



# Examination Paper

March 2006

Name :- .....

# INSTITUTE OF LICENSED TRADE STOCK AUDITORS

## THEORY PAPER GUIDELINES

1. The time allowed is **three hours**. Fifteen minutes will be allowed before the start of the period, so that candidates can scrutinize the paper and plan their approach.
2. Questions **1 - 10** are compulsory and must be answered. **8** out of the remaining **10** must be attempted.
3. Each compulsory question is worth **6** marks ; each optional question is worth **5**.
4. Questions can be answered in any order the candidate wishes.
5. Candidates should not answer more questions than necessary, but should spend any surplus time checking work already done.
6. Candidates are advised to give a short, precise summary, rather than a long protracted answer.
7. All workings should be shown. If the end result is wrong, but the error in calculation is identifiable, then some marks may still be given.
8. Please answer questions using black ink or if pencil ensure that the answers can be photocopied.
9. **Please tick box for all questions answered.**

|     |                          |     |                          |     |                          |     |                          |     |                          |
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Question 1.

The extract of a PLU report shows the sales of wines by the glass. Wine is sold in two sizes, 175ml and 250ml glasses. The till report however merely gives the total glasses sold and the retail value. Which selling price would you use on your stock report and how would you calculate an accurate number of units sold. Give your reason for using the price you have calculated to.

|            | Units Sold | Sales Total | S.P 250ml | S.P. 175ml |
|------------|------------|-------------|-----------|------------|
| Shiraz     | 16         | £ 75.50     | £ 4.75    | £ 3.35     |
| Rioja      | 87         | £ 264.85    | £ 3.45    | £ 2.50     |
| Chardonnay | 294        | £ 964.50    | £ 3.40    | £ 2.45     |
| House Wine | 204        | £ 592.40    | £ 3.20    | £ 2.30     |

Answer

If it is decided to use the 250ml as the standard the workings out would be:-

|            | Sales Total | Selling Price | Unit Sales |
|------------|-------------|---------------|------------|
| Shiraz     | £ 75.50     | £ 4.75        | 15.9       |
| Rioja      | £ 264.85    | £ 3.45        | 76.8       |
| Chardonnay | £ 964.50    | £ 3.40        | 283.7      |
| House Wine | £ 592.40    | £ 3.20        | 185.1      |

If it is decided to use the 175ml as the standard the workings out would be:-

|            | Sales Total | Selling Price | Unit Sales |
|------------|-------------|---------------|------------|
| Shiraz     | £ 75.50     | £ 3.35        | 22.5       |
| Rioja      | £ 264.85    | £ 2.50        | 105.9      |
| Chardonnay | £ 964.50    | £ 2.45        | 393.7      |
| House Wine | £ 592.40    | £ 2.30        | 257.6      |

I would use the 250ml price as the average price, when calculated from the units sold on the print out, is closer to the price of the large wine glass size.



## Question 2.

Explain how you would react to the following situations on a regular stocktake:-

- a) Beer has been returned during a stock period but the quantity has not been recorded.
- b) Your client has received 2 kegs of lager free of charge which have been sold at half the normal price.
- c) Two kegs of lager in the cellar have also been received free of charge and will be sold at the full price.
- d) Selling prices have been increased halfway through the stock period.
- e) Beer has been returned for which no credit has been given but the quantity was recorded.
- f) You are given a credit note for beer returned three months previously, but not then recorded.

## Answer

- a) If the brewery cannot be contacted to confirm quantities and whether credit is going to be allowed a provisional amount should be credited and an adjustment made on the next stocktake. This must be clearly noted.
- b) The lager should be entered as a separate FOC item so that the purchase figure is correct and an allowance made against sales for the sales price that has been discounted.
- c) As above but without the allowances for sales.
- d) The sales before and after price increase have to be worked out. From that an allowance or surcharge can be applied.
- e) The sales price of the beer will have to be allowed against sales but the cost price will have to be met by the business. A note could be made so that any queries by the authorities can be answered in the future.
- f) No action is necessary on the current stocktake but to keep cumulative figures correct an adjustment should be made and clearly noted.



Question 3.

