APPENDIX AND RESOURCES

PROJECT LED VERSUS MARKET LED STRATEGIES; THE ANSWERS

Exercise 1 : Marketing Strategy

What are the typical strengths and weaknesses of the service Wood 'N' Tops provides?

The organisations main strengths are its 'community base', its mix of funding, and the ability to call on a major stakeholder (the church) for support. Its main weaknesses are its culture ('work opportunities'), its dependence on two funders and its narrow client base.

What are the opportunities and dangers of a product led approach for an organisation like Wood 'N' Tops?

The main opportunities are the ability to diversify into new client groups and sticking to what you know best. The main dangers are that the standard approach can't be applied elsewhere and that the service might appear stale or non-innovating.

What resources might Wood 'N' Tops want to call on?

The support of women's groups, business women or female councillors; public bodies and departments working with the disabled; disabled groups and charities.

What would be the attractions of such a service to its target group?

Social Inclusion, overcoming isolation, employment or pathways to employment, training, creating more equalities, making useful products.

What would be the likely disincentives to its target group?

Male-dominated environment, traditional or patriarchal ('church-based') environment, lack of permanent employment opportunities, lack of childcare provision (loss of benefits?).

In what way could the target group be persuaded to use the service?

Inclusion through service-planning or a trainee advisory group, childcare provision or allowances, flexible working arrangements.

Exercise 2 : Marketing Strategy

How can Wood 'N' Tops find out just what people want?

House-to-house surveys, drop-in questionnaires, radio phone-ins, adverts in community newsletters asking for views, using (e.g.) church or social centre meetings as focus groups.

What resources would be most useful to Wood 'N' Tops in carrying out research?

Local knowledge, willing volunteers, access to local media.

What sort of changes might Wood 'N' Tops have to make?

More inclusive management group, working arrangements, facilities, product range, access to training and career advice, childcare.

How could Wood 'N' Tops persuade the target group it has changed?

See above.

What are the potential dangers (internally and externally) of a market led approach?

Mission drift and arising conflicts, muddied image, strain on organisation culture, failure to meet market expectations leads to crisis, threats to grant-based funding.

MARKETING MIX EXERCISES; THE ANSWERS

Marketing Mix Exercise 1 - Community CCTV

	Advertising Method					
Customer Buying Decision	Yes /No?	Yellow Pages	Radio Advertising	Send A Brochure	Unsolicited Phone Call	Fax Campaign
Customer makes impulse buy when hit by advertising						
Customer makes decision and looks for supplier	X	X		X		
Customer buys product regularly						
Customer only buys at certain times						
Customer ask colleagues for recommendations	X		X			X
Customer takes note of supplier and buys later	X	X		X		
Customer only buys when absolutely necessary	X	X				
Customer checks several suppliers before buying	X	X		X		
Customer is at work when decision is made	X	X		X		X
Customer buys from first supplier they find						

Marketing Mix Exercise 2 - Childcare

	Advertising Method					
Customer Buying Decision	Yes /No?	Yellow Pages	Radio Advertising	Send A Brochure	Unsolicited Phone Call	Fax Campaign
Customer makes impulse buy when hit by advertising						
Customer makes decision and looks for supplier	X	X				
Customer buys product regularly						
Customer only buys at certain times	X	X		X		
Customer ask colleagues for recommendations	X		X			
Customer takes note of supplier and buys later	X	X	X			
Customer only buys when absolutely necessary						
Customer checks several suppliers before buying	X	X		X		
Customer is at work when decision is made						
Customer buys from first supplier they find						

Did the group realise that not all possible customers for the proposed services are the same? For instance, the owner of a single shop is likely to buy a CCTV service in a totally different way to a council officer wanting to protect a housing office or an entire industrial estate.

And that the 'buying decision' is highly influenced by outside events? For instance, a landlord who has just been burgled is more likely to want to buy a CCTV service than one who has not? And someone on low-income is unlikely to think about buying childcare until a low-cost service is offered?

SALES PLAN EXERCISE; THE ANSWERS

There is no one, right answer to this exercise but the following information should have been generated by the participants.

