

## **Chapter 2**

### **E2.8 Bunter**

#### **Profit and loss account for each week in January 2001**

	<b>Week 1</b>	<b>Week 2</b>	<b>Week 3</b>	<b>Week 4</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Sales	2,130	2,130	2,130	2,130	8,520
Cost of sales	(1,320)	(1,320)	(1,320)	(1,320)	(5,280)
Gross profit	810	810	810	810	3,240
Expenses	0	(325)	0	0	(325)
Profit/(loss)	810	485	810	810	2,915
Cumulative profit/(loss)	810	1,295	2,105	2,915	

The statement above shows that trading took place during each of the first four weeks of January.

The profit in week 1 is £810, which is also the cumulative profit.

In week 2 there were also costs incurred for stationery expenses. We can see that the profit for week 2 is £485 and the cumulative 2 weeks profit is £1,295.

The profit for week 3 is £810 and the cumulative three-week profit is £2,105.

The profit for the final week 4 is also £810.

The cumulative numbers for each week are obtained by adding across each line in the profit and loss account, the sums of which are also the sums of the totals for each week.

The cumulative four-week profit is £2,915.

## E2.9 Bunter

### Cash flow statement for each week in January 2001

	Week 1	Week 2	Week 3	Week 4	Total
	£	£	£	£	£
Opening balance	0	3,550	3,955	4,685	0
Cash received ex Mrs Bunter	15,000	0	0	0	15,000
Cash received from customers	1,050	2,130	2,130	2,130	7,440
Cash paid for shop lease	(10,000)	0	0	0	(10,000)
Cash paid for shop fittings	(2,500)	0	0	0	(2,500)
Cash paid for computer	0	0	0	(1,500)	(1,500)
Cash paid for stock purchases	0	(1,400)	(1,400)	(1,400)	(4,200)
Cash paid for stationer	0	(325)	0	0	(325)
Closing balance	3,550	3,955	4,685	3,915	3,915

Mrs Bunter paid £15,000 of her personal funds into the bank account of Bunter's Tuck Shop (BTS), representing her capital invested in the business. The business immediately used £10,000 of this to purchase the lease for the shop and the shop fittings for £2,500.

BTS purchased stocks of buns on credit in week 1 for payment in week 2.

BTS sold buns on credit during week 1 but also sold buns for £1,050 cash.

Cash has been increased by Mrs Bunter's capital invested and receipts from cash customers, less payments for the lease and shop fittings, to give a closing cash (bank) balance of £3,550.

The week 2 opening bank balance (the week 1 closing balance) was reduced in week 2 by the £325 cash paid for printing and stationery expenses and £1,400 payment for the buns bought in week 1, but increased by £1,050 receipts from cash customers and £1,080 received from the week 1 credit customers to give a closing balance of £3,955.

The week 3 opening bank balance was reduced in week 3 by the £1,400 payment for the buns bought in week 2, but increased by £1,050 receipts from cash customers and £1,080 received from the week 2 credit customers to give a closing balance of £4,685.

The week 4 opening bank balance was reduced in week 4 by the £1,500 paid for the computer bought in week 2 and £1,400 payment for the buns bought in week 3, but increased by £1,050 receipts from cash customers and £1,080 received from the week 3 credit customers to give a closing balance of £3,915.

It can be seen that the four-week cumulative cash position is calculated by starting with the week 1 opening balance and by deducting/adding all the payments and receipts obtained from adding across each of the week 1 to week 4 elements. The sum of the total column will give the same closing balance as that shown for week 4.

## E2.10 Bunter

### Balance sheet as at the end of each week of January 2001

	Week 1	Week 2	Week 3	Week 4	Total
	£	£	£	£	£
Cash closing balance	3,550	3,955	4,685	3,915	3,915
Leasehold shop	10,000	10,000	10,000	10,000	10,000
Shop fittings	2,500	2,500	2,500	2,500	2,500
Computer	0	1,500	1,500	1,500	1,500
Stocks	80	160	240	1,400	1,400
Debtors	1,080	1,080	1,080	1,080	1,080
Creditors	(1,400)	(2,900)	(2,900)	(2,480)	(2,480)
Total wealth	15,810	16,295	17,105	17,915	17,915
Represented by:					
Capital	15,000	15,000	15,000	15,000	15,000
Profit/(loss) to date	810	1,295	2,105	2,915	2,915
Total capital	15,810	16,295	17,105	17,915	17,915

The wealth of the business at the start was Mrs Bunter's original capital of £15,000.

Wealth has been increased to £15,810 by the end of week 1 because there was a profit of £810.

The wealth was represented by the shop lease, its fittings, stocks, debtors, and the closing bank balance, less amounts owed to creditors. Stocks of £1,400 had been purchased in the week, but had been reduced by the amount used in trading. The amount of stocks used in trading to provide the sales of £2,130 is called cost of sales, which in this example is £1,320. The purchase of stock for £1,400, which had not yet been paid out in cash was nevertheless a claim against the company. This claim is an amount due to be paid to suppliers, or creditors of the business, and therefore a reduction in the wealth of the company.

Totals for the month to date are of course the same as for week 1.

We can summarise the financial position at the end of the second week as follows:

The wealth of the business at the end of the second week was Mrs Bunter's original capital plus the cumulative profit of £1,295 to give £16,295.

The wealth was represented by the shop lease, its fittings, the computer (not yet paid for until week 4), stocks, debtors, and the closing bank balance, less amounts owed to creditors (purchases of buns and the computer).

Note that the cumulative balance sheet at the end of week 2 is exactly the same as that shown in the week 2 column and not the totals added across of each of the elements in weeks 1 and 2. This is always true for however many weeks or any other period we may be looking at. This is what we would expect since the balance sheet does show the financial position at a point in time, which here is the position at the end of week 2.

We can summarise the financial position at the end of the third week as follows:

The wealth of the business at the end of the third week was Mrs Bunter's original capital increased by the cumulative profit of £2,105 to give £17,105.

The wealth was represented by the shop lease, its fittings, the computer (not yet paid for until week 4), stocks, debtors, and the closing bank balance, less amounts owed to creditors (purchases of buns and the computer).

Note again that the cumulative balance sheet at the end of week 3 is exactly the same as that shown in the week three column and not the totals added across of each of the elements in weeks 1, 2 and 3.

We can summarise the final financial position at the end of the fourth week as follows:

The wealth of the business at the end of the fourth week was Mrs Bunter's original capital increased by the cumulative profit of £2,915 to give £17,915.

The wealth was represented by the shop lease, its fittings, the computer (now paid for in week 4), stocks, debtors, and the closing bank balance, less amounts owed to creditors (purchases of buns).

Sales of £8,520 had been made in the four weeks, £4,200 paid in cash and £4,320 on credit. The amount remaining due from customers, the debtors of the company, at the end of week 4 was £1,080 which represented an element of the wealth of BTS.

The stocks had increased from the end of the previous week £240 to £1,400 at the end of week 4, because of the additional order of buns from Master Baker Ltd in week 4.

Creditors have reduced by the end of week 4 because of the payment for the computer but increased due to the additional order of buns from Master Baker Ltd.

Note again that the cumulative balance sheet at the end of week 4 is exactly the same as that shown in the week 4 column and not the totals added across of each of the elements in weeks 1, 2, 3 and 4.