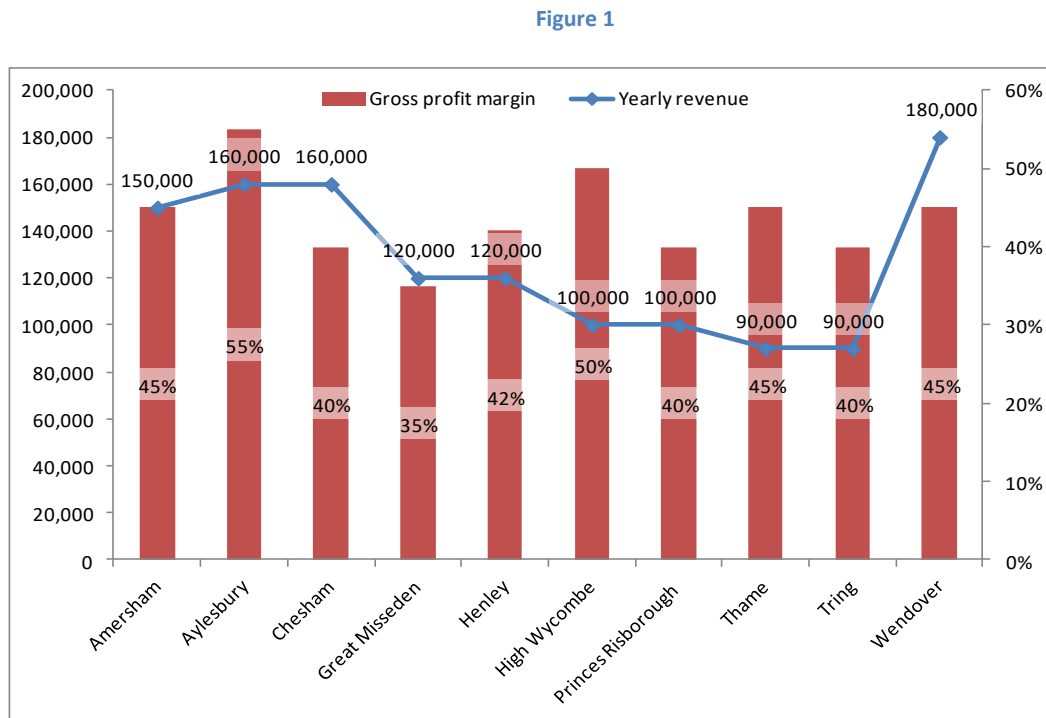


Topic: Summary Practice

Q1

Male Grooming Salons Ltd (MGS) is a chain of male barber shops, primarily based across Buckinghamshire and Hertfordshire. Figure 1 shows the yearly revenue and gross profit margin per branch.



In addition, the following information is available to you:

- The group has incurred operating expenses of £210,000 for the year
- Corporation tax is payable at 20% on all operating profit
- The owner has agreed to take a dividend of 40% of all remaining profit

Activity: Using the format below, construct a statement of comprehensive income for the year period for Male Grooming Salons Ltd

Your workings:

	£
Revenue	
Cost of sales	
Gross profit	
Other operating expenses	
Operating profit	
Tax	
Profit for the year (net profit)	
Dividend	
Retained profit	

Topic: Summary Practice

Q2

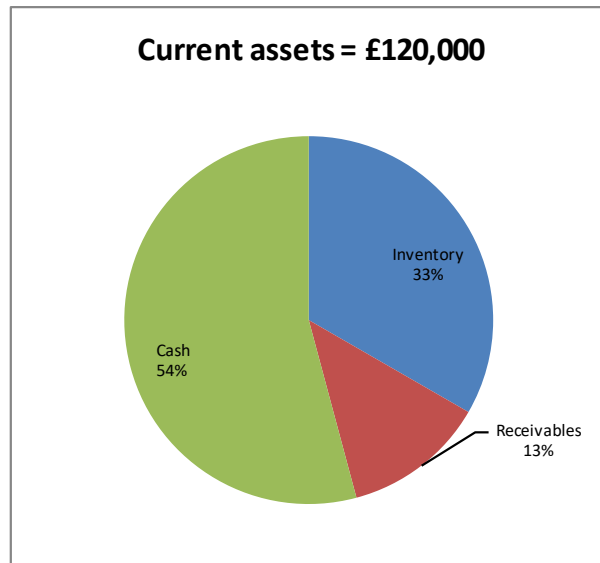
At the same time, MGS’s accountant was asked to construct a statement of financial position for the firm. The following information was made available to her:

