrate how to</i>		
Annual rent	12.0	cash	<i>make the entry on the worksheet, not how to calculate the figure itself!</i>		
Light, heat, maintenance, miscellaneous, telephone, print, post and motoring	21.0	credit	<b>CLOSING BALANCES</b>		
Vat on the above	4.2		Accounts payable owed by the company at the year end	20.0	
Professional fees	2.0	credit	Owed to the Customs and Excise (VAT)	9.0	
VAT on these fees	0.4		Credit card companies owed at the year end	18.0	
Loan interest	6.0	cash	Dividends due	22.5	
Bank charges	0.5	cash	Tax and PAYE outstanding at the year end	10.4	
Repayment of bank loan as agreed	12.0	cash	<i>You should now complete the worksheet provided and then enter the figures from the profit and</i>		
Depreciation relating to the tenancy agreement	6.0		<i>loss column, the cash column and the closing balance sheet row into the blank financial</i>		
Depreciation relating to the car	3.0		<i>statements. You will see that the order of these items has been re-arranged so that they will tell</i>		
Depreciation relating to the furniture and fittings	2.0		<i>Kathy helpful stories concerning her business; there is never any need to stick to the order in</i>		
Cash bar receipts were (including VAT)	189.2	cash	<i>which we made the entries onto the worksheet. These presentations are not the only ones</i>		
Vat included in the above sales figure	31.5		<i>possible. Since these are internal statements we can present the information in any form we</i>		
Cash receipts from food were	44.3	cash	<i>wish.</i>		
Vat included in the above sales figure	7.4				
Credit card payments for drinks including VAT were	126.1	credit			
Vat included in the above sales figure	21.0				
Credit card payments for food were	29.6				
Vat included in the above sales figure	4.9				
Credit card companies charge a fee of	5.0				
Closing bar inventories, excluding VAT, were valued at	20.0				

*This figure allows you to calculate the cost of drinks sales. See the discussion on this topic above.*

**THE SPREADSHEET**

	THE FORESTERS LTD	Fixed Assets	F.A Acc. Depr.n	Inventories	A/cs Receivable	Prepayments	Cash	=	Share Cap	Ret. Profit	Bank Loan	A/cs Payable	VAT	Divid -end	Tax & PAYE	Profit& Loss
1.0	Share Capital							=								
2.0	Bank Loan							=								
3.0	Buy Tenancy Agreement							=								
4.0	Buy Existing Inventories							=								
5.0	Buy Furniture and Fittings							=								
6.0	<b>Opening Balance Sheet</b>							=								
7.0	Bar Purchases							=								
8.0	Food purchases = cost of food sold							=								
9.0	Wages and Salaries							=								
10.0	Rates and Insurance for current year							=								
11.0	Rent							=								
12.0	Light, heat, mtnce, misc., phone, printing & postage							=								
13.0	Professional Fees							=								
14.0	Loan Interest							=								
15.0	Bank Charges							=								
16.0	Prepayment of Rates, Insurance							=								
17.0	Tenancy Depreciation							=								
18.0	Fixed asset depreciation							=								
19.0	Credit card companies charged (include in P&L with cost of sales)							=								
20.0	Credit card revenue							=								
21.0	Cash revenue							=								
22.0	<b>Trial Balance</b>							=								
23.0	Cost of sales to p&l							=								
24.0	Cash from Credit card companies							=								
25.0	Cash to A/cs Payable							=								
26.0	Cash to VAT							=								
27.0	Bank Interest Received							=								
28.0	<b>Trial Balance</b>							=								
29.0	Loan Repaid							=								
30.0	Provision for Tax							=								
31.0	Dividends Declared							=								
32.0	Dividends Paid							=								
33.0	Tax and PAYE paid							=								
34.0	Transfer Net Profit							=								
35.0	<b>Balance Sheet Year 1</b>							=								

