1 Based on product sales of 30,000 units, calculate the average selling price.

2 Calculate the average cost per unit.

3 Calculate the Gross Profit.

4 Calculate the Net Profit.

5 Discuss how the business could improve both its gross and net profit figures.

6 Calculate the gross profit margin percentage.

7 Calculate the net profit margin percentage.

8 Calculate the total current assets figure for Year 1 and Year 2.

9 Define what is meant by the term net current assets.

10 Calculate the net current assets for Year 1 and Year 2.

11 Calculate the net assets for Year 1 and Year 2.

12 Using the completed data, calculate the current ratio for both years.

13 Using the completed data, calculate the liquid capital ratio for both years.

14 Assess the performance of the business from a profit and liquidity perspective.

### Business Profile

Ramesh has begun a new restaurant in the centre of his local town. He has been trading for a couple of years now, but is concerned about his restaurant’s financial performance.

### Data from the statement of comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>Turnover</th>
<th>Cost of sales</th>
<th>Gross Profit</th>
<th>Expenses</th>
<th>Staff</th>
<th>Transport</th>
<th>Other costs</th>
<th>Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>46,250</td>
<td>25,400</td>
<td></td>
<td></td>
<td>5,000</td>
<td>10,400</td>
<td>9,500</td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Data from the statement of financial position

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td>28,250</td>
<td>22,600</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>24,750</td>
<td>18,250</td>
</tr>
<tr>
<td>Cash</td>
<td>8,600</td>
<td>6,450</td>
</tr>
<tr>
<td>Inventory (stock)</td>
<td>6,250</td>
<td>3,750</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade creditors</td>
<td>31,350</td>
<td>21,700</td>
</tr>
<tr>
<td>Overdraft</td>
<td>4,200</td>
<td>9,650</td>
</tr>
<tr>
<td>Net current assets</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Owner’s capital</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Retained profit</td>
<td>17,300</td>
<td>4,800</td>
</tr>
<tr>
<td>Total capital</td>
<td>32,300</td>
<td>19,800</td>
</tr>
</tbody>
</table>
1. Based on product sales of 30,000 units, calculate the average selling price.
   \[ \frac{46,250}{30,000} = £1.54 \]

2. Calculate the average cost of sales per unit.
   \[ \frac{25,400}{30,000} = £0.85 \text{ or } 85p \]

3. Calculate the Gross Profit.
   \[ 46,250 - 25,400 = £20,850 \]

4. Calculate the Net Profit.
   \[ 20,850 - (5,000 + 10,400 + 9,500) = (£4,050) \]

5. Discuss how the business could improve both its gross and net profit figures.
   Increase turnover e.g. changing price or using more promotion, ensuring the increased cost of promotion does not exceed any increase in turnover. Decrease costs e.g. find cheaper suppliers, find more efficient methods of production.

6. Calculate the gross profit margin percentage.
   \[ \frac{20,850}{46,250} \times 100 = 45.08\% \]

7. Calculate the net profit margin percentage.
   \[ \frac{-4,050}{46,250} \times 100 = -8.76\% \]

8. Calculate the total current assets figure for Year 1 and Year 2.
   Year 1: $27,750 + 8,600 + 6,250 = £39,600$
   Year 2: $18,250 + 6,450 + 3,750 = £28,450$

9. Define what is meant by the term net current assets.
   Net current assets is the financial calculation which represents the short term liquidity of a business. It measures how much money a business has in the short term (under a year) by calculating current assets – current liabilities.

10. Calculate the net current assets for Year 1 and Year 2.
    Year 1: $39,600 - (31,350 + 4,200)$
        \[ = £4,050 \]
    Year 2: $28,450 - (21,700 - 9,650)$
        \[ = (£2,900) \]

11. Calculate the net assets for Year 1 and Year 2.
    Year 1: $28,250 + 4,050 - 0 = £32,300$
    Year 2: $22,600 + (2,900) - 0 = £19,700$

12. Using the completed data, calculate the current ratio for both years.
    Year 1: $39,600 - 6,250/35,550 = 0.94:1$
    Year 2: $28,450 - 3,750/31,350 = 0.79:1$

13. Using the completed data, calculate the liquid capital ratio for both years.
    Year 1: $39,600 - 6,250/35,550 = 0.94:1$
    Year 2: $28,450 - 3,750/31,350 = 0.79:1$

14. Assess the performance of the business from a profit and liquidity perspective.
    The business is creating a fair GPM % figure of 45.08%, however its expenses are too high in order to make a profit, resulting in a NPM % figure of -8.76%. The business is clearly not controlling its expenses well. The restaurant’s liquidity is weak shown by both the current and the liquid capital ratio, highlighting the business may struggle to pay off its short term debts. Overall, the business is not in a strong financial position in terms of liquidity or profitability.

TIME TO REVIEW YOUR LEARNING...
List three content points that you are confident with and three that require some attention.

Confident with

1
2
3

Requires attention

1
2
3