



Examination Paper

October 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 .**Where applicable please work to 3 decimal places**.
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"/>
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16.	<input type="checkbox"/>	17.	<input type="checkbox"/>	18.	<input type="checkbox"/>	19.	<input type="checkbox"/>	20.	<input type="checkbox"/>



Question 1

A client asks for advice on what profit margin would be achieved if Post Mix Minerals were removed from the liquor stock. Using the current figures, as detailed below, calculate what the margin would be.

	Sales at Cost		Sales at Retail
Draught beers	£ 3,395.23		£ 7,125.35
Bottled / canned beers	£ 775.83		£ 2,456.85
Minerals	£ 519.29		£ 2,065.60
Spirits	£ 883.65		£ 3,612.20
Liqueurs	£ 246.76		£ 765.00
Post Mix Minerals	£ 655.87		£ 3,455.89
	<u>£ 6,476.63</u>		<u>£ 19,480.89</u>
Allowances			<u>£ 535.68</u>
			£ 18,945.21
Takings - inc VAT			£ 19,047.40
Surplus / (Deficit)		0.54%	£ 102.19
Estimated GP %	59.83%	Actual GP %	60.05%

Answer

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

	Sales at Cost		Sales at Retail
<i>Draught beers</i>	<i>£ 3,395.23</i>		<i>£ 7,125.35</i>
<i>Bottled / canned beers</i>	<i>£ 775.83</i>		<i>£ 2,456.85</i>
<i>Minerals</i>	<i>£ 519.29</i>		<i>£ 2,065.60</i>
<i>Spirits</i>	<i>£ 883.65</i>		<i>£ 3,612.20</i>
<i>Liqueurs</i>	<i>£ 246.76</i>		<i>£ 765.00</i>
	<u><i>£ 5,820.76</i></u>		<u><i>£ 16,025.00</i></u>
<i>Allowances</i>			<u><i>£ 535.68</i></u>
			<i>£ 15,489.32</i>
<i>Takings - inc VAT</i>			<i>£ 15,591.51</i>
<i>Surplus / (Deficit)</i>		<i>0.66%</i>	<i>£ 102.19</i>
<i>Estimated GP %</i>	<i>55.84%</i>	<i>Actual GP %</i>	<i>56.13%</i>

A decrease in GP of about 4 %



Question 2

Your valuation of stock, as at 5th October 2007 is £ 6,235.46
Purchases from the end of the month are £ 3,695.65
Takings - (Exclusive of VAT) £ 7,946.25
Assuming a normal gross profit of 56.50% prepare a valuation as at 1st October 2007

Answer

Stock taken as at 5th October 2007
Purchases in period 1st October 2007 to 5th October 2007 (Ex Vat , £ 3,695.65
Income for period 1st October 2007 to 5th October 2007 (Ex Vat , £ 7,946.25
Valuation as at 5th October 2007 £ 6,235.46
Normal G.P. % 56.50% Cost of Goods Sold 43.50%

Stock Adjustment as at 1st October 2007

Valuation as at 5th October 2007	£ 6,235.46
Plus cost of sales 43.50%	£ 3,456.62
	<hr/> <hr/>
	£ 9,692.08
Minus purchases	£ 3,695.65
	<hr/> <hr/>
Amended Valuation as at 1st October 2007	£ 5,996.43



Question 3

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

Opening Stock		£	3,956.85
Closing stock		£	4,429.35
Purchases	(Ex VAT)	£	9,912.85
Income	(Inc.VAT)	£	27,855.45
Allowances at Retail	(Inc.VAT)	£	1,768.45

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	£ 3,956.85	Closing stock	£ 4,429.35
Purchases (Ex VAT)	£ 9,912.85	Income (Ex VAT)	£ 23,706.77
Gross profit	£ 14,266.42		
	<hr/>		<hr/>
	£ 28,136.12		£ 28,136.12
Gross Profit %	60.18%		

(b) Trading Account - Allowances at Retail

Opening stock	£ 3,956.85	Closing stock	£ 4,429.35
Purchases (Ex VAT)	£ 9,912.85	Income (Ex VAT)	£ 23,706.77
Gross profit	£ 15,771.48	Allowances (Ex VAT)	£ 1,505.06
	<hr/>		<hr/>
	£ 29,641.18		£ 29,641.18
Gross Profit %	62.56%		