Deducted from closing balances

**SPREADSHEET ANSWER**

	<b>THE FORESTERS LTD</b>	<b>Fixed Assets</b>	<b>F.A Acc. Depr.n</b>	<b>Inv-entories</b>	<b>A/cs Rec-eivable</b>	<b>Prepay-ments</b>	<b>Cash</b>	<b>=</b>	<b>Share Cap</b>	<b>Ret. Profit</b>	<b>Bank Loan</b>	<b>A/cs Payable</b>	<b>VAT</b>	<b>Divid-end</b>	<b>Tax &amp; PAYE</b>	<b>Profit&amp; Loss</b>
1.0	Share Capital						15.0	=	15.0							0.0
2.0	Bank Loan						60.0	=			60.0					0.0
3.0	Buy Tenancy Agreement	30.0					-30.0	=								0.0
4.0	Buy Existing Inventories			15.0			-15.0	=								0.0
5.0	Buy Furniture and Fittings	20.0					-20.0	=								0.0
6.0	Opening Balance Sheet	50.0	0.0	15.0	0.0	0.0	10.0	=	15.0	0.0	60.0	0.0	0.0	0.0	0.0	0.0
7.0	Bar Purchases			120.0				=				144.0	-24.0			0.0
8.0	Food purchases = cost of food sold						-20.0	=								-20.0
9.0	Wages and Salaries						-56.0	=							14.0	-70.0
##	Rates and Insurance for current year						-10.0	=								-10.0
##	Rent						-12.0	=								-12.0
##	Light, heat, mtnce, misc., phone, print, post & motoring							=				25.2	-4.2			-21.0
##	Professional Fees							=				2.4	-0.4			-2.0
##	Loan Interest						-6.0	=								-6.0
##	Bank Charges						-0.5	=								-0.5
##	Prepayment of Rates, Insurance					6.0	-6.0	=								0.0
##	Tenancy Depreciation		-6.0					=								-6.0
##	Fixed asset depreciation		-2.0					=								-2.0
##	Credit card companies charged (include in P&L with cost of sales)						-5.0	=								-5.0
##	Credit card revenues				155.7			=					25.9			129.8
##	Cash revenues						233.5	=					38.9			194.6
##	Trial Balance	50.0	-8.0	135.0	155.7	6.0	128.0	=	15.0	0.0	60.0	171.6	36.2	0.0	14.0	169.9
##	Cost of sales to p&l			-115.0				=								-115.0
##	Cash from Credit card companies				-137.7		137.7	=								0.0
##	Cash to A/cs Payable						-151.6	=				-151.6				0.0
##	Cash to VAT						-27.2	=					-27.2			0.0
##	Bank Interest Received						1.6	=								1.6
##	Trial Balance	50.0	-8.0	20.0	18.0	6.0	88.5	=	15.0	0.0	60.0	20.0	9.0	0.0	14.0	56.5
##	Loan Repaid						-12.0	=			-12.0					0.0
##	Provision for Tax							=							10.4	-10.4
##	Dividends Declared							=						22.5		-22.5
##	Dividends Paid						0.0	=						0.0		0.0
##	Tax and PAYE paid						-14.0	=							-14.0	0.0
##	Transfer Net Profit							=		23.6						-23.6
##	Balance Sheet Year 1	50.0	-8.0	20.0	18.0	6.0	62.5	=	15.0	23.6	48.0	20.0	9.0	22.5	10.4	0.0

Deduced from closing balances

**BALANCE SHEET**

**THE FORESTERS LTD.  
BALANCE SHEETS  
AS AT 31 DECEMBER**

	<b>Year 0</b>	<b>Year 1</b>
	<b>£'000</b>	<b>£'000</b>
<b>Net fixed Assets</b>		
Tenancy Agreement		
<b>Current Assets</b>		
Inventories		
Accounts Receivable		
Prepayments		
Cash		
<b>Total Current Assets</b>		
<b>Current Liabilities</b>		
A/cs Payable		
Provision for Tax		
Dividends Due		
VAT		
<b>Total Current Liabilities</b>		
<b>Working Capital (Net current Assets)</b>		
<b>Net Assets</b>		
<b>Capital and Reserves</b>		
Capital		
Retained Profits (Reserves)		
<b>Equity</b>		
<b>Long Term Loans</b>		
<b>Capital Employed</b>		

