



Examination Paper

March 2007

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.**

1.	<input type="checkbox"/>	2.	<input type="checkbox"/>	3.	<input type="checkbox"/>	4.	<input type="checkbox"/>	5.	<input type="checkbox"/>
6.	<input type="checkbox"/>	7.	<input type="checkbox"/>	8.	<input type="checkbox"/>	9.	<input type="checkbox"/>	10.	<input type="checkbox"/>
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Question 1

Your valuation of stock, at c.o.b. 4th March 2007 is £ 5,964.65

Purchases for the four days from the end of the month are £ 2,937.45 (excluding VAT)

Takings - (Exclusive of VAT) £ 7,425.84

Assuming a normal gross profit of 57.20% prepare a valuation at c.o.b. 28th February 2007

Answer

<i>Purchases in period</i>	<i>1st March 2007</i>	<i>to</i>	<i>4th March 2007</i>	<i>(Ex Vat)</i>	£ 2,937.45
<i>Income for period</i>	<i>1st March 2007</i>	<i>to</i>	<i>4th March 2007</i>	<i>(Ex Vat)</i>	£ 7,425.84
<i>Valuation at c.o.b.</i>	<i>4th March 2007</i>				£ 5,964.65
<i>Normal G.P. %</i>	<i>57.20%</i>	<i>Cost of Goods Sold</i>	<i>42.80%</i>		

Stock Adjustment as at 28th February 2007

Valuation at c.o.b. 4th March 2007 £ 5,964.65

plus cost of sales 42.80% £ 3,178.26

£ 9,142.91

Less Purchases £ 2,937.45

Amended valuation as at close of business 28th February 2007 £ 6,205.46



Question 2

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. 3 kegs of beer out of date by 3 days
3. 4 Litres of Bells whisky showing a stated 43 % ABV
4. 16 dozen low - calorie tonics 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 It is more than likely that this strength of Bells would have been purchased overseas , either duty free or duty paid to another country and not permitted for resale.

Low Calorie Tonic They are notoriously slow moving items and unless proof that these would be sold within the month there are two options open. If the tonics 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 if applicable.



Question 3

A cigar cabinet has been delivered during the stock period which contains the following cigars at the stated retail prices

150	Hamlet	selling at	£ 0.75	each
50	Hamlet Spec	selling at	£ 1.30	each
100	Hamlet miniatures	selling at	£ 3.25	per pkt of 10
50	Castellas	selling at	£ 1.35	each
96	Panamas	selling at	£ 0.65	each

The total cost of the cabinet is £234.75 plus VAT. Indicate how you would calculate the cost of each cigar.

Answer

By extending the selling price of the cigars a Gross Profit percentage can be worked out and assuming that the same G.P. is applied to each cigar the cost price of each cigar can be calculated.

		<i>Selling Price</i>	<i>Total SP Ex VAT</i>	<i>Cost</i>	<i>Cost Each Cigar</i>
150	<i>Hamlet</i>	£ 0.75	£ 95.74	£ 77.70	£ 0.52
50	<i>Hamlet Spec</i>	£ 1.30	£ 55.32	£ 44.89	£ 0.90
10	<i>Hamlet miniatures</i>	£ 3.25	£ 27.66	£ 22.45	£ 2.24
50	<i>Castellas</i>	£ 1.35	£ 57.45	£ 46.62	£ 0.93
96	<i>Panamas</i>	£ 0.65	£ 53.11	£ 43.10	£ 0.45
			£ 289.28	£ 234.75	
	<i>Retail Value of Cabinet</i>		£ 289.28		
	<i>Less cost of cabinet</i>		£ 234.75		
	<i>Gross Profit</i>		£ 54.53		
	<i>Gross profit %</i>		18.85% Cost	81.15%	

Question 4

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	£ 4,994.23	£ 11,408.90	48.56%
Bottled/can Beers	£ 1,165.48	£ 2,850.80	51.96%
Minerals	£ 784.56	£ 3,015.60	69.43%
Spirits	£ 1,231.45	£ 4,645.50	68.85%
Liqueurs	£ 304.25	£ 947.05	62.25%
Wines	£ 519.30	£ 1,511.20	59.62%
	<u>£ 8,999.27</u>	<u>£ 24,379.05</u>	<u>56.63%</u>

The selling price per measure of spirit £ 1.60 per 25 ml

Answer

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

$$£ 4,645.50 \times 25 \text{ ml} = £ 116,137.50 / 35 \text{ ml} = £ 3,318.21 \text{ plus } 20\% = £ 3,981.86$$