Having completed the physical count in a food stocktaking exercise, you have the following information :-

|                       |             |   |           |        |
|-----------------------|-------------|---|-----------|--------|
| Opening Stock         |             | £ | 6,732.42  |        |
| Closing stock         |             | £ | 6,135.89  |        |
| Purchases             | ( Ex VAT )  | £ | 10,326.44 |        |
| Income                | ( Inc.VAT ) | £ | 28,659.50 |        |
| Allowances at Retail  | ( Inc.VAT ) | £ | 1,675.50  |        |
| Transfers from liquor | ( Inc VAT ) | £ | 235.95    | 57.50% |

Produce :-

- ( a ) the trading account excluding allowances ;
- ( b ) the trading account including allowances at retail ;
- ( c ) the trading account including allowances at cost ;

Answer

( a ) Trading Account

|                       |             |                   |             |
|-----------------------|-------------|-------------------|-------------|
| Opening stock         | £ 6,732.42  | Closing stock     | £ 6,135.89  |
| Purchases ( Ex VAT )  | £ 10,326.44 | Income ( Ex VAT ) | £ 24,391.06 |
| Transfers from liquor | £ 85.34     |                   |             |
| Gross profit          | £ 13,382.75 |                   |             |
|                       | <hr/>       |                   | <hr/>       |
|                       | £ 30,526.95 |                   | £ 30,526.95 |
| Gross Profit %        | 54.87%      |                   |             |

( b ) Trading Account - Allowances at Retail

|                       |             |                       |           |
|-----------------------|-------------|-----------------------|-----------|
| Opening stock         | £ 6,732.42  | Closing stock         | 6,135.89  |
| Purchases ( Ex VAT )  | £ 10,326.44 | Income ( Ex VAT )     | 24,391.06 |
| Transfers from liquor | £ 85.34     |                       |           |
| Gross profit          | £ 14,808.71 | Allowances ( Ex VAT ) | 1,425.96  |
|                       | <hr/>       |                       | <hr/>     |
|                       | £ 31,952.91 |                       | 31,952.91 |
| Gross Profit %        | 57.36%      |                       |           |

( Income plus allowances are used to compute the GP % )

( c ) Trading Account - Allowances at cost

|                      |             |                       |             |
|----------------------|-------------|-----------------------|-------------|
| Opening stock        | £ 6,732.42  | Closing stock         | £ 6,135.89  |
| Purchases ( Ex VAT ) | £ 10,326.44 | Income ( Ex VAT )     | £ 24,391.06 |
| Transfer from liquor | £ 85.34     |                       |             |
| Gross profit         | £ 13,990.78 | Allowances ( Ex VAT ) | £ 608.03    |
|                      | <hr/>       |                       | <hr/>       |
|                      | £ 31,134.98 |                       | £ 31,134.98 |
| Gross Profit %       | 57.36%      |                       |             |

Note :- Rounding may have caused the above calculation to differ slightly



#### Question 4.

What is a cash reconciliation? Prepare an example, and detail clearly what information you would need to ensure accuracy. If you found differences, what causes would you look for. If you could not find any, what action would you take?

Use the following figures as a basis for your example.

|  | £.p     |
|--|---------|
| Till Floats                            | 400.00  |
| Bankings                               | 4313.00 |
| Petty cash                             | 535.45  |
| Liquor and food takings (current week) | 5435.5  |
| Debtors Ledger paid (current week)     | 1025.00 |
| Added to Debtors Ledger (current week) | 565.00  |
| Cash in hand                           | 985.55  |

#### Answer

Cash reconciliations are mostly employed in clubs or managed houses. Basically all cash on site is counted, and compared with information on banking and petty cash etc. The format varies from company to company but should be as follows:-

|                     |         |                |         |
|---------------------|---------|----------------|---------|
| Till floats         | 400.00  | Bankings       | 4313.00 |
| Cash takings        | 5435.5  | Petty cash     | 535.45  |
| Debtors ledger paid | 1025.00 | Floats         | 400.00  |
|                     |         | Debtors ledger |         |
|                     |         | Current week   | 565.00  |
|                     |         | Cash in hand   | 985.55  |
|                     | <hr/>   |                | <hr/>   |
|                     | 6860.50 |                | 6799.00 |
|                     |         | Shortage       | 61.50   |

I would then inform the Club Secretary or Area Manager that there is a shortage of £ 61.50 after checking for errors with the Steward or Manager.

Possible causes of variances could include

1. Underbanking / overbanking
2. Petty cash receipts missing
3. Casual wage payments not recorded
4. Difference in float not recorded
5. Incorrect takings figure eg addition errors, transposition of figures etc.
6. Owner / manager's IOU



Question 5.