## BALANCE SHEET ANSWER

### THE FORESTERS LTD. BALANCE SHEETS AS AT 31 DECEMBER

	<b>Year 0</b>	<b>Year 1</b>
	<b>£'000</b>	<b>£'000</b>
<b>Net fixed Assets</b>		
Tenancy Agreement	50.0	42.0
	<u>50.0</u>	<u>42.0</u>
<b>Current Assets</b>		
Inventories	<b>15.0</b>	20.0
Accounts Receivable	0.0	18.0
Prepayments	0.0	6.0
Cash	10.0	62.5
	<u>25.0</u>	<u>106.5</u>
<b>Current Liabilities</b>		
A/cs Payable	0.0	20.0
Provision for Tax	0.0	10.4
Dividends Due	0.0	22.5
VAT	0.0	9.0
<b>Total Current Liabilities</b>	<u>0.0</u>	<u>61.9</u>
<b>Working Capital (Net current Assets)</b>	<u>25.0</u>	<u>44.6</u>
<b>Net Assets</b>	<u>75.0</u>	<u>86.6</u>
<b>Financed By:</b>		
<b>Capital and Reserves</b>		
Capital	15.0	15.0
Retained Profits (Reserves)	0.0	23.6
<b>Equity</b>	<u>15.0</u>	<u>38.6</u>
<b>Long Term Loans</b>	<u>60.0</u>	<u>48.0</u>
<b>Capital Employed</b>	<u>75.0</u>	<u>86.6</u>

**WORKSHEET**

**THE FORESTERS LTD  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER**

	<b>£'000</b>
Revenues	
Cost of Sales	
<b>Gross profit</b>	
<b>Direct Costs</b>	
Bar costs - Wages and Salaries	
<b>Trading Profit</b>	
<b>Establishment costs</b>	
Rates and Insurance	
Rent	
Professional fees	
Bank charges	
Tenancy depreciation	
Fixed asset depreciation	
<b>Profit Before Interest Received</b>	
Bank Interest received	
<b>Profit before Financial Charges</b>	
<b>Financial Charges</b>	
Loan Interest	
<b>Profit before tax</b>	
Provision for Tax	
<b>Profit After Tax.</b>	
Dividend Declared	
<b>Transferred to Retained Profits</b>	



## PROFIT AND LOSS

### THE FORESTERS LTD PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER

	<b>£'000</b>
Revenues	324.4
Cost of Sales	<u>-140.0</u>
<b>Gross profit</b>	184.4
<b>Direct Costs</b>	
Bar costs - Wages and Salaries	<u>-70.0</u>
<b>Trading Profit</b>	114.4
<b>Establishment costs</b>	
Rates and Insurance	-10.0
Rent	-12.0
Light, heat, mtnce, misc., phone, print, post & motoring	-21.0
Professional fees	-2.0
	-0.5
Tenancy depreciation	-6.0
Fixed asset depreciation	-2.0
	<u>-53.5</u>
<b>Profit Before Interest Received</b>	60.9
Bank Interest received	<u>1.6</u>
<b>Profit before Financial Charges</b>	62.5
<b>Financial Charges</b>	
Loan Interest	<u>-6.0</u>
<b>Profit before tax</b>	56.5
Provision for Tax	<u>-10.4</u>
<b>Profit After Tax.</b>	46.1
Dividend Declared	<u>-22.5</u>
<b>Transferred to Retained Profits</b>	<u><u>23.6</u></u>