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

(c) Trading Account - Allowances at cost

Opening stock	£ 3,956.85	Closing stock	£ 4,429.35
Purchases (Ex VAT)	£ 9,912.85	Income (Ex VAT)	£ 23,706.77
Gross profit	£ 14,829.97	Allowances (Ex VAT)	£ 563.56
	<hr/>		<hr/>
	£ 28,699.67		£ 28,699.67
Gross Profit %	62.56%		



Question 5

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		6108 gallons
Bitter		3916 gallons
Budweiser	330 ml	3314 dozen
Becks Beer	275 ml	2889 dozen
Newcastle Brown	550 ml	645 dozen
Edinger NA	500 ml	315 dozen

Answer

<i>Lager</i>		<i>6108 divided by</i>	<i>36</i>	<i>169.67</i>	<i>barrels</i>
<i>Bitter</i>		<i>3916 divided by</i>	<i>36</i>	<i>108.78</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>3314 divided by</i>	<i>41.328</i>	<i>80.19</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>2889 divided by</i>	<i>49.594</i>	<i>58.25</i>	<i>barrels</i>
<i>Newcastle Bro</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>645 divided by</i>	<i>24.797</i>	<i>26.01</i>	<i>barrels</i>
<i>Edinger 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>315 divided by</i>	<i>27.277</i>	<i>11.55</i>	<i>barrels</i>
		TOTAL BARRELAGE		454.44	



Question

6

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

Bitter from £ 2.40 per pint to £ 2.15 Cost gallon £ 5.88

Lager from £ 2.70 per pint to £ 2.40 cost gallon £ 8.75

Cider from £ 2.70 per pint to £ 2.30 cost gallon £ 6.83

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.

Answer

	Selling Price	S.P gall Ex VAT	G.P	Difference	% Increase required
<i>Bitter profit selling at</i>	£ 2.40	£ 16.34	£ 10.46		
	£ 2.15	£ 14.64	£ 8.76	1.702	19.43%
<i>lager profit selling at</i>	£ 2.70	£ 18.38	£ 9.63		
	£ 2.40	£ 16.34	£ 7.59	2.043	26.91%
<i>cider profit selling at</i>	£ 2.70	£ 18.38	£ 11.55		
	£ 2.30	£ 15.66	£ 8.83	2.723	30.84%

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



Question 7

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

How would you deal with each situation and explain it to the client ?

The following information has been obtained from the till report.

		Units	Sales Total
£ 2.60	Carlsberg	485	£ 1,125.60
£ 2.90	Stella	291	£ 695.40
£ 2.85	Guinness	225	£ 525.35
£ 2.45	Bass	516	£ 1,216.80

The selling prices (obtained from the price list) are for your guidance

Answer

- 1) *The units shown 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*

Carlsberg	£ 1,125.60	£ 2.60	433
Stella	£ 695.40	£ 2.90	240
Guinness	£ 525.35	£ 2.85	184
Bass	£ 1,216.80	£ 2.45	497

- 2) *There is a happy hour level on the till. So I would make an allowance for the difference.*

	Units Sold	Price Sold	Full Price	Sales Total	Allowance
Carlsberg	485	£ 2.60	£ 1,261.00	£ 1,125.60	£ 135.40
Stella	291	£ 2.90	£ 843.90	£ 695.40	£ 148.50
Guinness	225	£ 2.85	£ 641.25	£ 525.35	£ 115.90
Bass	516	£ 2.45	£ 1,264.20	£ 1,216.80	£ 47.40
					<u>£ 447.20</u>

- 3) *There has 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 8

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 £1,290.50 , what allowances would you make?
- b) The sales of Bells Whisky are 17 9/10 ths during a 28 day stock period and there are 6 8/10 ths left in stock. What is the days stockholding figure?
- c) A 1.5 litre of whisky has been purchased for £ 20.85 plus VAT. If a measure of 35 ml is used what selling price per nip would produce a 67 % Gross Profit?
- d) Your client has received 2 kegs of lager free of charge, which has been sold at half price?
- e) Selling prices have been increased halfway through the stock period.
- f) Beer has been returned for which no credit will be given.

