BUSINESS FUNDAMENTALS

COMPANY FINANCE

Read the article below and choose the best summary:

a) Baker's Dozen makes healthy profits because its products sell well.
b) Baker's Dozen makes a heavy loss because its costs are out of control.
c) Baker's Dozen only just breaks even because its overall margin is too small.

The baker's dozen

Baker's Dozen Ltd's thirteen outlets bake and sell their own fresh bread and cakes. **Revenue** has risen quickly since the bakeries started selling to hotels and restaurants as well as the general public. Pastries and pies are selling well, but shareholders are finding annual results disappointing. It seems that there is very little left over to pay **dividends** or to reinvest in the business as **retained profit**. So what's the problem?

The company reports a healthy **gross profit**, since its **cost of goods sold** is low: raw materials (essentially flour, water, eggs and sugar) are cheap, and most bakery staff are on minimum wages. However **operating profit** is much less impressive. As the business has expanded, **operating costs**, such as rent, electricity, administrative salaries, insurance and marketing have increased considerably. So **net profit after tax** has been a big disappointment, not to mention all the money that disappears in corporation **tax and depreciation** (the B2B market requires customised vans that lose value very quickly). In conclusion, it seems there's still profit to be made in baking, but it's certainly not easy money!

Use the words in bold in the article to complete 1–9 below:

1. money from customers:_____________________________
2. direct costs e.g. material and labour:___________________
3. profit (or loss) after direct costs:________________________
4. other costs, e.g. administration, buildings, utilities:__________________
5. profit (or loss) after direct and other costs:_________________________
6. money paid to the government and loss in the value of equipment:_____________________
7. profit (or loss) after all costs and taxes:__________________________
8. money distributed to shareholders:______________________________
9. money reinvested in the company:______________________________