**CASH FLOW**

**THE FORESTERS LTD  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER**

**Initial Financial sources**

Share Capital		
Bank Loan		
<b>Available to set up the Company</b>		0.0

**Set Up Outlays**

Buy Opening Inventories		
Buy Tenancy Agreement		
Buy Furniture and Fittings		0.0
<b>Initial Cash Balance</b>		0.0

Revenues -Cash (including food)		
Interest Earned		
<b>Total Cash Inflow from Operations</b>		0.0

**Direct Operating Cash Outflows**

Paid to Suppliers (including food)		
Payroll Costs		
VAT Paid		
Rent		
Rates and Insurance		
Prepayments		
Credit card charges		
Bank Charges		0.0
<b>Cash from Trading Operations</b>		0.0

**Financial Charges**

Loan Interest		
Tax & PAYE paid		0.0

**Cash available for Long Term Use** 0.0

<b>Loan Repaid</b>		0.0
<b>Closing Cash Balance</b>		0.0

## CASH FLOW ANSWER

### THE FORESTERS LTD CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

#### Initial Financial sources

Share Capital	15.0	
Bank Loan	60.0	
<b>Available to set up the Company</b>	<u>75.0</u>	

#### Set Up Outlays

Buy Opening Inventories	-15.0	
Buy Tenancy Agreement	-30.0	
Buy Furniture and Fittings	-20.0	-65.0
<b>Initial Cash Balance</b>	<u>10.0</u>	

#### Operating Cash Inflows

	371.2	
Interest Earned	1.6	
<b>Total Cash Inflow from Operations</b>	<u>372.8</u>	

#### Direct Operating Cash Outflows

Paid to Suppliers	-171.6	
Payroll Costs	-56.0	
VAT Paid	-27.2	
Rent	-12.0	
Rates and Insurance	-10.0	
Prepayments	-6.0	
Credit card charges	-5.0	
Bank Charges	-0.5	-288.3
<b>Cash from Trading Operations</b>	<u>84.5</u>	

#### Financial Charges

Loan Interest	-6.0	
Tax & PAYE paid	-14.0	-20.0
<b>Cash available for Long Term Use</b>	<u>64.5</u>	

#### Loan Repaid

	-12.0	52.5
<b>Closing Cash Balance</b>	<u>62.5</u>	

## RATIO CALCULATIONS

This sheet begins by picking up essential data from the accounts for the calculation of ratios. These key figures should be entered in the table below.

KEY FIGURES	YEAR 1	7 CAPITAL EMPLOYED (£'000)
<b>1 SALES (£'000)</b>		
From credit sales (including food)	<input type="text"/>	Equity <input type="text"/>
Cash Sales (including food)	<input type="text"/>	Long Term Loans <input type="text"/>
Turnover	<input type="text"/>	Operating Capital Employed <input type="text"/>
<b>2 PBIT (£;000)</b>		<b>8 Operating Net Assets</b> <input type="text"/>
Profit before all interest and tax	<input type="text"/>	<b>9 CALCULATION OF 'INVENTORIES BOUGHT'</b>
Interest received	<input type="text"/>	Closing inventories <input type="text"/>
Profit Before Interest Paid (PBIT)	<input type="text"/>	Cost of inventories sold <input type="text"/>
<b>3 Profit after tax</b>	<input type="text"/>	opening Inventories <input type="text"/>
<b>4 Profit before tax</b>	<input type="text"/>	Inventories bought <input type="text"/>
<b>5 Interest paid</b>	<input type="text"/>	A/cs Receivable <input type="text"/>
<b>6 Tax charge</b>	<input type="text"/>	<b>10 Trade A/cs Payable</b> <input type="text"/>
		<b>11 Inventories</b> <input type="text"/>
		<b>12 Prepayments</b> <input type="text"/>
		<b>13 A/cs Receivable</b> <input type="text"/>
		<b>14 Closing Cash</b> <input type="text"/>
		<b>15 Current Assets</b> <input type="text"/>
		<b>16 Current Liabilities</b> <input type="text"/>
		<b>17 Dividend declared</b> <input type="text"/>