Your valuation of stock, as at 26th February 2006 is £ 6,953.55  
Purchases for the three days to the end of the month are £ 3,857.90  
Takings - ( Exclusive of VAT ) £ 7,553.35  
Assuming a normal gross profit of 53.85% prepare a valuation as at 1st March 2006

*Answer*

|                            |                           |                           |                              |
|----------------------------|---------------------------|---------------------------|------------------------------|
| <i>Stock taken as at</i>   | <i>26th February 2006</i> |                           |                              |
| <i>Purchases in period</i> | <i>26th February 2006</i> | <i>to 1st March 2006</i>  | <i>( Ex Vat ) £ 3,857.90</i> |
| <i>Income for period</i>   | <i>26th February 2006</i> | <i>to 1st March 2006</i>  | <i>( Ex Vat ) £ 7,553.35</i> |
| <i>Valuation as at</i>     | <i>26th February 2006</i> |                           | <i>£ 6,953.55</i>            |
| <i>Normal G.P. %</i>       | <i>53.85%</i>             | <i>Cost of Goods Sold</i> | <i>46.15%</i>                |

|                                      |                                |                       |
|--------------------------------------|--------------------------------|-----------------------|
| <u><i>Stock Adjustment as at</i></u> | <u><i>1st March 2006</i></u>   |                       |
| <i>Valuation as at</i>               | <i>26th February 2006</i>      | <i>£ 6,953.55</i>     |
| <i>Less cost of sales</i>            | <i>46.15%</i>                  | <i>£ 3,485.87</i>     |
|                                      |                                | <hr/> <hr/>           |
|                                      |                                | <i>£ 3,467.68</i>     |
| <i>Plus purchases</i>                |                                | <i>£ 3,857.90</i>     |
|                                      |                                | <hr/> <hr/>           |
|                                      | <i>Amended Valuation as at</i> | <i>1st March 2006</i> |
|                                      |                                | <i>£ 7,325.58</i>     |



## Question 6.

On scrutinising a till roll after completing a stock result showing a large shortage you note the following:-

No sales                      445      ( 23% of total rings)

Voids                            181

The Z2 number has increased by three since the last visit.

Detail the advice you would give your client and the recommendations you would make.

## Answer

**No Sales:** I would ascertain the need for this large number of no sales. It is common for no sales to be recorded when change is needed for gaming machines etc. However with a large stock shortage I would advise the client to instruct the staff to avoid using the no sale button where possible. If it is possible to turn the no sale facility off.

**Voids:** Again I would ask the client to ascertain the reasons why such a large number of voids had been used, and would instruct him that further staff training may be needed in the operation of the till. Both no sales and voids may be used to short ring the till but still enable the daily cash to balance.

**Z2 number:** This should never increase between stock takes and it indicates that someone other than the stocktaker or client has access to the Z2 key, enabling them to obtain an interim reading from the till and resetting till information. I would advise that no Z2 keys should be left accessible to staff.



Question 7.

Explain how you would react to the following situations arising in regular stocktakes:-

- a) During a Happy Hour, a hotel bar gives a 30 % discount on every drink. If takings for the cheaper drink periods amount to £1,195.60 , what allowances would you make?
- b) The sales of Bells Whisky are 19 6/10 ths during a 28 day stock period and there are 5 5/10 ths left in stock. What is the days stockholding figure?
- c) A 1.5 litre of whisky has been purchased for £ 21.45 plus VAT. If a measure of 25 ml is used what selling price per nip would produce a 71 % Gross Profit?
- d) Your client has received 2 kegs of lager free of charge which have been sold at half price.

Answer

- a) Happy Hour allowance

|                       |   |    |   |     |   |            |
|-----------------------|---|----|---|-----|---|------------|
| £ 1,195.60            | / | 70 | x | 100 | = | £ 1,708.00 |
| less declared takings |   |    |   |     |   | £ 1,195.60 |
|                       |   |    |   |     |   | £ 512.40   |

Allowance

- b) Days stockholding

|               |         |            |         |   |                 |
|---------------|---------|------------|---------|---|-----------------|
| Sales         | 19 6/10 | divided by | 28 days | = | 0.7 per day     |
| Closing stock | 5 5/10  | divided by | 0.7     | = | 7.86 days stock |

- c) To achieve 71 % gross profit
- |            |   |    |   |     |   |         |           |
|------------|---|----|---|-----|---|---------|-----------|
| £21.45     | / | 29 | x | 100 | = | £ 73.97 | ex. VAT   |
|            |   |    |   |     |   | £ 86.91 | inc. VAT  |
| Divided by |   | 60 |   |     | = | £ 1.45  | a measure |

- d) The lager should be entered as FOC item so that the purchase figure is correct and the selling price entered at half normal price. Or. Full price & an allowance made for half of the retail value.