Or The retail price of £ 1.60 can be used for the same result.

$$£ 4,645.50 / £ 1.60 = 2903.4 \text{ meas} \times 25 \text{ ml} = 72585.94$$

$$72585.94 / 35 \text{ ml} = 2073.88 \times £ 1.92 = £ 3,981.86$$

$$\text{Spirits sold as 35ml, total projected income} = £ 3,981.86 / 1.175 \text{ (ex vat)} = £ 3,388.81$$

$$£ 3,388.81 - £ 1,318.88 = £ 2,069.93 \text{ Gross Profit } 61.08\%$$

	Sales Cost	Sales Retail	Sect%
Draught Beer	£ 4,994.23	£ 11,408.90	48.56%
Bottled/can Beers	£ 1,165.48	£ 2,850.80	51.96%
Minerals	£ 784.56	£ 3,015.60	69.43%
Spirits	£ 1,231.45	£ 3,981.86	63.66%
Liqueurs	£ 304.25	£ 947.05	62.25%
Wines	£ 519.30	£ 1,511.20	59.62%
	<u>£ 8,999.27</u>	<u>£ 23,715.41</u>	<u>55.41%</u>

The difference it would cause on the spirit section is a reduction of 5.19% and on the overall result would be a reduction of 1.21%

The advice 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 5

Your client informs you that he wishes to reduce the selling price of three of his draught beers by the following amounts :-

Bitter from £ 2.25 per pint to £ 1.80 Cost gallon £ 5.23
 Lager from £ 2.50 per pint to £ 2.00 cost gallon £ 6.75
 Cider from £ 2.45 per pint to £ 1.95 cost gallon £ 6.05

He estimates that these lower prices will increase sales dramatically Calculate how much extra he will have to sell to maintain his cash margin for each product. Show your answers to two decimal places.

Answer

	Selling Price	S.P gall Ex VAT	G.P	Difference	% Increase required
<i>Bitter profit selling at</i>	£ 2.25	£ 15.32	£ 10.09		
	£ 1.80	£ 12.26	£ 7.03	£ 3.06	43.53%
<i>lager profit selling at</i>	£ 2.50	£ 17.02	£ 10.27		
	£ 2.00	£ 13.62	£ 6.87	£ 3.40	49.49%
<i>cider profit selling at</i>	£ 2.45	£ 16.68	£ 10.63		
	£ 1.95	£ 13.28	£ 7.23	£ 3.40	47.03%

Therefore sales would need to be increased by the percentages shown for each product .



Question 6

Sales for a year at a client's premises are as shown below. With the aim of obtaining better purchase prices, he asks you to work out the actual barrelage of each item. Calculate each showing your workings.

Lager		6136 gallons
Bitter		3842 gallons
Budweiser	330 ml	3265 dozen
Becks Beer	275 ml	2456 dozen
Newcastle Brown	550 ml	722 dozen
Erdinger NA	500 ml	217 dozen

Answer

<i>Lager</i>		<i>6136 divided by</i>	<i>36</i>	<i>170.44</i>	<i>barrels</i>
<i>Bitter</i>		<i>3842 divided by</i>	<i>36</i>	<i>106.72</i>	<i>barrels</i>
<i>Budweiser</i>	<i>12 x</i>	<i>330 ml =</i>	<i>3.96 ltrs</i>		
	<i>36 galls</i>	<i>=</i>	<i>163.66 ltrs</i>		
	<i>163.66 divided by</i>	<i>3.96</i>	<i>41.328</i>		
		<i>3265 divided by</i>	<i>41.328</i>	<i>79.00</i>	<i>barrels</i>
<i>Becks Beer</i>	<i>12 x</i>	<i>275 ml =</i>	<i>3.3 ltrs</i>		
	<i>36 galls</i>	<i>=</i>	<i>163.66 ltrs</i>		
	<i>163.66 divided by</i>	<i>3.3</i>	<i>49.594</i>		
		<i>2456 divided by</i>	<i>49.594</i>	<i>49.52</i>	<i>barrels</i>
<i>Newcastle Brown</i>	<i>12 x</i>	<i>550 ml =</i>	<i>6.6 ltrs</i>		
	<i>36 galls</i>	<i>=</i>	<i>163.66 ltrs</i>		
	<i>163.66 divided by</i>	<i>6.6</i>	<i>24.797</i>		
		<i>722 divided by</i>	<i>24.797</i>	<i>29.12</i>	<i>barrels</i>
<i>Erdinger NA</i>	<i>12 x</i>	<i>500 ml =</i>	<i>6.0 ltrs</i>		
	<i>36 galls</i>	<i>=</i>	<i>163.66 ltrs</i>		
	<i>163.66 divided by</i>	<i>6.0</i>	<i>27.277</i>		
		<i>217 divided by</i>	<i>27.277</i>	<i>7.96</i>	<i>barrels</i>
				<hr/>	
<i>TOTAL BARRELAGE</i>				<i>442.76</i>	



