

Percentage sales method essay sample

[Business](#), [Company](#)



- Determine the year-to-year percentage annual growth in total net sales

Year Sales Growth

2000 \$11, 062

2001 \$11, 933 $(11933-11062)*100/11062 = 7.87\%$

2002 \$9, 181 $(9181-11933)*100/11933 = -23.06\%$

2003 \$6, 141 = -33.11%

2004 \$8, 334 = 35.71%

- Based only on your answer to question #1, do you think the company will hit its sales goal of +10% annual revenue growth in 2005? Determine your target revenue figure, and explain why you do or do not feel that the company can hit this target.

The target figure would be 10% more than \$8, 334; that is, \$9, 167. It seems unlikely that the company will be able to achieve its sales goal. The only significant large growth rate happened in 2004, while during the previous 3 years it was either a bit smaller than 10% (in 2001) or strongly negative (in 2002 and 2003). So the trend in sales is still pointing down. In fact, if we find the average growth rate, we find that it's been -3.5% since 2001. So I believe, based solely on sales data, that the company will not be able to increment its sales by 10% in 2005.

Question 2

- Use the Percentage Sales Method and a 20% increase in sales to forecast Apples' Consolidated Statement of Operations for the period of September

26, 2004 through September 25, 2005. Assume a 15% tax rate and restructuring cost of 2% of the new sales figure

In order to answer this question, we need to:

- 1) Find the sales figure forecast.
- 2) Find what percentage of the sales represent the different items in the provided 2003-2004 statement.
- 3) Apply that percentage to the forecasted sales in order to find the estimated value of the other items in the statement for 2004-2005.

The first step is easy. Since sales were \$8,334, then the forecast for next year is 20% more than that figure; that is, \$10,000.

So here's the statement, including the percentage of sales each of the items represent and how to calculate it:

Current % of sales 2004/05 estimate Sales \$8,334 — \$10,000 Cost of Sales \$5,458 $5458 \times 100 / 8334 = 65.5\%$ 65.5% of 10000 = \$ 6,550 Gross Margin \$2,876 $2876 \times 100 / 8334 = 34.5\%$ 34.5% of 10000 = \$ 3,450 R&D \$ 525 $525 \times 100 / 8334 = 6.3\%$ 6.3% of 10000 = \$ 630 S, G and A \$ 691 $691 \times 100 / 8334 = 8.3\%$ \$ 830 In proc R&D — — — Restruct cost — — 2% of 10000 = \$ 200 Op Expenses \$1,216 — 630 + 830 + 200 = \$ 1,660 Op Income \$1,660 — 3450 - 1660 = \$ 1,790 Interest & other \$ 194 $194 \times 100 / 8334 = 2.32\%$ 2.32% of 10000 = \$ 232 Inc before taxes \$1,854 — 1790 + 232 = \$ 2,022 Taxes (15%) \$ 278.10 — 15% of 2022 = \$ 303.3 Net Income \$1,575.90 — 2022 - 303.3 = \$ 1,718.7

Notice that I didn't calculate the percentage of the sales for many of the items. This is simply because these items are calculations done with other items, so it makes no sense to use the percentage of sales. Specifically, we have the following relationships:

Op Expenses = " R&D" + " S, G and A" + " Restruct cost"

Op Income = " Gross Margin" - " Op Expenses"

Inc before taxes = " Op Income" + " Interest & other income"

Taxes = 15% of " Inc before taxes"

Net Income = " Inc before taxes" - " Taxes"

- Discuss you results from question #1. What assumptions have you made?

Do any of your assumptions seem unreasonable?

The percentage sales method itself can be unrealistic. In particular, I would expect costs to be higher than predicted by this method. Probably, such growth rate would require expanding the firm, hiring new workers, etc, all of which would have higher initial costs than the predicted by the percentage method. Also, increasing the sales could require the opening of new markets (selling new products, or in different geographical locations, etc), which could temporarily boost the cost of sales (as the firm makes mistakes because it has no experience in producing the new products), or the selling costs (marketing campaigns need to be done in cities where the product is not yet known), etc. So I would expect these costs, in 2005 and for some years to come, to represent a higher percentage of the sales than the ones predicted by the percentage sales method.