## Question 8.

You are asked to prepare a stock valuation for both vendor and purchaser at a small town-centre hotel, while taking the count you find the following situations

1. 5 1.5 litres vodka in the spirit cupboard with broken seals.
2. 4 kegs of beer out of date by 3 days
3. 3 Litres of Bells whisky showing a stated 43 % ABV
4. 20 dozen grapefruit juice whose best before date is one month later

## Answer

Vodka A hydrometer test would be needed to ensure that the spirit has not been adulterated. Even if this is acceptable the purchaser should be made aware as they may contain inferior brands with the same ABV. If the hydrometer test shows adulteration none of the vodka would be accepted and the remainder of the stock would be under suspicion, meaning checking all open bottles possible with the hydrometer.

Kegs out of date These would not be accepted at full price. However the best before date is only a guide and providing the product could be sold very quickly I would advise the purchaser to buy them at a much reduced price.

Bells Litres The Litres are duty free therefore should not be taken into stock and given to the vendor to take away as it is illegal to sell them.

Grapefruit juice They are notoriously slow moving items and unless proof that these would be sold within the month there are two options open. If the juices were taken into stock they would be at a substantial discount or only one case taken at normal price and the rest not valued. The vendor can then remove the balance from the premises or leave them for the deposit value of bottles and cases only.



## Question 9.

When visiting premises to carry out a stocktake, you are told that two wedding receptions have taken place during the period, neither of which has been paid for. You arrive at 1.00pm (halfway through the trading day), and are asked to adjust your result to the close of business the previous night. Explain, with examples, how you would deal with these two situations, and indicate what precautions you would take to ensure the accuracy of future results.

### Answer

Firstly, it is important to ascertain that the weddings have already been included in the daily takings figures and that the corresponding amount has been posted to the credit ledger, awaiting payment.

If no credit ledger system is in operation and the bills have not yet been included in the daily takings figures, I would add the value of the outstanding amount to the part weeks takings in order to ensure that this amount is taken off the revenue figure for the next period, by which time the bills should have been paid. If they have not been paid by then, the process can be repeated until the money is received.

I would be unable to comply with the request to adjust an extended stock result to the close of business the previous night, unless there was a Z report from a preset till which itemised all sales since then. Only then would I be able to add back stock that had been detailed as sold and remove the corresponding takings from the total revenue.

Alternatively, an adjustment back to the previous night close of business can be done by using the gross profit achieved & adding back to stock the cost of sales for the income for the mornings trade. Leaving out the mornings takings once the gross profit figure has been noted for the adjustment. You would show this on stock by putting the cost of sales as cost price, the takings as retail price and a stock on hand of one.

The following stocktake the morning takings would be included in the income & be counteracted by the sale of the same figure from the opening stock.



Question 10.

Your client has a pre-set till register which is cleared at each stocktake. You arrive to take stock and find that the selling prices have increased since the last visit. Explain what action you would take in order to produce an accurate stock result. Having shown an unexpected deficit of £ 525 , what would you do to identify the cause. Detail all the checks that you would make prior to submitting your report.

Answer

Firstly, it is necessary to determine the date of the price increase in order to decide whether the result should be calculated at the old prices and an uplift made for the days at the new prices, or calculated at the new prices and an allowance made for the days at the old prices. This is based on whichever accounts for the greater part of the stock period. The Z PLU reading obtained at the stocktake should contain sufficient information for the correct uplift or allowance to be made on the stock result. Assuming that the prices are to be worked out at the new prices and an allowance made, the quantity sold of each item can be multiplied by the new price(to give the value of sales at the new prices for the entire period) and then take from this figure the actual value of sales for the item shown on the till reading. The difference for each item can then be added to provide the amount of the allowance required.

The unexpected deficit could be related to the price increase. The till should be checked to ensure that the prices have been correctly programmed into the till.