Answer

a) Happy Hour allowance

£ 1,290.50	/	75 x	100 =	£	1,720.67
less declared takings				£	1,290.50
		Allowance		£	430.17

b) Days stockholding

Sales	17 9/10	divided by	28 days	=	0.6 per day
Closing stock	6 8/10	divided by	0.6	=	10.64 days stock

c) To achieve 67 % gross profit

£20.85	/	33 x	100 =	£	63.18 ex. VAT
				£	74.24 inc. VAT
Divided by	42.85	=	£	1.73	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) The sales before and after the price increase have to be worked out, from that an allowance or surcharge can be applied. If a PLU report is available the difference can be calculated, work out the period sales at the new price and deduct the PLU total to give the allowance.
- f) 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 9

Explain the Difference between postmix and premix.

While preparing a stock result, you establish that the half-pints of Coke sell at £ 1.20 p and dashes at 0.35 p. Dashes account for 64 % of the total sales.

What is the selling price per litre of syrup, if the mix is 5.4:1 and a dash is 3.5 fl.oz.

Answer

Premix - comes ready for use, not now as common as postmix which is a concentrated syrup mixed with water at a pre-determined ratio at the point of sale.

Litre of syrup at 5.4:1 makes	6.4 Litres =	224 fl.oz			
Assume a dash	=	3.5 fl.oz			
224 x	36 %	80.64	@	0.12 p	= 9.68
224 x	64 %	143.36	@	0.10 p	= 14.34
Selling price per litre of syrup					<u>£ 24.01</u>

Or

Litre of syrup at 5.4:1 makes	6.4 Litres =	224 fl.oz			
Assume a Dash	=	3.5 fl.oz			
224 / 10	=	22.4 glasses x	1.20 x	36 % =	9.68
224 / 3.5	=	64 glasses x	0.35 x	64 % =	14.34
Selling price per litre of syrup					<u>£ 24.01</u>



Question 10

Explain briefly and concisely what you understand by the following terms.

- 1) Par-stock and extended stock report.
- 2) Bin number and cellar ledger.
- 3) Mark up and Gross Profit.
- 4) Input and Output V.A.T.
- 5) Meniscus and Obscuration.
- 6) Blended and Malt whiskies.

Answer

- 1) Par stock - specific level of stock assigned to a particular bar / location.

Extended stock - Report showing each product with opening stock. Purchases, closing stock, consumption and gross profit etc. In addition summary will give full details of estimated and actual gross profits.

- 2) Bin number - number allocated to a specific product, usually wines, so that it can be listed and located quickly.

Cellar ledger - record of all products in the cellar listing all goods inwards and bar requisitions. It should provide a verifiable check for the stock auditor.

- 3) Mark Up - Profit based on cost price.

Gross Profit - Profit based on selling price.

ie. Product is bought for 60p and sold for £ 1.20 Mark up is 100% but GP is 50% excluding V.A.T. on all prices.

- 4) Input V.A.T. - The V.A.T. reclaimable on purchases and services.

Output V.A.T. - The V.A.T. payable on income or takings,

- 5) Meniscus - Is the curve on the surface of any liquid.

Obscuration - The effect of sugar content of certain drinks on the hydrometer reading. Applies to brandy, rum and most liqueurs.

- 6) Blended whisky - Combination of several malts or whiskies produced by the patent still method to create a consistent blend over the years.

Malt whisky - A single malt from a particular region.



Question 11

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 for which the brewery will give no credit. 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 12

Cost prices on beer are to increase by £13.10 per barrel on beer and £ 16.25 per barrel on lager excluding VAT.

What increases per pint would you recommend in order that your client maintains the 60 % profit that they currently achieve.