Question 7

After producing a stock result showing a deficit of -£ 212.20 , you are asked by your client for advice on how to remedy the situation. Using the previous and current reports shown, detail the method you would use to analyse them. Show how you would present your findings to your client.

	Previous Report		Current Report		
	Retail sales		Retail sales		
Draught Beers	£	9,254.90	£	11,825.80	
Bottled / canned beers	£	3,065.80	£	4,245.80	
Minerals	£	2,555.30	£	3,301.80	
Spirits	£	5,535.65	£	7,054.65	
Tobacco	£	225.75	£	312.45	
		<hr/>		<hr/>	
	£	20,637.40	£	26,740.50	
Allowances	£	735.40	£	922.40	
		<hr/>		<hr/>	
	£	19,902.00	£	25,818.10	
Takings Figure	£	20,195.50	£	25,605.90	
		<hr/>		<hr/>	
Surplus / deficit	£	293.50	1.45%	-£ 212.20	-0.83%

Answer

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 or groups have been identified action can be taken to further investigate the loss.

	£ 25,605.90	divided by	£ 20,195.50	=	1.267901
	<i>Previous Report</i>		<i>Project Sales</i>		<i>Actual Sales</i>
					<i>Difference</i>
Draught Beers	£ 9,254.90	£ 11,734.30	£ 11,825.80	£	91.50
Bottled / canned beers	£ 3,065.80	£ 3,887.13	£ 4,245.80	£	358.67
Minerals	£ 2,555.30	£ 3,239.87	£ 3,301.80	£	61.93
Spirits	£ 5,535.65	£ 7,018.66	£ 7,054.65	£	35.99
Tobacco	£ 225.75	£ 286.23	£ 312.45	£	26.22
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	£ 20,637.40	£ 26,166.19	£ 26,740.50		574.31
Allowances	£ 735.40	£ 932.41	£ 922.40	-£	10.01

Once you have identified the group (or groups) that have high variances the same exercise can be carried out line by line.



Question 8

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

No sales 495 (33% of total rings)

Voids 203

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 9

Below is an extract from a PLU report for draught beer. Give three reasons why the sales total may not work out to the price of a pint shown.

How would you deal with each situation and explain it to the client ?
Show on the stock report or PLU report how you would show your findings.

	Units	Price	Sales Total
Carlsberg	495	£ 2.60	£ 1,209.00
Stella	278	£ 2.95	£ 754.05
Guinness	167	£ 2.90	£ 435.45
Bass	533	£ 2.55	£ 1,218.65

Answer

- 1) *The units shown may include the number of half pints sold. As the price of a pint cannot be equally divided I have reduced the number of pints sold to the nearest pint. Divide the sales value by the selling price.*

Carlsberg	£ 1,209.00	£ 2.60	465
Stella	£ 754.05	£ 2.95	256
Guinness	£ 435.45	£ 2.90	150
Bass	£ 1,218.65	£ 2.55	478

- 2) *There may be a happy hour level on the till. If this was the case I would extend the number of pints sold by the full selling price and calculate an allowance for the discounted sales.*

	Units Sold	Price Sold	Full Price	Sales Total	Allowance
Carlsberg	495	£ 2.60	£ 1,287.00	£ 1,209.00	£ 78.00
Stella	278	£ 2.95	£ 820.10	£ 754.05	£ 66.05
Guinness	167	£ 2.90	£ 484.30	£ 435.45	£ 48.85
Bass	533	£ 2.55	£ 1,359.15	£ 1,218.65	£ 140.50
					<u>£ 333.40</u>

- 3) *There may have been a price increase during the stock period. Assuming the prices shown are the new prices I would make an allowance for the difference and calculate exactly the same as the above.*



Question 10

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

Opening Stock		£	6,625.80	
Closing stock		£	5,887.65	
Purchases	(Ex VAT)	£	9,665.90	
Income	(Inc.VAT)	£	29,305.85	
Allowances at Retail	(Inc.VAT)	£	1,785.95	bar G.P
Transfers from liquor at Retail	(Inc VAT)	£	265.85	54.90%

