

# [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)