The till report taken from the till for the stock period could help identify the stock shortage, but it is necessary to look at the quantities sold rather than the value of the sales on the till report. The retail sales will not agree to the stock report as a blanket allowance for the price increase has been made. Sometimes, the report may prove inconclusive, especially if there are "miscellaneous" buttons on the till.

In order to overcome this difficulty, an analysis between current and previous stock reports will be required. By extending the ratio between the revenue figures for both periods and applying this to the sales mix it is possible to highlight anomalies. When the group has been identified action can be taken to further investigate the loss.

For example, an analysis of the result might look like this:

|               |                    |             |                    |   |                    |                   |
|---------------|--------------------|-------------|--------------------|---|--------------------|-------------------|
|               | Current sales      |             | Previous sales     |   |                    |                   |
|               | £ 32,497.00        | divided by  | £ 22,356.50        | = | 1.45358            |                   |
|               |                    | Prev Report | Proj.sales         |   | Actual Sales       | Difference        |
| Draught Beer  | £ 8,150.00         |             | £ 11,846.69        |   | £ 14,120.00        | £ 2,273.31        |
| Bottled Beers | £ 3,340.00         |             | £ 4,854.96         |   | £ 5,445.00         | £ 590.04          |
| Minerals      | £ 2,211.00         |             | £ 3,213.87         |   | £ 3,607.00         | £ 393.13          |
| Spirits       | £ 4,970.00         |             | £ 7,224.30         |   | £ 8,065.00         | £ 840.70          |
| Tobacco       | £ 650.00           |             | £ 944.83           |   | £ 1,045.00         | £ 100.17          |
|               | <u>£ 19,321.00</u> |             | <u>£ 28,084.65</u> |   | <u>£ 32,282.00</u> | <u>£ 4,197.35</u> |
| Allowances    | £ 791.00           |             | £ 1,149.78         |   | £ 1,302.00         | £ 152.22          |

It is now apparent that the problem is with the draught beer consumption. If necessary the same exercise can be carried out on individual beer lines to further highlight the problem. It should then be possible to prevent further losses.



### Question 11.

You take stock at a students' union bar and during a routine meeting with the council, You are asked for advice on the best way of dealing with promotions. Some stock comes in free of charge and is sold at discounted prices, some is purchased at normal price and is sold at discounted prices, and some free of charge stock is sold at normal prices to boost gross profit. Detail the advice you would give your clients.

### Answer

To achieve the best profit margins I would advise the council to concentrate the promotions on the free of charge stock supplied, as this would produce a 100% profit margin regardless of the price it was sold at. However, if certain products were to be sold at reduced price regardless of the cost to the unit I would advise that the normal cost of these items should be covered by other free of charge stock to preserve the overall profit margin of the unit. I would advise them to keep full records of the transactions in order that an accurate stock result can be produced.



Question 12.

A client asks for advice on what profit margin would be achieved if cigarettes were sold from machines, rather than from behind the bar. Using the current figures, as detailed below, calculate how the gross profit would change.

|                        | Sales at<br>Cost |             | Sales at<br>Retail |
|------------------------|------------------|-------------|--------------------|
|                        | <hr/>            |             | <hr/>              |
| Draught beers          | £ 3,357.22       |             | £ 7,235.60         |
| Bottled / canned beers | £ 764.65         |             | £ 2,426.75         |
| Minerals               | £ 516.17         |             | £ 2,105.35         |
| Spirits                | £ 879.25         |             | £ 3,262.80         |
| Liqueurs               | £ 233.60         |             | £ 635.70           |
| Cigarettes             | £ 946.70         |             | £ 1,325.15         |
|                        | <hr/>            |             | <hr/>              |
|                        | £ 6,697.59       |             | £ 16,991.35        |
| Allowances             |                  |             | <hr/>              |
|                        |                  |             | £ 472.48           |
|                        |                  |             | <hr/>              |
|                        |                  |             | £ 16,518.87        |
| Takings - inc VAT      |                  |             | £ 16,445.75        |
| Surplus / ( Deficit )  |                  | 0.44%       | ( £ 73.12 )        |
| Estimated GP %         | 52.36%           | Actual GP % | 52.15%             |

