

Tom creeks pty



TOM CREEKS PTY INCOME STATEMENT For the year ended 30 June \$ \$ \$ Sales

1715, 000 Less: Sales Return (20, 000) Net Sales 1695, 000 Less: Cost of

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

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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)