The Carefree Cot

The maximum annual sales are 210. The contribution to profit is either £9,450 or £13,860 depending on the market chosen. The person-hours required to meet maximum sales targets are 2,100.

The Sleepeze Bed

Maximum sales are 128. The contribution is either £8,960 or £12,032. The person-hours required are 1,920.

Noahs Ark

The maximum sales are 225 or 670. The contribution is £3,712 or £7,035. The hours required are 675 or 2,010.

Park Bench

Maximum sales are 108 or 216. The contribution is either £8,640 (LA), £7,560 (retail) or £10,584 (wholesale). The hours required are 3,240 or 6,480.

Picnic Table

Maximum sales are 101 or 241. The contribution is £2,410 (wholesale), £4,040 (local) or £6,060 (retail). Hours required are 2,020 or 4,820.

Maximum sales and production across all products would require 17,330 person -hours annually, less than what is available. Meeting low-level sales targets would only require 9,955 hours; the company could reduce costs by laying off workers, introduce new products or use spare capacity to increase production in high value or seasonal products. Maximising sales and therefore production would stretch the workshop but is still feasible.

Maximum contributions to overheads (after materials and other direct costs) varies between £32,092 and £49,571, still less than what is required to break-even but a satisfactory first year.

Did the group spot that local sales are not always best or that sometimes wholesale can make the largest contribution because of the larger volumes bought? Selling the Carefree Cot, Sleepeze Bed and Noah's Ark made varying contributions according to sales strategy. The exception is the picnic table which, despite selling twice as many wholesale, made only a very small contribution (£2,410).

Measuring the products by 'contribution per hour', the most profitable products are the carefree cot to outside retailers (£6.60 per hour), the Sleepeze Bed to outside customers (£5.99ph) and the Noah's Ark by retail (£5.50ph).

The worst performers, those making the least profit per hour worked are the Picnic Table to local customers (£2 per hour), the Park Bench to the local authority (£1.33 per hour) and the Picnic Table to wholesale (£0.50! per hour).

CONSTRUCTING A BUSINESS PLAN EXERCISE; THE ANSWERS

Exercise 1

1 : Basic Information
Not more than 300 words

2 : The People Involved
More than 300 words, less than 1,000 words

3 : The Product or Service
More than 800 words, less than 1,500 words

4 : Marketing Information
More than 1,000 words, less than 2,000 words

5 : Operational Information
More than 800 words, less than 1,500 words

6 : Legal, Governance And Management
More than 300 words, less than 1,000 words

7 : Financial Information
More than 800 words, less than 1,500 words

8 : Other Information
Not more than 500 words

Exercise 2 And 3

1 : Basic Information
Not more than two person days

The presentation should describe the business and its propose range of products and customers; the aims of the business; what is still needed for the business to begin operating.

2 : The People Involved
At least five person days

The project has only a little information about the skills and experiences of the group and has made no decisions about employment, roles, management and governance. This will need research, discussion and agreement. The presentation should allocate tasks and state how strategic decision-making, day-to-day management and internal management (like HR or reporting to the committee) will take place.

3 : The Product or Service
At least ten person days

Although the group knows what it can produce, it doesn't know what it should produce and what will sell best. It hasn't done any market research and therefore doesn't know which products fit the market best or how they should be marketed. There would need to be a phase of product (re-) design and market-testing, then a sales strategy would need to be drawn up. The presentation should cover products, why these products, how many, resources needed (if any).

4 : Marketing Information

At least ten person days

The group has very little information about the various markets it could target (local people, passing trade) or about potential competitors (in Shiverton, for instance). It doesn't know what the size of the market is, what the spending power of customers, how they like to buy goods (cash, hire purchase, over the internet etc) or how often they buy particular products, or when. The group will need to conduct market research and draw up a sales and marketing strategy. The presentation should cover particular markets, market features, competitors, and ideas about advertising and marketing.

5 : Operational Information

At least five person days

The group probably has enough information about operations but not about suppliers, their terms of business, how work will be managed and likely volumes of sales /production. The presentation should cover issues such as premises, equipment, the manufacturing process, storage, delivery, suppliers, stock and quality control, allocation of work and health and safety.

