

# [Tom creeks pty](https://assignbuster.com/tom-creeks-pty/)

TOM CREEKS PTY INCOME MENT For the year ended 30 June $ $ $ Sales 1715, 000 Less: Sales Return (20, 000) Net Sales 1695, 000 Less: Costof Sales
(460, 000)
Gross Profit
1235, 000
Add: Other Income
Service Fee Income
40, 000
Interest Income
15, 000
55, 000
Total Other Income
1290, 000
Operating Expenses
Interest Expense
30, 000
Interest Expense O/D
4000
Wages
140, 000
Wages Payable
56000
Wage (Admin)
150, 000
346, 000
Depreciation:
Building
140, 000
Furniture
15, 000
Equipment
29, 000
184, 000
Marketing Expense
26, 000
Income Tax Expense
42, 000
Insurance Expense
5000
Total Expenses
(637, 000)
Net Profit
653, 000
TOM CREEKS PTY
BALANCE SHEET
For the year ended 30 June 2010
$
$
$
Fixed Assets
Land
800, 000
800, 000
Building
2200, 000
(440, 000)
1760, 000
Furniture and Fixtures
230, 000
(59, 000)
171, 000
Equipment
250, 000
(95, 000)
155, 000
Total Fixed Assets
2886, 000
Current Assets:
Accounts Receivable
450, 000
Bank Deposit
140, 000
Prepaid Insurance
10, 000
Inventory
240, 000
Total Current Assets
864, 000
Current Liabilities:
Accounts Payable
280, 000
Wages Payable
56, 000
Bank Overdraft
24, 000
Tax Liability
40, 000
Total Current Liabilities
(400, 000)
Working Capital
464, 000
Capital Employed
3350, 000
Financed by:
Share Capital
1960, 000
Retained Earning
617, 000
Net Profit
653, 000
3230, 000
Add: Long Term Liabilities
Loan Payable
270, 000
Capital Employed
3500, 000
To: Bob Jones
From: Senior Accountant
SUB: Financial Position and Performance of TOM CREEKS PTY
Dated: 21 June 2010
Respected Sir,
I have analyzed the company's performance and purchase price that you were willing to put on the table. From my analysis, I can say that Ms. TOM CREEKS PTY is performing well. They are operating at a scale that has maintained its financial position throughout. The current capital employed by the company is $3500, 000 and that is the price that we are putting on the table, as a result, we are which means that we are not paying any goodwill to the company and taking over a profitable business. This is a good thing as we are investing in a profitable asset.
Sir, I may also like to present you the profitability report of the company. The company has earned a profit of $653, 000 in the last fiscal year. If this trend continues and we invest in the company, we are going to earn an ROI of 19%. This very good return and will earn us a profit rate greater than if we deposit the money in our bank account. This ROI is among the return rates on higher sides and will be able to help us earn a decent amount of return on our investment.
As far as the share capital is concerned, it is around 56% of the company's resources. This is an ideal ration and the company is neutrally geared. Due to this, our interest expenses will be low and we will be able to retain much of what we earn. Similarly, the company's working capital is in a very good position. We can easily clear our debts without endangering the company's liquidity position. Similarly, as we can see that the company has idle cash lying around in the form of excess working capital, we can put it to interest earning securities and this will further improve the company's profitability and we help us recover our investment.
In the end, I would like to conclude that investing in Ms. TOM CREEK PTY is a safe and sound investment. We are going to gain by investing in this company and hence you should put forward your offer to the directors of Ms. TOM CREEK PTY and once the offer is approved, we do further analyses to enhance the business and its operations and to make it more profitable.
References:
1. Frank Wood. Accounting. Pearson Education, Low-Price-Edition (2002)
2. John Blake. Accounting Standards. Pearson Education; 7 Sub
3. Harold Randall. Accounting. Letts Educational (1996)