Answer

*By taking both the cost of sales and retail takings out the example figures may be*

|                               | Sales at<br>Cost |                    | Sales at<br>Retail |
|-------------------------------|------------------|--------------------|--------------------|
|                               | <hr/>            |                    | <hr/>              |
| <i>Draught beers</i>          | £ 3,357.22       |                    | £ 7,235.60         |
| <i>Bottled / canned beers</i> | £ 764.65         |                    | £ 2,426.75         |
| <i>Minerals</i>               | £ 516.17         |                    | £ 2,105.35         |
| <i>Spirits</i>                | £ 879.25         |                    | £ 3,262.80         |
| <i>Liqueurs</i>               | £ 233.60         |                    | £ 635.70           |
|                               | <hr/>            |                    | <hr/>              |
|                               | £ 5,750.89       |                    | £ 15,666.20        |
| <i>Allowances</i>             |                  |                    | <hr/>              |
|                               |                  |                    | £ 472.48           |
|                               |                  |                    | <hr/>              |
|                               |                  |                    | £ 15,193.72        |
| <i>Takings - inc VAT</i>      |                  |                    | £ 15,120.60        |
| <i>Surplus / ( Deficit )</i>  |                  | 0.48%              | ( £ 73.12 )        |
| <i>Estimated GP %</i>         | 55.53%           | <i>Actual GP %</i> | 55.31%             |

*An increase in GP of about 3 %*



Question 13.

A client who wishes to achieve 54 % on draught beer and 63 % on his wine list asks you for the formula he should apply to the cost price, ( excluding VAT ), to obtain the selling price, ( including VAT ), for any new items he may purchase. Show the formula for each category and indicate how you have arrived at it.

To test the formula a firkin of Pedigree costs £ 65.85 Ex VAT

a bottle of Sauvignon blanc costs £ 3.42 Ex VAT

Answer

**To achieve : 54 % Gross Profit on Draught Beer**

$$( 1 / 46 ) \times 100 \text{ plus VAT} = 2.554$$

72 Beer £ 65.85 x 2.554  
divided by 72 pints £ 2.34 pint

**To achieve : 63 % Gross Profit on Draught Beer**

$$( 1 / 37 ) \times 100 \text{ plus VAT} = 3.176$$

1 Bottle wine £ 3.42 x 3.176  
divided by 1 bottle £ 10.86 bottle



#### Question 14.

At the end of the year, a client's Profit and Loss Account shows a Gross Profit figure which differs from yours by 6%. Give ten reasons.

#### Answer

- 1) Incorrect revenue by either party.
- 2) Incorrect purchases
- 3) Accountant straying outside period.
- 4) Transfers to kitchen etc. recorded by stocktaker but not by accountant.
- 5) Drink allocated to rooms (i.e. mineral water) not allocated by accountant.
- 6) Bottles & cases not included in valuation.
- 7) Has there been an insurance claim during the year?
- 8) Have all discounts been taken into account by stocktaker? What about retrospective ones? Has the accountant credited these figures to somewhere else?
- 9) Have the correct valuation figures been used - when an adjustment was done were correct cost prices used.
- 10) Has stocktaker been given the wrong information at some time during the year?
- 11) Client buying directly for himself (through cash and carry or similar) and putting the purchases through the business but not telling stocktaker.



Question 15.

You are asked to take stock in a two bar operation, each bar has its own price structure, but it is not possible to give separate bar results. Indicate whether you would calculate your extensions on the cheaper or the more expensive tariff, and explain how you would arrive at any surcharge or allowance.

The figures are as follows:-

Takings :-            Public Bar                    £ 15,597.45                    Lounge Bar                    £ 10,354.60

| <u>Liquor Categories</u> | <u>Sales</u> | <u>Units</u> | <u>Lounge bar prices</u> |
|--------------------------|--------------|--------------|--------------------------|
| Spirits                  | 65           | 70cl bottle  | 0.05 p dearer per 25ml   |
| Draught Beers            | 676          | gallons      | 0.10 p dearer per pint   |
| Bottled beers            | 86           | dozen        | 0.05 p dearer per bottle |
| Minerals                 | 49           | dozen        | 0.10 p dearer per bottle |
| Table wines              | 92           | 75cl bottles | 0.10 p dearer per 175ml  |

Answer

First work out the percentage of sales to each bar and then work out price differences. By using the sales volumes the actual surcharge / allowance can be worked out. The surcharge / allowance can be shown in the allowance section of the report.