6 : Legal, Governance And Management

Not more than five person days

The legal status of the business has not been decided, nor who will own and control it, the roles involved and who will take them, legal permissions, insurance and regulations affecting the business. The presentation should cover issues of legal status, governance, day-to-day management, roles and responsibilities, legal issues, other operating issues.

7 : Financial Information

At least ten person days

The group doesn't know how many items of each type it will sell or when. It doesn't know what its fixed or indirect costs (its overheads) are. It doesn't know if any costs (such as insurance) will vary as a result of change taking place. The presentation should cover issues such the costs of products being made, likely cash requirement to fund production, estimated sales income, need for an annual financial budget or projection, mark-ups on products, annual profit.

8 : Other Information

Not more than two person days

The main need is for information about the management group or committee, to generate publicity and marketing materials and provide information about the premises which demonstrate their suitability for operations.

CALCULATING COST-VALUES AND NEGOTIATING TO WIN EXERCISE; THE ANSWERS

There is no set answer since each team or player will have personal objectives and will negotiate optimum, satisfactory or less-than-satisfactory outcomes according to their ability to spot winning combinations of outcomes and to barter with rivals.

The various concessions make the following profits:

Secretarial
Profit : £6,000
Margin Vs Price : £2,000

Counselling
Profit : £4,000
Margin Vs Price : £1,600

Cleaning
Profit : £3,200
Margin Vs Price : £1,200

Creche
Profit : £4,000
Margin Vs Price : £1,000

Training
Profit : £3,000
Margin Vs Price : £1,000

Canteen
Profit : £2,500
Margin Vs Price : £700

Team 1 was seeking to make £13,000 profit from the concessions.
How well did they do?

Team 2 was seeking to make £11,700 profit from the concessions.
How well did they do?

Team 3 was seeking to make £10,200 profit from the concessions.
How well did they do?

Team 4 was seeking to make £9,500 profit from the concessions.
How well did they do?

Which team or player got the best return on their £7,000 investment or total spending on the concessions?

BUDGET AND CASH FLOW EXERCISES; THE ANSWERS

Exercise 1 - Income And Expenditure Budget

Income	Year 1	Year 2
Furniture sales	£3000	£3000
Grant	£11,000	£12,830
Donations	£200	£200
Removals	£800	£800
Total	£15,000	£16,830
Expenditure		
Wages and national insurance	£6000	£6600
Volunteer payments	£3600	£3960
Trainer	£360	£396
Stationery and printing	£320	£352
Postage and telephone	£500	£550
Heat and light	£460	£506
Rent and rates	£1280	£1408
Repairs and painting	£300	£330
Insurance	£250	£275
Operating van	£1000	£1100
New equipment and repairs	£350	£385
Advertising and promotion	£440	£484
Accountant	£200	£220
Miscellaneous	£240	£264
Total	£15,300	£16,830
Income/Expenditure	- £300	£0
Surplus/Deficit	- £300	- £300

The grant must be increased to £12,830 in Year 2 to balance income and expenditure or to £13,130 to balance income and expenditure and deal with the Year 1 deficit.

Exercise 2 - Cash Flow Forecast (Year 1)

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Income													
Furniture sales	300	300	100	100	100	300	300	300	300	300	300	300	3000
Grant				2750			2750			2750			8250
Donations							200						200
Removals	?												0
Total	300	300	100	2850	100	300	3250	300	300	3050	300	300	11450
Expenditure													
Wages & national insurance	500	500	500	500	500	500	500	500	500	500	500	500	6000
Volunteer payments	450					450	450	450	450	450	450	450	3600
Trainer						60	60	60	60	60	60		360
Stationery and printing				100				120		100			320
Postage and telephone	35	15	15	95	15	15	95	15	15	95	15	15	440
Heat and light				115			115			115			345
Rent and rates	100	100	110	110	110	110	110	110	110	110	100	100	1280
Repairs and painting					200					100			300
Insurance		250											250
Operating van				125			125			125	200	300	875
New equipment and repairs					300				75				375
Advertising and promotion	20	20	20	220	20	20	20	20	20	20	20	20	440
Accountant												200	200
Miscellaneous	20	20	20	20	20	20	20	20	20	20	20	20	240
Total	1125	905	665	1285	1165	1175	1495	1295	1250	1695	1365	1605	15025
Net cash flow	-825	-605	-565	1565	-1065	-875	1755	-995	-950	1355	-1065	-1305	
Opening balance	0	-825	-1430	-1995	-430	-1495	-2370	-615	-1610	-2560	-1205	-2270	
Closing balance	-825	-1430	-1995	-430	-1495	-2370	-615	-1610	-2560	-1205	-2270	-3575	