Present prices per pint are £ 2.20 for beer and £ 2.50 for lager

Answer

a) Beer increase $\text{£ } 13.10 / 36 = 0.3639 / 40 \times 100 = \text{£ } 0.9097$

$$\text{£ } 0.9097 \times 1.175 = \text{£}1.069 / 8 = \text{£ } 0.13$$

Lager increase $\text{£ } 16.25 / 36 = 0.4514 / 40 \times 100 = \text{£ } 1.1285$

$$\text{£ } 1.1285 \times 1.175 = \text{£}1.326 / 8 = \text{£}0.166 \text{ (17p)}$$

b) The new beer price will be $\text{£ } 2.20 + \text{£ } 0.13 = \text{£ } 2.33$

The new lager price will be $\text{£ } 2.50 + \text{£}0.166 = \text{£ } 2.67$



Question 13

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
House float	1000.00
Bankings	5590.00
Petty cash	475.85
Liquor and food takings (current week)	5485.65
Debtors Ledger paid (current week)	750.00
Cash in till floats	500.00
Cash in hand excluding Till Floats	674.95

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:-

House & till floats	1000.00	Bankings	5590.00
Cash takings	5485.65	Petty cash	475.85
Debtors ledger paid	750.00	Floats	500.00
	<hr/>	Cash in hand	<hr/>
	7235.65		7240.80
		Surplus	5.15

I would then inform the Club Secretary or Area Manager that there is a SURPLUS of £ 5.15 after checking for errors with the Steward or Manager.



Question 14

You have been requested to carry out a valuation at a newsagent's shop, which includes an off license, you are working for both parties at a change of ownership. The vendor informs you that the previous year's accounts show a gross profit of 18.5%, and asks you to apply this percentage to your calculations.

- a) Would you comply with this request ? Give reasons for your answer.
- b) Using the figures below show how you would present your valuation.

	Retail Value	GP %
Tobacco	£ 2,256.45	8 %
Newspapers	£ 452.80	20 %
Magazines	£ 860.80	35 %
Wines & Spirits	£ 4,256.78	18 %
Toys	£ 775.50	40 %
Cards	£ 975.55	50 %
Household	£ 697.47	20 %
Groceries	£ 970.00	20 %
Confectionery	£ 1,045.80	21 %

Answer

You would not comply with this request because each category has its own margins or may or may not be subject to V.A.T. Suggested layout of the valuation would be as follows

	VAT	Retail Value (Ex V.A.T.)	GP%	Cost Value
Tobacco	Y	£ 1,920.38	8	£ 1,766.75
Newspapers	N	£ 452.80	20	£ 362.24
Magazines	N	£ 860.80	35	£ 559.52
Wines & Spirits	Y	£ 3,622.79	18	£ 2,970.69
Toys	Y	£ 660.00	40	£ 396.00
Cards	Y	£ 830.26	50	£ 415.13
Household	Y	£ 593.59	20	£ 474.87
Groceries	N	£ 970.00	20	£ 776.00
Confectionery	Y	£ 890.04	21	£ 703.13
		<u>£ 10,800.66</u>		<u>£ 8,424.34</u>

The GP percentages should be checked with relevant invoices and care taken that the correct selling prices are being used. The certificate of valuation would normally only detail the cost column.



Question 15

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 to figures or 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.
- 12) Invoice not being split by accountant into correct purchase areas.



Question 16

A client who wishes to achieve 55 % on draught beer and 65 % 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 £ 68.95 Ex VAT

a bottle of Sauvignon blanc costs £ 3.65 Ex VAT

Answer

To achieve 55 % Gross Profit on Draught Beer

$$(1 / 45) \times 100 \text{ plus VAT} = 2.611$$

72 Beer £ 68.95 x 2.611
divided by 72 pints £ 2.50 pint

To achieve 65 % Gross Profit on Draught Beer

$$(1 / 35) \times 100 \text{ plus VAT} = 3.357$$

1 Bottle wine £ 3.65 x 3.357
divided by 1 bottle £ 12.25 pint



Question 17

A selection of malt whisky has been delivered during the stock period which contains the following whiskies at the selling prices given below. Assuming that 35ml are in use at this unit

1	Balvenie 10 YO	selling at	£ 3.25
1	Aberlour 12 YO	selling at	£ 2.60
1	Oban 14 YO	selling at	£ 4.55
1	Talisker 10 YO	selling at	£ 3.55
1	Laphroaig	selling at	£ 3.30

The total cost of the cabinet is £ 111.50 plus VAT. Indicate how you would calculate the cost of each bottle of whisky.