|                  |                    |        |
|------------------|--------------------|--------|
| Public bar sales | £ 15,597.45        | 60.10% |
| Lounge bar sales | £ 10,354.60        | 39.90% |
|                  | <u>£ 25,952.05</u> |        |

|               |     |   |      |        |      |        |   |   |        |
|---------------|-----|---|------|--------|------|--------|---|---|--------|
| Spirits       | 65  | x | 28   | 1820   | 0.05 | 39.90% | = | £ | 36.31  |
| Draught Beers | 676 | x | 8    | 5408   | 0.10 | 39.90% | = | £ | 215.77 |
| Bottled beers | 86  | x | 12   | 1032   | 0.05 | 39.90% | = | £ | 20.59  |
| Minerals      | 49  | x | 12   | 588    | 0.10 | 39.90% | = | £ | 23.46  |
| Table wines   | 92  | x | 4.28 | 393.76 | 0.10 | 39.90% | = | £ | 15.71  |

**Surcharge                    £ 311.84**

Question 16.

A client has decided to change from 25ml spirit measures to 35ml measures but only wants to increase selling prices by 20 %.

You are asked to calculate what difference it would make to the present spirit G.P. % and what effect it would have on the overall G.P.% of the liquor operation.

Based on the latest result when 25ml were in use, calculate the new anticipated percentages and state what advice you would give.

|                   | Sales Cost        | Sales Retail       | Sect%         |
|-------------------|-------------------|--------------------|---------------|
| Draught Beer      | £ 5,035.83        | £ 11,408.90        | 48.14%        |
| Bottled/can Beers | £ 1,146.98        | £ 2,850.80         | 52.73%        |
| Minerals          | £ 774.20          | £ 3,015.60         | 69.83%        |
| Spirits           | £ 1,318.88        | £ 4,545.55         | 65.91%        |
| Liqueurs          | £ 300.40          | £ 947.05           | 62.73%        |
| Wines             | £ 520.70          | £ 1,511.20         | 59.51%        |
|                   | <u>£ 9,096.99</u> | <u>£ 24,279.10</u> | <u>55.97%</u> |

The selling price per measure of spirit £ 1.45 per 25 ml

Answer

To show how the gross profit will be affected by changing from 25ml to 35ml measures

£ 4,545.55 x 25 ml = £ 113,638.75 / 35 ml = £ 3,246.82 plus % £ 3,896.19

Or The retail price of £ 1.45 can be used for the same result.

£ 4,545.55 / £ 1.45 = 3134.9 meas x 25 ml = 78371.6  
78371.6 / 35 ml = 2239 x £ 1.74 = £ 3,896.19

Spirits sold as 35ml, total projected income = £ 3,896.19 / 1.175 =(ex vat) £ 3,315.90  
£ 3,315.90 - £ 1,318.88 = £ 1,997.02 Gross Profit 60.23%

|                   | Sales Cost        | Sales Retail       | Sect%         |
|-------------------|-------------------|--------------------|---------------|
| Draught Beer      | £ 5,035.83        | £ 11,408.90        | 48.14%        |
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| Liqueurs          | £ 300.40          | £ 947.05           | 62.73%        |
| Wines             | £ 520.70          | £ 1,511.20         | 59.51%        |
|                   | <u>£ 9,096.99</u> | <u>£ 23,629.74</u> | <u>54.76%</u> |

The difference it would cause on the spirit section is a reduction of 5.68% and on the overall result would be a reduction of 1.21%

The advise would be to keep the 25ml measures. There would be the option of increasing the price by more than the 20%.

If he could anticipate holding the number of measures sold as they are now (ie: selling as many 35ml as 25ml) then he could make up the loss in gross profit with cash profit.

Should this not be the case and the number of measures sold dropped, then not only would he lose out on the profit of the spirits but he would also lose the minerals generally sold with them, this would then cause another small drop in the sales as well as profit.



## Question 17.

You are taking both liquor & food stocks at the same premises. You discover that Liquor valued at £ 296.45 at retail has been transferred to the kitchen, and food with a cost value of £ 94.50 has been transferred to the bar. Explain how you would deal with these transfers in order to obtain true gross profit figures for both operations.

### Answer

On the liquor stock the sum of £ 296.45 would be shown as a retail allowance. In addition the cost of these transfers should be deducted from the liquor purchases.

$$\text{£ } 296.45 \text{ Less VAT } = \text{£ } 252.30 \quad \times \quad 42.5 \quad = \quad \text{£ } 107.23$$

This assumes a gross profit of 57.5 % is achieved on the liquor stock.