The organisation has a chronic cash flow problem because its grant is paid in arrears.
The information provided does not allow us to enter the income from Removals.
Expenditure is lower than budgeted because some bills are not paid in this financial year (paid in arrears the month following)

COSTING AND BREAK EVEN EXERCISE; THE ANSWERS

1 : The cost price is £22.24 (£20.74 excluding indirect costs)

Materials : £11.00

Labour : £9.00

Power : £0.50

Transport : £0.24

Indirect costs : £1.50

Total : £22.24

2a : The break-even selling price is £22.47 (2,970 paid for, covering costs of £66,720)

Total Costs are:

Materials : 3,000 x £11.00 = £33,000

Labour @ £4.00 : 3,000 x £4.00 = £12,000

Labour @ £2.50 : 6,000 x £2.50 = £15,000

Power : 3,000 / 100 x £50 = £1,500

Transport : 3,000 / 50 x £12 = £720

Indirect costs : 3,000 / 1,000 x £1,500 = £4,500

Total : £66,720

2b : The selling price with 10% net profit is £24.72 (£22.47 x 110%)

COSTING THE JOB EXERCISES; THE ANSWERS

Exercise 1 : Costing The Job

1 : Total amount of materials (paint) required = £32.00
(4 tins x £8.00)

2 : Time taken in terms of labour costs = £54.00
(240 metres (2 coats) take 12 hours at £4.50 per hour)

So the total cost will be £86.00

Exercise 2 : Costing The Job

1 : Cost of materials
Paint (500 / 60 = 8.33 = 9 tins x £8.00) = £72.00
Wallpaper (15 x £2.75) = £41.25

2 : Labour costs
Painting (500 / 20 = 25 x £4.50 per hour) = £112.50
Wallpaper (4 hours at £4.50 per hour) = £18.00
Travel (1 hour x 2 x £4.50 per hour) = £9.00

3 : Travel costs
Expenses (11 x 2 x 2 x £0.25) = £11.00

So the total cost will be £263.75

Working Out The Unit Cost Exercise

1 : Unit cost = £0.46 per unit/per ballbearing
(£46,000 / 100,000)

2a : The ark's unit cost is £9.95

2b : The horse's unit cost is £51.15

Exercise 1 : Working Out The Selling Price

1 : Selling Price for 100,000 ball-bearings = £0.61

2 : Selling Price for 50,000 ball-bearings = £0.76
(£23,000 + £10,000 + £5,000 / 50,000)

Exercise 2 : Working Out The Selling Price

$$\text{Hourly rate} = \frac{£14{,}600}{7 \times 6 \times 52} = £6.69 \text{ per hour}$$

$$\text{Hourly rate} = \frac{£14{,}600}{6 \times 250} = £9.74 \text{ per hour}$$

Exercise 3 : Working Out The Selling Price

1 : Your time = 12 hours @ £6.96 per hour = £83.52
(£14,600 / 2,100)

2 : Materials (paint) required = £32.00
(4 tins x £8)

3 : 12 hours labour at £4.57 per hour = £54.84

The price to the customer will now be £170.36

COST CENTRE ANALYSIS EXERCISES; THE ANSWERS

Exercise 1 : Manufacturing Sector

1 : What is the total cost of producing toys?

Materials : £2,000

Direct labour (5 x £500) : £2,500

Supervision (£8,000 x 40%) : £3,200

Electricity (£600 x 20%) : £120

Depreciation (£1,000 x 20%) : £200

Rent and rates (£2,000 x 50%) : £1,000

Administration (£8,000 x 30%) : £2,400

Total cost : £11,420

2 : What are the costs of producing toys as a % of total costs?