Answer

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

		<i>Selling Price</i>	<i>Total SP Ex VAT</i>	<i>Cost</i>
20	<i>Balvenie 10 YO</i>	£ 3.25	£ 55.32	£ 21.01
20	<i>Aberlour 12 YO</i>	£ 2.60	£ 44.26	£ 16.81
20	<i>Oban 14 YO</i>	£ 4.55	£ 77.45	£ 29.41
20	<i>Talisker 10 YO</i>	£ 3.55	£ 60.43	£ 22.95
20	<i>Laphroaig</i>	£ 3.30	£ 56.17	£ 21.33
			£ 293.62	£ 111.51
	<i>Retail Value of Malts</i>		£ 293.62	
	<i>Less cost of Malt whisky</i>		£ 111.50	
	<i>Gross Profit</i>		£ 182.12	
	<i>Gross profit %</i>		62.03% Cost	37.97%



Question 18

At premises where you normally carry out monthly stocktaking, and where the results are generally good, you suddenly and unexpectedly find a deficit of £ 800 .
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 goods signed for have been received, look out for credit notes.
- Check allowances and 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 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 size of measures has not changed
- Check borrowed stock added back last time has been returned or not as the case may be
- Check PLU report against actual sales



Question 19

A Golf Club has celebrated its Golden Jubilee by reducing its selling prices to that of fifty years ago. It is hoped that the amount of free stock accumulated will cover the cost of the celebrations. As you do the regular stocktakes you are aware that the normal Gross Profit percentage is 52.8 %. You have been asked to stocktake before and after the celebrations.

Takings for the week are £ 6,327.44 (Including V.A.T.)

Cost of sales are £ 14,211.29

What is the value of stock that the club must replace in order to maintain their normal Gross Profit.

Answer

Takings for Period (Excluding V.A.T.)	£	5,385.06	
Normal G.P. % at 52.8 %	£	2,843.31	(a)
Actual loss for period =			
£14,211.290 less £ 5,385.06	£	8,826.23	(b)
Value of stock needed = (a) plus (b)	£	11,669.54	

This can be checked by

Divide cost of sales	£	14,211.29	by cost of sales %	47.2 %
then multiply by 100				
Projected sales would be	£	30,108.67		
Deduct actual sales	£	5,385.06		
Difference in takings	£	24,723.61		
Cost of sales	£	11,669.54		



Question 20

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	£ 5,145.35	£ 11,895.10	49.17%
Bottled/can Beers	£ 1,304.50	£ 3,155.20	51.42%
Minerals	£ 715.20	£ 3,115.20	73.02%
Spirits	£ 1,295.15	£ 4,795.55	68.27%
Liqueurs	£ 292.60	£ 975.80	64.77%
Wines	£ 535.90	£ 1,852.65	66.01%
	<u>£ 9,288.70</u>	<u>£ 25,789.50</u>	<u>57.68%</u>

The selling price per measure of spirit £ 1.70 per 25 ml

Answer

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

$$£ 4,795.55 \times 25 \text{ ml} = £ 119,888.75 / 35 \text{ ml} = £ 3,425.39 \text{ plus } \% \text{ } £ 4,110.47$$

Or The retail price of £ 1.70 can be used for the same result.

$$£ 4,795.55 / £ 1.70 = 2820.9 \text{ meas } \times 25 \text{ ml} = 70522.8$$

$$70522.8 / 35 \text{ ml} = 2015 \times £ 2.04 = £ 4,110.47$$

$$\text{Spirits sold as 35ml, total projected income} = £ 4,110.47 / 1.175 = (\text{ex vat}) £ 3,498.27$$

$$£ 3,498.27 - £ 1,295.15 = £ 2,203.12 \text{ Gross Profit } 62.98\%$$

	Sales Cost	Sales Retail	Sect%
Draught Beer	£ 5,145.35	£ 11,895.10	49.17%
Bottled/can Beers	£ 1,304.50	£ 3,155.20	51.42%
Minerals	£ 715.20	£ 3,115.20	73.02%
Spirits	£ 1,295.15	£ 4,110.47	62.98%
Liqueurs	£ 292.60	£ 975.80	64.77%
Wines	£ 535.90	£ 1,852.65	66.01%
	<u>£ 9,288.70</u>	<u>£ 25,104.42</u>	<u>56.52%</u>

The difference it would cause on the spirit section is a reduction of 5.29% and on the overall result would be a reduction of 1.15%

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.