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	£ 6,625.80	Closing stock	£ 5,887.65
Purchases (Ex VAT)	£ 9,665.90	Income (Ex VAT)	£ 24,941.15
Transfers from liquor	£ 102.04		
Gross profit	£ 14,435.06		
	<hr/>		<hr/>
	£ 30,828.80		£ 30,828.80
Gross Profit %	57.88%		

(b) Trading Account - Allowances at Retail

Opening stock	£ 6,625.80	Closing stock	£ 5,887.65
Purchases (Ex VAT)	£ 9,665.90	Income (Ex VAT)	£ 24,941.15
Transfers from liquor	£ 102.04		
Gross profit	£ 15,955.02	Allowances (Ex VAT)	£ 1,519.96
	<hr/>		<hr/>
	£ 32,348.76		£ 32,348.76
Gross Profit %	60.30%		

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

(c) Trading Account - Allowances at cost

Opening stock	£ 6,625.80	Closing stock	£ 5,887.65
Purchases (Ex VAT)	£ 9,665.90	Income (Ex VAT)	£ 24,941.15
Transfer from liquor	£ 102.04		
Gross profit	£ 15,038.48	Allowances (Ex VAT)	£ 603.42
	<hr/>		<hr/>
	£ 31,432.22		£ 31,432.22
Gross Profit %	60.30%		



Question 11

On a stock result, the estimated gross profit is 54.2 % and the actual gross profit is 55.4 %. Give possible reasons for this difference and indicate what percentage of surplus or deficit might occur.

Based on a cost of sales figure of £ 17,155.50 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. Although the surplus may well be down good management other causes may well be misallocation of takings, overstating of allowances or a small delivery not being recorded.

$$\begin{array}{r} \text{Estimated G.P.} \\ \hline \end{array} = \frac{\text{£ } 17,155.50}{100 - 54.2} \times 100 \times 1.175 = \text{£ } 44,012.47$$

Estimated takings
(after allowances have been removed)

$$\begin{array}{r} \text{Actual G.P.} \\ \hline \end{array} = \frac{\text{£ } 17,155.50}{100 - 55.4} \times 100 \times 1.175 = \text{£ } 45,196.66$$

Actual takings

$$\text{Difference between actual and estimated takings} = \text{£ } 1,184.19 = \mathbf{2.62 \%} \quad \text{Surplus}$$



Question 12

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

- a) Beer has been returned during a stock period but the amount 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 to the brewery for which no credit will be given. The quantity was 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 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.



Question 13

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. How would you show each situation in your reports.

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 14

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	450.00
Bankings	4,990.00
Petty cash	535.94
Liquor and food takings (current week)	5,650.70
Wedding Deposit	1,000.00
Cheques in hand	350.00
Cash in hand excluding Till Floats	653.91

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	450.00	Bankings	4,990.00
Cash takings	5,650.70	Petty cash	535.94
Debtors ledger paid	1,000.00	Floats	450.00
		Cheques in hand	350.00
		Cash in hand	653.91
	<u>7,100.70</u>		<u>6,979.85</u>
		Cash Shortage / over	- 120.85

I would then inform the Club Secretary or Area Manager that there is a shortage of -£120.85 after checking for errors with the Steward or Manager.



Question 15

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

- a) During a Happy Hour, a hotel bar gives a 25 % discount on every drink. If takings for the cheaper drink periods amount to £ 1,860.80 , what allowances would you make?
- b) The sales of Bells Whisky are 26 5/10 ths during a 28 day stock period and there are 3 8/10 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 75 % Gross Profit?
- d) Your client has received 2 kegs of lager free of charge which have been sold at half price.
- e) Calculate the sales mix .

Draught Beer	£ 12,857.56
Bottled Beer	£ 1,489.80
Minerals	£ 2,245.60
Spirits	£ 3,247.60
Wines	£ 1,890.60

Answer

a) Happy Hour allowance

£ 1,860.80 /	75 x	100 =	£ 2,481.07
less declared takings			£ 1,860.80
Allowance			£ 620.27

b) Days stockholding

Sales	26 5/10	divided by	28 days	=	0.9 per day
Closing stock	3 8/10	divided by	0.9	=	4.0 days stock

- c) To achieve 75 % gross profit

£21.45 /	25 x	100 =	£ 85.80 ex. VAT
			= £ 100.82 inc. VAT
Divided by	60	=	£ 1.68 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.