£11,420 / £28,500 x 100 = 40.1%

3 : What is the total income from producing toys?

£8,000

4 : Suppose the project produces and sells 2,000 toys a year for £4 each and the joiner calculates a customer saves £1 per purchase over normal shop prices. Does toy making have a positive social benefit (in financial terms)?

Yes. Local people save a minimum of £2,000 on the price of buying toys.

If all the staff are local people, their wages associated with toy-making are worth £8,100 (before tax) to the local community.

If the landlord of the workshop is local, the rent paid means £1,000 to the local economy.

Local people also save an unquantified amount on trips to other places to buy toys.

Exercise 2 : Service Sector

1 : What is the total cost of delivering training?

Training officer (£10,000 x 50%) : £5,000

Admin support : £1,200

Advertising : £200

Training materials : £600

Overheads : £500

Total cost : £7,500

2 : How much extra time would the training officer have to spend training to cover the full costs of what she does?

The training officer generates (50% x £140) = £7,000 so she almost meets the costs of £7,500 associated with training, falling short by £500. Calculated simply, she would only need to spend an additional 4% of her time (4% x £140 = £560) to meet her costs.

But, of course, the direct cost attributable to training (her salary) has now increased from £5,000 (50% of £10,000) to £5,400 (54% x £10,000) and training costs are therefore now £7,900! Can she ever catch up?

The trainer costs £100 (£10,000 / 100%) for every 1% of her time committed to training.

The income available as a contribution to fixed costs is therefore £40 out of every £140.

The fixed costs are £2,500 (£2,500 / £40 = 62.5).

The trainer must spend at least 62.5% of her time training to cover costs.

Income = £140 x 62.5% = £8,750

Costs = £6,250 (62.5% x £100) + £2,500 = £8,750

3 : Is there any way she can find the extra time?

She needs to find an extra 12.5% of her time for training from an available 50% spent on administration and attending meetings. Feasible?

ANALYSING PERFORMANCE - THE BALANCE SHEET EXERCISE; THE ANSWERS

1 : How much profit did the company make this year?

A balance sheet will not show whether a business makes a profit. It displays changes in value and movements of value (whether cash or the value of assets) between different part of the business.

In this case, we can see that the value of fixed assets has gone down as has the level of liabilities. Did this come from a profitable trading year? Or did we sell a piece of equipment to pay off our creditors? The balance sheet does not tell us which is why it is usually always accompanied by notes explaining changes in the value of assets or liabilities.

2 : What are the main positive things that have changed about the business?

a) The current liabilities of the business decreased during the year from £26,000 to £8,000. It has collected payments from debtors, reduced its overdraft and paid off more of its business loan.

b) The value of stock has increased slightly (from £6,000 to £8,000) although this could be both a good and a bad thing. It's good if having a large inventory or a greater supply of goods helps you sell more. It's bad if this stock is perishable or bulky, increasing the costs of either wastage or storage.

c) The amount of cash available increased slightly (from £800 to £1,000).

d) The value of the fixed and current assets has increased from £23,800 to £33,500. The business is stronger/more valuable.

3 : What are the main negative things that have changed about the business?

The value of the fixed assets in the business has decreased (from £39,000 to £31,000). This could be a bad thing (it has been forced to sell assets to meet costs) or a good thing (it has sold or disposed of unwanted assets); but generally, a decline in the value of the fixed assets without it being replaced by an increase in current assets, especially if this was a long-term trend, would be a bad thing.

Generally, the balance sheet reflects a reasonable year of trading. Although the value of the fixed assets has declined (through disposals or depreciation), the level of current liabilities has been reduced and the overall value of the business has increased. It is a more valuable business in a stronger trading position.

PROFIT AND LOSS CALCULATIONS; THE ANSWERS

Exercise 1 : Debtor And Creditors

1 : What was the actual value of ABC Engineering's sales?

Value of sales = £25,000 + £6,400 - £5,900 = £25,500

2 : Suppose it owed an additional £1,200 rates and £900 to a packaging company and that an outstanding invoice from the previous quarter of £5,000 had finally been paid in this quarter.

