

# **Foundations of Accounting & Finance**

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**Week - 03**

**Lecture – 11**

## **Preparation of Income Statement: Lone Pine Cafe B**

### **Introduction**

Having completed Lone Pine Café A we move to Lone Pine Cafe B, by examining transactions spanning from November 02 to March 30. Our goal is to dissect these transactions to understand the cause for the loss by preparing income statement of. We aim to determine whether these losses are just part of the general operation of the enterprise or stem from specific sources.

### **Income Statement**

Mr. Simpson, the accountant, has taken on the task of preparing the income statement, in addition to the balance sheet discussed in Lone Pine Cafe A. The income statement will provide valuable insights into the profitability of the cafe's operations, allowing Mrs. Anthony to evaluate the feasibility of continuing the restaurant.

### **Revenue**

In addition to the information provided in case A, Mr. Simpson discovered that the cash received from customers up to March 30, amounted to \$43,480. This represents the cash revenue generated during this period. Further examination reveals receivables from ski instructors amounting to \$870, constituting the credit revenue.

It's important to note that receivables indicate revenue accrued from services rendered, implying a sale has occurred. Thus, this constitutes credit revenue, reflecting the amount receivable from ski instructors. Combining cash revenue and credit revenue, the total revenue for the period would be \$44,350.

### **Cash Payments**

#### **1) Monthly payment to partners**

Monthly payment is an expenditure, and there is a payment that is made. What is the expenditure? \$23,150 is an expenditure that is made to the partners during the period of operation of the cafe.

This is the amount that the cafe has paid to the partners. Hence it is recorded as an expenditure for the period November 02, to March 30.

## **2) Wages paid to part-time employees**

The wages paid to part-time employees amounted to \$5,480. Upon checking the closing balance sheet (as of March 30), it appears that there are no outstanding dues or unpaid amounts related to this expense. Since there are no liabilities associated with unpaid wages, it indicates that the entire amount has been paid in full. Therefore, the total cash payment made for wages to part-time employees is \$5,480.

## **3) Interest, telephone and electricity expenses, miscellaneous expenses**

Regarding interest, an amount of \$540 has been paid, representing the interest expense incurred during the period. This payment has resulted in a cash outflow and is recorded as an expenditure. For telephone and electricity expenses, the total amount paid is \$3,270. Further, miscellaneous expenses amount to \$255 is considered as expenditure. Lastly, rent payment for the period totals \$7,500, constituting a significant portion of the expenditures. All these expenses represent cash outflows and are recorded as expenditures in the financial records. Further it is treated as an expenditure and not as an asset as the benefits of such expenditures have been derived. If the benefit of an expenditure is not derived it becomes an asset until the benefit is derived.

## **Food and beverage (F&B) Consumed**

Let us discuss the expenses related to food and beverage (F&B). The income statement will include only those expenditures that have been incurred during the specified period, which in this case is from November 02 to March 30. While the cash paid for F&B amounts to \$10,016, it is crucial to determine the portion of F&B that has been consumed during the period of operation, as only the consumed items constitute an expenditure. The remaining unconsumed items are considered assets and are reflected in the balance sheet.

To calculate the F&B consumed during the period, we start with the opening stock of F&B on November 02, which was valued at \$2,800. Then, considering the cash purchase of \$10,016 and any credit purchases (creditors of supplies), we determine the total availability of F&B during the period, which amounts to \$14,399. Subtracting the closing stock of F&B on March 30, valued at \$2,430, from the total availability, we note that \$11,969 worth of F&B has been consumed during the period. This amount represents the F&B expenditure that will be included in the profit and loss statement (P&L). The calculation is provided below:

F &B opening stock	2800
cash purchase	10016
credit purchase	1583
<b>TOTAL F &amp; B Available</b>	<b>14399</b>
F & B closing stock	2430
F & B Consumed	11969

### **Depreciation on Equipment**

Equipment was initially valued at \$53,200 but has now depreciated to \$50,755, indicating depreciation expenses of \$2,445. Depreciation is a non-cash expenditure, representing the decrease in the value of the equipment over time essentially indicating that the value of usage of the equipment during the said period.

### **Operating license**

The operating license, initially valued at \$1,428, has reduced in value to \$833. This means that the benefits derived from the operating license amount to \$595 between November 02 and March 30 which is recorded as an expenditure for the period.

### **Conclusion**

These expenses, along with any others incurred during the period, constitute the total expenditures. Further, there might be instances like theft of cash and the cash register, which would also be considered expenditures if the decision is made to write them off. However, such expenditures are treated as abnormal expenses.

In this particular case, the revenue is \$44,350, while the total expenditure amounts to \$55,204, resulting in a loss of \$10,854 (see table 1). This loss is consistent with the calculated loss using the difference between assets and liabilities. In conclusion, by analysing the sources and utilization of funds, we have identified a loss of \$10,854.

**Table 1: Income and Expenditure statement for the period Nov 2 to March 30**

<b>Income and Expenditure statement for the period Nov 2 to March 30</b>			
<b>Income</b>		<b>Expenditure</b>	
cash revenue	43,480	monthly payment to partners	23,150
credit revenue	870	wages to parttime employees	5,480
		interest	540
		<b>telephone and electricity</b>	<b>3,270</b>
		miscellaneous	255
		rent	7,500
		F & B	11,969
		depreciation on asset	2,445
		value of operating license utilised	595
		<b>LOSS</b>	<b>-10,854</b>
	<b>44,350</b>		<b>44,350</b>