- e) Calculate the total sales £ 21,731.16

Then divide each category by the total	Draught Beer	59.17%
	Bottled Beer	6.86%
	Minerals	10.33%
	Spirits	14.94%
	Wines	8.70%

If correct will always add up to 100% 100.00%



Question 16

You are taking both liquor & food stocks at the same premises. You discover that Liquor valued at £ 317.45 at retail has been transferred to the kitchen, and food with a cost value of £ 126.40 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.

Assume the gross profit on the liquor result is 56 %

Answer

On the liquor stock the sum of £ 317.45 would be shown as a retail allowances. In addition the cost of these transfers should be deducted from the liquor consumption at cost.

$$\text{£ } 317.45 \text{ Less VAT } = \text{£ } 270.17 \text{ X } 44 \text{ divided by } 100 = \text{£ } 118.87$$

This assumes a gross profit of 56 % is achieved on the liquor stock.

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

On the food stock £126.40 would be shown as a credit at cost and the figure of £118.87 would be entered as a food purchase.



Question 17

In premises which have traded for only two months and in which there was no opening stock, you have calculated the following figures:-

Total income excluding VAT	£ 10,965.41	
Consumption at cost	£ 6,347.56	
Gross Profit	£ 4,617.85	42.11%
Overall deficit	£ 113.62	

You have not seen any invoices because they are at the accountant's, but you are confident of your figures because all stock comes from one supplier, and has been recorded and priced in the Goods Received Book during the stock period. The accountant has produced management accounts showing a gross profit of 51.80%. Explain how the discrepancy between his figures and yours might have occurred.

Answer

Every stocktaker has a duty to ensure that the information included in a stock result is correct, as far as it is feasibly possible. In this case, I would consider it unwise to accept the evidence of a goods received book as a record of purchases, without any confirmation in the form of invoices, or other evidence directly from the accountants to support the purchase figure.

The gross profit figure produced by the accountants is £ 5,680.08, compared to the figure of £ 4,617.85 shown on the stock result, a shortfall of £ 1,062.23. I would suggest that in this case, it is possible that an invoice has not been passed to the accountants, or that the revenue figure given to them may be incorrect. In any case, it would be necessary to discuss the figures with them before any conclusions could be made.

The very latest delivery may be the cause of the discrepancy as the invoice may not have arrived from the supplier so the accountant will not have seen it but the stocktaker will have seen the entry in the Goods inwards book.



Question 18

Your client has received an offer from a wholesaler who is prepared to give 6 free 70cl bottles of vodka with each 6 kegs of lager purchased. The normal price for vodka is £ 10.25 plus VAT. The wholesaler's lager, however is £ 0.42 per gallon (exclusive of VAT) dearer than the present supplier. Detail the advice you would give, basing your answer on your client using both 11g and 22g kegs. Detail your workings that show whether they would be better or worse off with the new deal.

Answer

Assuming that the kegs in question are 11 gallons he would be well advised to take the offer.

Extra cost of lager	11 x	£ 0.42	£ 4.62
Cost of free vodka			£ 10.25

However if the kegs were 22 gallons the following figures apply.

Extra cost of lager	22 x	£ 0.42	£ 9.24
Cost of free vodka			£ 10.25

In addition it should be pointed out to the client that he will have to purchase six kegs to accept the offer, has he got the turnover to warrant this. The gross profit on the vodka would be considerably higher than on the lager and he could afford to run a promotion to boost his own sales using the extra profit.



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 £848. 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 takings are correct and that allocations correct.

Check takings as shown on till agree with takings records.

Check purchases are correctly entered on the stock sheets.

Check that all goods signed for have been received, look out for credit notes.

Check allowances & any transfers are correct.

Compare sales for this period with sales for previous period and look into any large differences.

Check selling prices on stock sheets against price list or PLU records.

Check for any stock on loan.

Check for stock used by client for own consumption.

Recheck closing stock if possible or arrange for a further stock take as soon as possible.

Compare with till report.



Question 20

A client who wishes to achieve 53 % on draught beer and 66 % 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 £ 69.25 Ex VAT

a bottle of Sauvignon blanc costs £ 3.82 Ex VAT

Answer

To achieve : 53 % Gross Profit on Draught Beer

$$(1 / 47) \times 100 \text{ plus VAT} = 2.500$$

72 Beer £ 69.25 x 2.500
divided by 72 pints £ 2.40 pint

To achieve : 66 % Gross Profit on Draught Beer

$$(1 / 34) \times 100 \text{ plus VAT} = 3.456$$

1 Bottle wine £ 3.82 x 3.456
1 bottle = £ 13.20