- Non-current assets (fixed) had been valued at £4.5m
- Current assets are detailed in Figure 3
- At the time, the firm’s only current liabilities were trade payables, at a value of £55,000
- All the firm’s assets had been funded by a mix of debt and equity shown in Figure 2

Figure 2

Non-current liabilities	2,500,000
Equity	2,065,000
of which:	
Share capital	68%
Reserves	32%

Figure 3



Activity: Using the data above and the template provided, construct a statement of financial position for MGS

Your workings:

Non-current assets	
Current assets	
Inventory	
Receivables	
Cash	
Current liabilities	
Payables	
Net current assets	
Non-current liabilities	
Net Assets	
Share Capital	
Reserves	
Total Equity	

Topic: Summary Practice

Q3

The following year, MGS' sales revenue increased to £1.4m with an operating profit margin of 24%. After MGS made improvements to some of its stores its capital structure changed, as shown in Figure 4.

Figure 4 - Capital Structure

Non-current liabilities	£	2,750,000
Equity	£	2,232,712

Activity: Using the data provided, calculate MGS's ROCE and gearing

Your workings:

ROCE:

Gearing:

Topic: Summary Practice

Q4 & 5

After recent successes, MGS has looked at various expansion projects in order to help the firm grow. Its first option was to expand via selling the rights to “Male Grooming Salon” through franchising (option 1). Although cheaper, Managing Director, Kim Barnett, was concerned about the level of risk and the potential of diluting the brand if this choice was made. The other option was to open more branches in a different region of the country (option 2). After some careful research, Kim listed the different options below, with the expected monetary returns for each. MGS had planned to fund option 1 entirely with an additional long term loan and option 2 with 40% from share capital and the remainder from an additional long-term loan.

Figure 5

Option 1 - Cost - £1.2m				
	Success		Failure	
	Return	Chance	Return	Chance
North	£12m	25%	£0.5m	
South	£9m	35%	£0.6m	

Option 2 - Cost - £3.5m				
	Success		Failure	
	Return	Chance	Return	Chance
North	£8m	0.4	£2m	0.6
South	£6.5m	0.65	£4m	?

Activity 1: Using the data provided in Q3 to help, re-calculate MGS’s gearing for both options

Activity 2: Construct and calculate a decision tree for the two options detailed in Figure 5. Advise MGS on the best course for expansion based on this decision tree

Your workings: (use overleaf also for workings)

Option 1 Gearing:

Option 2 Gearing:

Topic: Summary Practice

Your workings:

Decision Tree:

Topic: Summary Practice

**Q6
& 7**

After careful consideration MGS opted to open more branches, despite the potentially lucrative returns that franchising might have provided. The firm researched two potential locations for these new stores. The potential net cash flows for each location are detailed in Figure 6.

Figure 6 – Net cash flows for both locations

	Berkamsted	Marlow
	£(000s)	£(000s)
0	(350)	(290)
1	56	45
2	64	55
3	78	80
4	95	95
5	110	100

Activity: Using the data provided, calculate the ARR and payback for both locations

Your workings:

Berkamsted:

Marlow:

Topic: Summary Practice

Q8 & 9

Activity: Using the discount factors provided in Figure 7 and the data given in Q6, calculate the NPV for both projects. Briefly advise MGS on the best choice of location, using all the investment appraisal data available (*figures should be calculated to 1 decimal place*)

Figure 7- discount factors at 4%

1	0.962
2	0.925
3	0.889
4	0.855
5	0.822

Your workings:

Berkamsted:

Marlow:

Final choice:

Topic: Summary Practice

Q10 & 11 Before opening a new branch to the public, MGS must complete a number of activities which are detailed in Figure 8.