## RATIO CALCULATIONS

### PERFORMANCE

**RETURN ON OPERATING CAPITAL EMPLOYED (%)**  
 (= RETURN ON OPERATING ASSETS)

Profit Before Interest (paid) & Tax  
 Operating Net Assets


**PROFIT MARGIN (%)**

Profit Before Interest (paid) & Tax  
 Sales


**NET OPERATING ASSETS TURNOVER**

Sales  
 Net Operating Assets


**A/CS RECEIVABLE DAYS**

A/cs Receivable x 365  
 Credit Sales (including VAT)

(from spreadsheet)


**A/CS/PAYABLE DAYS**

A/cs Payable x 365  
 \*Credit Purchases

(from spreadsheet)


\*(Inventories purchased+Light & Heat, etc.+Prof. Fees) incl VAT

### FINANCIAL STRUCTURE

**DEBT RATIO (INCLUDING SHORT TERM)**

Long Term Debt + Short Term Debt  
 Operating Capital Employed


**INTEREST COVER**

Profit before interest paid  
 Interest paid


**CURRENT RATIO**

Current Assets  
 Current Liabilities


**ACID TEST**

Current Assets - Inventories  
 Current Liabilities


**SHAREHOLDER RETURNS**

**RETURN ON EQUITY**

Profit after tax  
 Equity


**DIVIDEND COVER (Times) =**

Profit after tax  
 Dividends


**PLEASE WRITE YOUR COMMENTS ON THE RATIOS**

**RATIO SUMMARIES**

**PERFORMANCE ANALYSIS**

**ROCE (=RONA) {OPERATING}** =

**PROFIT MARGIN (%)** =

**NET OPERATING ASSETS TURNOVER** =

**A/CS RECEIVABLE DAYS** =

**A/CS PAYABLE DAYS** =

**FINANCIAL STRUCTURE**

**DEBT RATIO** =

**INTEREST COVER** =

**CURRENT RATIO** =

**ACID TEST** =

**SHAREHOLDER RETURNS**

**RETURN ON EQUITY** =

**DIVIDEND COVER** =

**RATIO CALCULATIONS**

KEY FIGURES	YEAR 1
<b>SALES (£'000)</b>	
From credit sales	129.8
Cash Sales	<u>194.6</u>
Turnover	<u><u>324.4</u></u>
<b>PBIT (£;000)</b>	
Profit before all interest and tax	60.9
Interest received	<u>1.6</u>
Profit Before Interest Paid (PBIT)	<u><u>62.5</u></u>
Profit after tax	46.1
Profit before tax	56.5
Interest paid	6.0
Tax charge	10.4
<b>CAPITAL EMPLOYED (£'000)</b>	
Equity	38.6
Long Term Loans	48.0
Operating Capital Employed	<u><u>86.6</u></u>
Operating Net Assets	<u><u>86.6</u></u>
<b>CALCULATION OF 'INVENTORIES BOUGHT'</b>	
Closing inventories	20.0
Cost of inventories sold	115.0
opening Inventories	-15.0
Inventories bought	<u><u>120.0</u></u>
A/cs Receivable	18.0
Trade A/cs Payable	20.0
Inventories	20.0
Prepayments	6.0
A/cs Receivable	18.0
Closing Cash	62.5
Current Assets	106.5
Current Liabilities	61.9
Dividend declared	22.5

**RATIO CALCULATIONS**

**PERFORMANCE**

**RETURN ON OPERATING CAPITAL EMPLOYED (%)**  
(= RETURN ON OPERATING ASSETS)

$$\frac{\text{Profit Before Interest (paid) \& Tax}}{\text{Operating Net Assets}} = \frac{62.5}{86.6} = 72.2\%$$

**PROFIT MARGIN (%)**

$$\frac{\text{Profit Before Interest (paid) \& Tax}}{\text{Sales}} = \frac{62.5}{324.4} = 19.3\%$$

**NET OPERATING ASSETS TURNOVER**

$$\frac{\text{Sales}}{\text{Net Operating Assets}} = \frac{324.4}{86.6} = 3.7$$

**A/CS RECEIVABLE DAYS**

$$\frac{\text{A/cs Receivable} \times 365}{\text{Credit Sales (including VAT)}} = \frac{18.0}{155.8} = 42$$

**A/CS/PAYABLE DAYS**

$$\frac{\text{A/cs Payable} \times 365}{\text{*Credit Purchases}} = \frac{20.0}{171.6} = 43$$

**FINANCIAL STRUCTURE**

**DEBT RATIO (INCLUDING SHORT TERM)**

$$\frac{\text{Long Term Debt} + \text{Short Term Debt}}{\text{Operating Capital Employed}} = \frac{48.0}{86.6} = 55\%$$

**INTEREST COVER**

$$\frac{\text{Profit before interest paid}}{\text{Interest paid}} = \frac{62.5}{6.0} = 10.4$$

**CURRENT RATIO**

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{106.5}{61.9} = 1.7$$

**ACID TEST**

$$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}} = \frac{86.5}{61.9} = 1.4$$

**SHAREHOLDER RETURNS**

**RETURN ON EQUITY**

$$\frac{\text{Profit after tax}}{\text{Equity}} = \frac{46.1}{38.6} = 119\%$$

**DIVIDEND COVER (Times) =**

$$\frac{\text{Profit after tax}}{\text{Dividends}} = \frac{46.1}{22.5} = 2.0$$

## RATIO ANSWER

### PERFORMANCE ANALYSIS

	YEAR 1	COMMENTS
1 ROCE (=RONA) {OPERATING}	72%	Not as high as I would have expected because the company does not own the freehold Seems rather low
2 PROFIT MARGIN (%)	19%	
3 NET OPERATING ASSETS TURN	4	Influenced by the low net assets owned
4 A/CS RECEIVABLE DAYS	42	reasonable for credit card payments
5 A/CS PAYABLE DAYS	43	reasonable

### FINANCIAL STRUCTURE

	YEAR 1	
6 DEBT RATIO (INCLUDING SHOR	55%	no short term. Seems very high
7 INTEREST COVER	10.4	But this cover is fine
8 CURRENT RATIO	1.7	OK

### SHAREHOLDER RETURNS

	YEAR 1	
9 RETURN ON EQUITY	119%	Looks good because equity is small
# DIVIDEND COVER	2.0	OK



**It's time to put on your Sherlock Holme's hat!**

**How many customers does Kathy have per year in total?**

**How many of these buy food as well?**

-

**How many customers per day?**

-

**What is the profit margin on food?**

**What is it on drinks??**

**What advice might you give to Kathy?**

## DETECTIVE WORK ANSWER

### How many customers does Kathy have per year in total?

Bar Revenue including Vat = 189.6+ 126. 315.7  
Divided by the average amount spent on drinks including Vat= 9.6  
so, in thousands there were 32,885

### How many of these buy food as well?

25% buy food, so 8,221

### How many customers per day?

90

### What is the profit margin on food?

Food revenue excluding VAT = 61.6  
profit margin% 20  
68%

### What is it on drinks??

Revenue 253  
Cost of sales 115  
Profit margin 55%

### What advice might you give to Kathy?

Try to increase the percentage of customers who buy food as it has a higher profit margin than drinks do. See if you can raise the quality of the food and increase the price. Most pubs charge more.

Try to get more customers per hour, as you are only averaging about 9 per hour. Of course, this will vary according to season, time of day and whether it is a week day or a weekend one. Try to collect this information.

You do not seem to spend any money on advertising. At least local advertising should increase trade.

Can you negotiate a better deal with the brewers on the cost of drinks?

NOTE: In ;The Foresters Revisited; (an excel version only) you will build a model of the pub and will be able to flex the inputs to see what effects they might have.



