Your summer assignment must be submitted in the first lesson for this subject in September. The completion of this assignment is compulsory and we expect you to put every effort into completing it to the best of your ability. Failure to submit this assignment will jeopardise your place on this course.

BTEC Level 3 Business Summer Assignment.

Deadline: First Business Lesson in September.

Scenario.

Sharma and Ryan have decided on a new business called SIGNature Ltd. The business will manufacture plastic road signs for builders, tourist attractions and local councils.

Sharma and Ryan have carried out substantial research into potential sales volumes, set-up costs and revenue expenses. They have approached you to help them set up and understand their first **profit and loss account**. It is important that they get this right as it will form part of the business plan they are preparing to take to the bank manager in order to try to secure a loan.

Your task.

You are to prepare a profit and loss account for SIGNature Ltd, based on the information provided.

- They have no opening stock.
- Actual sales and purchases for the 12 months were as follows.
- They have no closing stock.

Month	Sales	Purchases
January	£25,000	£12,400
February	£28,000	£14,000
March	£32,000	£16,000
April	£36,000	£18,000
May	£43,000	£21,000
June	£49,000	£24,000
July	£49,000	£23,800
August	£52,000	£25,000
September	£47,000	£20,000
October	£34,000	£12,000
November	£31,000	£8,600
December	£18,000	£5,000

- In their first year Sharma and Ryan received 2,080 orders.
- Rent on their factory premises was £6,500 per quarter.
- Non-domestic rates were 10 instalments of £1,800.
- Sharma and Ryan employed four machine operatives who were each paid £1,400 per month.
- The telephone bill was £60 per month and post £200 per month.
- Distribution costs via a courier were £10 per order.
- They advertised in a local magazine for the year at the cost of £35 per week, and quarterly in a specialist trade magazine at £500 per advert.

Other expenses included:

- repayment of bank loan (£1,000 per month)
- light and heating bills (£2,000 per quarter)
- Insurance (£800 per annum, or year).

TASK 1:

A) Read Appendix A.

B) Using the information above complete the profit and loss account for SIGNature Ltd.

Profit and Loss account for SIGNature Ltd.		
1st Year.		
	£	**£**
Sales		
Opening Stock		
Purchases		
Closing Stock		
Less Cost of Sales		
GROSS PROFIT		
Less Expenses		
Total		

NET PROFIT (before tax)		

TASK 2:

C) Calculate the percentage difference between Gross profit and Net profit?

D) In your opinion is the percentage difference between Gross profit and Net profit good for SIGNature Ltd? Explain your answer. You should aim to write around 300 words.

assessment criteria achieved successfully. The assessment criteria for the above piece of work are as follows:

Pass	Merit	Distinction.
ALL expense descriptions are organised and listed in the correct column. All expenses are calculated and entered into the correct column next to their corresponding description. Sales, Cost of sales, Gross Profit, Total Expenses and Net Profit are calculated correctly.	All expenses and calculations are correct. There is sound analysis of the difference between Gross Profit and Net Profit and why the difference is as it is. There is also analysis of whether the difference in Gross and Net profit indicates good or bad performance for the business.	All expenses and calculations are correct. A thorough analysis of the financial statement is conducted with sound justification of the performance of the business in terms of profit and loss. Suggestions are made as to the future performance of the business which are reasonable and supported.

Appendix A.

Prepare profit and loss accounts.

Most new enterprises focus on whether or not the business has enough cash to survive on a day-to-day basis. Beyond survival, a business is also likely to have an objective of profit. Here we will look at the financial documents that a business produces at the end (or mid-year, called interim accounts) of a financial year. There are two key documents that a firm will produce, and these are:

1. **A profit and loss account, which calculates whether the firm has made a profit or a loss by deducting all expenses from sales revenue**
2. A balance sheet, which calculates the net worth of a business by balancing what the business owns against what it owes.

For this task we will only be focusing on the profit and loss account.

Profit and loss account

Purpose and use

A profit and loss account, if produced correctly, will give an accurate calculation showing how much profit or loss the business has made. It records sales, costs and profit over a period of time (normally a year). Once produced, the profit and loss account can be used internally by management to help measure the performance of the business and inform future decision making, and used externally by potential investors and creditors. A creditor, for example, might look at the business's profit and loss account when deciding whether or not to offer trade credit.

Trading account and calculation of gross profit

To give a profit and loss account its full title, it should really be called a trading, profit and loss account, where the first part leading up to the calculation of gross profit is called the trading account. The trading account has three components.

1. Sales turnover is the money coming into the business from providing a trade – for example, selling goods, manufacturing goods, providing a service. The calculation for sales turnover is quantity sold x selling price.

2. **Cost of goods sold** includes the costs directly linked to providing that trade, for example, the cost of buying in the goods or the raw materials used to produce the goods. To work out the cost of goods sold, a simple calculation is done to ensure that the figure recorded for cost of goods sold can be directly linked to the goods actually sold and not just all the materials purchased. If, for example, I was to buy 12 balls of wool and knit a jumper, is the cost of wool for that jumper 12 balls? What if I had three spare balls to start with or two balls left at the end? The calculation for cost of goods sold is **opening stock + purchases – closing stock**.

3. Gross profit is the amount of money left or the surplus after the cost of goods sold has been deducted from the sales turnover. This is not, however, the business's final profit as there are still other expenses to deduct in the next part of the account. The calculation for gross profit is **sales turnover – cost of goods sold.**

Calculation of net profit.

Net profit is the money after all other expenses have been deducted from gross profit and any other revenue income has been added. Revenue income is non-capital income that is received by the business from sources other than sales, for example, discounts received and interest on positive bank balances. Depreciation appears as an expense in the profit and loss account, as this is a way that accountants can spread the cost of a fixed asset over its lifetime. Depreciation will be explained in more detail under the fixed asset heading when we look at a balance sheet. The calculation for net profit is: gross profit – expenses + other revenue income

Key terms

Cost of goods sold **–** the actual value of stock used to generate sales

Opening stock **–** the value of stock in a business at the start of a financial year

Closing stock **–** the value of stock at the end of a financial Year

Fig. 5.6 shows a trading, profit and loss account for Freedom Fashion Ltd.

Freedom Fashion Ltd is an independent chain of fashion stores specialising in surf and outdoor wear in the south-east of England.

Trading, profit and loss account for year ended 30th April 2010

	£000's	£000's
Sales		411,529
Less cost of goods sold		
Opening stock	34,993	
Purchases	128,129	
Closing stock	21,445	
		141,737
Gross profit		269,852
Less expenses		
Rent and rates		37,554
Wages and salaries		96,221
Telephone and postage		1,359
Distribution		31,593
Advertising		15,579
Miscellaneous expenses		28,452
Depreciation		17,848
Total expenses		228,696
Revenue income		0
Net profit before tax		41,186

Fig. 5.6: Trading, profit and loss account for year ended 30 April 2010.