What is the new value of ABC Engineering's sales?

Value of Sales = (£25,000 - £5,000) + £6,400 - £5,900 - £2,100 = £18,400

Exercise 2 : Sales And The Cost Of Sales

1 : What was ABC Engineering's gross profit?

Cost of sales = (£10,000 + £5,500 - £3,000) + (£8,000 + £1,000) = £21,500

Gross profit = £35,000 - £21,500 = £13,500

2 : Suppose ABC Engineering had bought and used additional stock worth £12,000 in the period.

What would it's gross profit have been?

Cost of sales = (£10,000 + £17,500 - £3,000) + (£8,000 + £1,000) = £33,500

Gross profit = £35,000 - £33,500 = £1,500

Exercise 3 : Loans And Depreciation

Depreciation over 10 years.

1 : How much depreciation was there and how does this affect the gross profit?

$$\text{Depreciation per machine} = \frac{£5{,}000}{40 \text{ quarters}} = £125 \times 4 \text{ machines} = £500$$

2 : Therefore gross profit = £3,000 - £500 = **£2,500**

Depreciation over 15 years.

3 : Suppose ABC Engineering's equipment was calculated to have 15 years of life.

What would be the new figure for depreciation and gross profit?

$$\text{Depreciation per machine} = \frac{£5{,}000}{60 \text{ quarters}} = £83 \times 4 \text{ machines} = £332$$

Therefore gross profit = £3,000 - £332 = **£2,668**

4 : Suppose it was proposed that an increase in production would mean extra gross profits of £3,000. But the oldest machine would have to be scrapped and a machine costing £15,000 with a life expectancy of 15 years would have to be bought.

Would ABC Engineering make a profit this quarter?

£6,000 - (£5,000 x 3 machines / 60 quarters) + (£15,000 x 1 machine / 60 quarters) = £6,000 - (£250 + £250) = **£5,500**

Exercise 4 : Dealing With Loans In A Profit And Loss Account

1 : What would ABC Engineering's net profit be after deducting these costs?

£3,000 - (£175 x 3) = £3,000 - £525 = **£2,475**

2 : What would ABC Engineering's net profit be after deducting these costs?

£3,000 - (£183 x 3) = £3,000 - £549 = **£2,451**

3 : What would ABC Engineering's net profit be after deducting these costs?

£6,000 - (£175 x 3) = (£183 x 3) = £6,000 - (£525 + £549) = £6,000 - £1,074 = **£4,926**

THE BALANCE SHEET EXERCISE; THE ANSWERS

Balance Sheet Of Wood 'N' Tops	For The Period Up To 31/03/2005
	£
Fixed Assets	
Capital equipment	£19,960
Depreciation	-£3,992
Total fixed assets	**£15,968**
Current Assets	
Stock	£500
Debtors/work in progress	£2,300
Cash	£4,917
Total current assets	**£7,717**
Total assets (fixed + current assets)	**£23,685**
Current Liabilities	
Creditors	£1,688
Accruals	£205
Loans outstanding	£2,055
Total liabilities	**£3,948**
Net assets (total assets - total liabilities)	**£20,187**
Represented By	
Members loans	£0
Reserves brought forward	£13,812
Profit/loss	£7,005
Total	**£20,187**

VALUE ADDED EXERCISE; THE ANSWERS

Statement Of Value Added	£
+ Sales income	+ £16,000
+ Other revenue	+ £0
- Cost of materials	- £3,000
- Overheads	- £4,000
- Grants/donations	- £3,500
Value added	£5,500
Distribution	
+ Net wages	+ £10,000
+ Volunteer/ trainee payments	+ £2,000
+ Social benefit	+ £300
+ Reserves	+ £200
Total Value Added	£18,000

Traditional Profit Account	£
+ Sales	+ £16,000
- Direct costs	- £15,000
Gross profit	£1,000
Other costs	
- Overheads	- £4,000
- Donations	- £300
Profit/(Loss)	(£3,300)

1 : What do you think a 'traditional' business would do when presented with these figures?

It would need to invest to increase sales, or cut costs, or both.

2 : Does a 'value added' statement make it easier to justify the grant to Wood 'N' Tops?

The organisation generates £18,000 of social benefit, of which £12,300 goes directly into the local economy and to its beneficiaries while another £7,000 is spent with suppliers (note: not all of these could be local, but still worth making the point).

MEASURES OF ADDED VALUE EXERCISE; THE ANSWERS

Exercise 1a : The Return To Labour

How much is being used to benefit labour (employees and trainees) in Years 1 and 2?

Year 1 : **£500**

Year 2 : **£9,200**

Exercise 1b : Value Added And Turnover

What is the ratio of Value Added : Turnover in Years 1 and 2?

Year 1 = £500 : £7,500 = **1 : 15**

Year 2 = £10,000 : £20,000 = **1 : 2**

Exercise 1c : Value Added And Net Assets

What is the ratio of Value Added : Assets Held By The Project in Years 1 and 2?

Year 1 = £500 : £3,000 = **1 : 6**

Year 2 = £10,000 : £8,000 = **1.2 : 1**

Exercise 1d : Net Assets Per Head

What is the value of assets held per trainee (the members or beneficiaries) in Years 1 and 2?

Year 1 = £3,000 / 50 = **£60**

Year 2 = £8,000 / 50 = **£160**

ENTERING LEDGER DETAILS EXERCISE; THE ANSWERS

Sales					Outgoings				
Date	Customer	Item	Amount	Date Paid	Supplier /Payment To	Item	Amount	Date Paid	Cheque Number
10th May		Spare Part	69.15	10/05					
	Joes Garage	Part	30.00						
	Friendly Cars	Part	35.00	10/05					
11th May		Part	4.40	11/05	Local Council	Rates	90.00		
	Joes Garage	Part	35.00	11/05					
12th May					Supplier Invoice	Parts	385.00	12/05	1234501
		Part	20.25	12/05					
	Friendly Cars	Part	23.10	12/05					
13th May	Joes Garage	Part	89.45		Phone Company	Telephone	205.69		
		Part	20.25	13/05					
		Part	15.75	13/05					
14th May		Part	26.55	14/05	You	Wages	195.00	14/05	1234502
	Joes Garage	Part	30.15		Ted	Wages	140.00		1234503
					Billy		140.00		1234504
15th May		Part	48.95	15/05					
	Friendly Cars	Parts	44.95	15/05					
		Part	36.20	15/05					
16th May		Part	24.75	16/05					
	Friendly Cars	Part	26.26	16/05					
	Friendly Cars	Part	75.00						
17th May	Joes Cars	Part	30.90		Supplier Invoice	Parts	205.00	17/05	1234505
Total			686.06				1360.69		

Did the Ledger have enough rows and columns?

A sales and expenses ledger should not only record expenditure but should also have individual columns for each kind of expenditure - Wages, Office Costs, Parts etc - so that expenditure on each kind of outgoing in a sales or accounting period (usually a month or a quarter) can be analysed individually. Clearly this ledger did not have enough columns to do this.

The same can be said for the 'Sales' part of the ledger. By having individual columns for 'Garages', 'Retail Sales' and 'Cash/Account', levels of sales to each kind of customer and how they purchase items could be analysed.

Organising the ledger in this way would enable you easily to calculate that £475.00 was paid in wages, £590.00 on car parts. £295.69 (Rates and Telephone Bill) is still owed.

Note: that although the exercise does not involve VAT, VAT is paid and collected on so many items that you would need to have individual columns in the 'Sales' and 'Outgoings' part of the ledger to separate out the VAT so you can calculate what is owed/owing to Customs & Excise.

Points To Bear In Mind

Its not always necessary to record the cheque numbers of payments made to you, although recording if payment is made by 'cash', 'cheque' or 'other' might be.

You shouldn't enter 'orders' (such as was made on May 12th) in the ledger. This should record only transactions, either a) the sale of goods by you and b) the supply of goods to you, as evidenced by an invoice being received.

You should regularly review the ledger to check for money that is owing to you (for instance for goods taken 'on account') and for money that you owe. When payment is made or received you should go back and update the ledger.