Mentoring unlimited

advice you can trust

Introduction

Keen to step out of the limelight, Louis, Cheryl and Dannii have decided to set up a new business as a partnership. Their intention is to offer an innovative niche product in the tertiary sector – the provision of mentoring services to distressed bankers who have fallen victim to the credit crunch. This specialised, high added-value service will include:

- Coaching on change of lifestyle
- Hair, makeup and other fashion advice
- Jealousy and anger management
- How to enjoy a luxury lifestyle on a shoestring

Cheryl has been given the task of putting together the business plan and her first task is to calculate the budgeted profit for the first year of trading. After an intensive, three-hour period of research, Cheryl's financial assumptions are shown in the table on the next page:

Table 1: Cheryl's assumptions

Budgeted costs per month	
Office rent & service charge	£8,000
Water cooler, fresh fruit and snacks	£1,500
Marketing	£2,500
Salaries & staff bonuses	£14,000
Legal fees & other admin	£3,000
Budgeted demand per month	
Number of consultations	20
Price per consultation	£2,500

Your tasks

(a) Calculate the expected monthly sales revenue for Mentoring Unlimited

(b) Calculate the budgeted monthly net profit for Mentoring Unlimited

(c) Louis, Dannii and Cheryl have agreed to share profits from the partnership equally in return for each making an investment in the business of £25,000. How much profit share would Louis receive in the first year if Cheryl's assumptions prove accurate?

Solution

(a) Calculate the expected monthly sales revenue for Mentoring Unlimited

Expected revenue = volume x price
= 20 x £2,500
= £50,000 per month

(b) Calculate the budgeted monthly net profit for Mentoring Unlimited

Expected monthly costs =
£8,000 + £1,500 + £2,500 + £14,000 + £3,000
= £29,000

Monthly net profit = monthly revenue less monthly costs
= £50,000 - £29,000
= £21,000

(c) Louis, Dannii and Cheryl have agreed to share profits from the partnership equally in return for each making an investment in the business of £25,000. How much profit share would Louis receive in the first year if Cheryl's assumptions prove accurate?

Budgeted profit for the business for the first year =
12 (months) x £21,000
= £252,000

This profit will be shared equally, three ways

So Louis' share = £252,000 / 3
= £84,000