The transfer from kitchen should be added as a liquor purchase at cost.

On the food stock £ 94.50 would be shown as a credit at cost and the figure of £107.23 would be entered as a food purchase.



Question 18.

On a stock result, the estimated gross profit is 55.8 % and the actual gross profit is 57.2 %. Give possible reasons for this difference and indicate what percentage of surplus or deficit might occur.

Based on a cost of sales figure of £12,950.00 show how the result may look and quantify the difference between estimated and actual G.P. %

Answer

The difference between actual and estimated gross profit is the difference between the gross profit which should have been achieved after any allowances have been taken into consideration, against what was actually achieved. Reasons for this difference may be excess waste, theft, larger than permitted measures being served, or any other reason for which no allowance may be made on the stock result.

$$\begin{array}{r} \text{Estimated G.P.} \\ \hline \end{array} = \frac{\text{£ } 12,950.00}{100 - 55.8} \times 100 \times 1.175 = \text{£ } 34,425.90$$

Estimated takings  
(after allowances have been removed)

$$\begin{array}{r} \text{Actual G.P.} \\ \hline \end{array} = \frac{\text{£ } 12,950.00}{100 - 57.2} \times 100 \times 1.175 = \text{£ } 35,551.99$$

Actual takings

$$\text{Difference between actual and estimated takings} = \text{£ } 1,126.08 = 3.17 \% \text{ Surplus}$$



### Question 19.

At premises where you normally carry out monthly stocktaking, and where the results are generally good, you suddenly and unexpectedly find a deficit of £ 660 .  
List 10 methods you would use to identify the cause(s) of the deficit.

### Answer

Ten areas to check with a sudden stock shortage:-

- Check that the takings are correct.
- Check takings as shown on till agree with takings record.
- Check purchases are correctly entered on stock sheets.
- Check that all delivery notes have been signed, look out for credit notes.
- Check allowances and any transfers are correct.
- Compare consumption for this period with the same for previous period and look into any large differences.
- Check selling prices on stock sheets against price lists.
- Check for any stock on loan.
- Check for stock applied for own use by the client.
- Recheck closing stock if possible or arrange for a further stock take as soon as possible.
- Check for any new members of staff.
- Check if tills are balancing on a daily or session basis.
- Check number of no sales on till report
- Compare actual consumption with till report



Question 20.

You are asked to take stock at premises which have three bars, and are requested, on your first visit, to produce separate bar results. You find, however that all draught beers and all postmix are being distributed to the three outlets from a single container, and also that there is a different price structure for each bar. Explain how you would deal with the request for separate result.

Answer

As it is your first visit, you may be unable to produce any result unless you have opening stock figures, and you may have to wait until your second visit. In either case, you need to explain to your client that it is only possible to produce separate bar results if a cellar ledger, which records transfers of stock to each bar, is in use. In this case, purchases, takings figures and stock figures can be produced for each bar and the correct selling price for each can be used, thus producing accurate individual results. The draught products do present difficulties, but if itemised tills are in use, the sales of each product from each bar can be accurately allocated to each bar, although it will not enable you to allocate any discrepancies which may arise. An alternative would be to work out the percentage of total sales of each bar and allocate the purchases accordingly, although this may not be entirely accurate as it deals with overall sales, which may not necessarily reflect the actual sales of each draught product. If it is at all possible, it would be advisable for the client to change the dispense equipment to enable each bar to have its own supply, but this may prove impossible.

In the event that there is no method of allocating purchases and the revenue to each bar, it would be necessary to recommend an overall result for the three bars. You would then be required to make adjustments or allowances for the different selling prices in each bar.

By working out the sales mix of the various bars it becomes apparent that one bar will be the main seller.

|      |               |                    |         |
|------|---------------|--------------------|---------|
| e.g. | Lounge        | £ 16,950.00        | 51.05 % |
|      | Public Bar    | £ 9,750.00         | 29.37 % |
|      | Function Room | £ 6,500.00         | 19.58 % |
|      |               | <u>£ 33,200.00</u> |         |

In the above example the lounge bar prices would be used throughout the stock and a surcharge applied in the function bar, an allowance would then apply to the public bar.

If itemised tills are in use the allowance/surcharges would be much more accurate.

by applying the sales mix to the above example the surcharge/allowance can be worked out.