Figure 8 - Activities for opening a new branch

	Activity	Time (days)	Dependencies
A	Obtain finance	21	none
B	Complete purchase	35	A
C	Promotion	28	A
D	Recruit staff	21	A
E	Apply for licences	14	B
F	Decorate	28	B
G	Order furniture	42	B
H	Order stock	14	B
J	Install furniture & stock	7	F, G & H
K	Open to public	2	C, D, E & J

Activity 1: Construct a network diagram using the data provided in Figure 8

Activity 2: From this diagram, calculate the following:

- The total project time
- The critical activities
- The total floats for all the non-critical activities

Your workings:

Topic: Summary Practice

Q12	Due to unforeseen circumstances, activity F (decorating) took an additional 16 days from what was originally planned (see Q10 & 11). Activity: Calculate the impact this change will have on the total project time, the critical activities and the total floats for the non-critical activities
Your workings:	

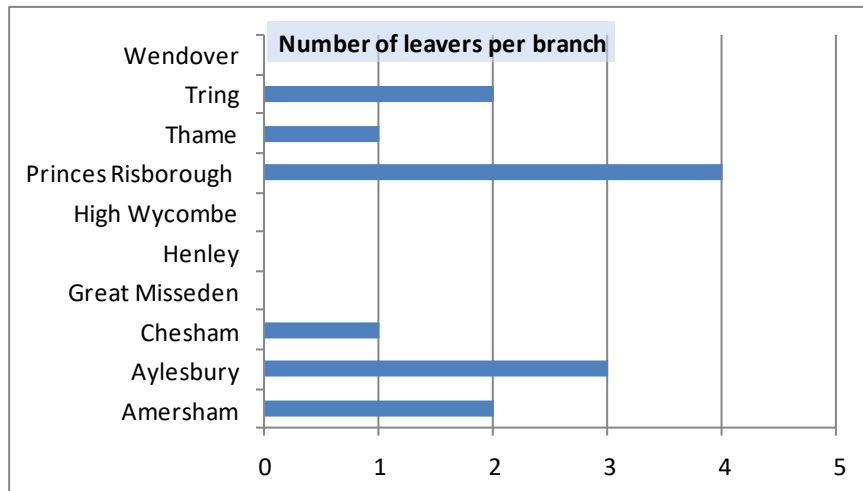
Q13	MGS now employs 36 full-time members of staff across all of its branches. Each full-time member of staff works for 320 days a year, each day lasting for 9 hours. On average, it is estimated that the labour productivity per hour, per full-time worker is 3 haircuts. 70% of all haircuts are cut by full-time members of staff. Activity: Using the data above, calculate the total number of haircuts (full-time and part-time) per year across the MGS group
Your workings:	

Topic: Summary Practice

Q14 In total, MGS employs 62 members of staff across all branches.

Activity: Using the data in Figure 9, calculate the labour turnover for the whole business over the last year

Figure 9 – Leavers per branch during the last year



Your workings:

Topic: Summary Practice

**Q15
& 16**

As MGS has grown, there has become increasing concerns about levels of absenteeism in its branches. This was highlighted when a total of 8 members of staff (across all stores) were absent on the last Saturday before Christmas, leaving many of the business's customers disappointed.

Activity 1: Using data from Q14, calculate the daily rate of absenteeism for the last Saturday before Christmas

Activity 2: Calculate the % change in the number of staff that were absent on the second Saturday before Christmas to the last Saturday before Christmas, if the absenteeism rate for the second Saturday was 6.46%

Your workings:

Activity 1:

Activity 2: