

## Startup on Wheels: Financial Story of a Food Distribution Agent

Ahmed and his friend Ram started a food processing business called Great Foods in the year 2016. They had a factory on the outskirts of Bangalore and had a distribution network across Bangalore. They brought in new business models wherein they provided opportunities for their channel partners to be entrepreneurs themselves. One such area was the distribution channel. In their distribution channel network, each agent was given the liberty to act as an entrepreneur.

Ravi was one such agent who distributed different products of Great Foods. The agreement between Great Foods and Ravi is such that Ravi had to invest a total of ₹535000/- in different assets. A mini truck costing ₹ 4 Lakhs and storing equipment worth ₹ 60,000/-. A mini freezer valued at ₹50,000/- and a billing machine valued at ₹5000/-, and a starting cash balance of ₹20000/-. The mini truck is expected to run for six years, after which it can be sold for ₹1 lakh. Storing equipment has a useful life of 4 years, the mini freezer can be used for 2 years, and the billing machine for 2 years.

On 01 April 2017, Ravi signed the contract with Great Foods to be a distribution agent for them. As per the agreement, Ravi sourced all the assets mentioned above.

### The agreement also stipulated other terms as follows:

Ravi has to bear all expenses related to the distribution, including fuel, repairs, toll, and telephone expenses. Great Foods will pay Ravi a commission on sales made through his distribution as follows every month:

Net Sales (Sales less sales returns) per month	Commission to Ravi
Below ₹ 5,00,000/-	5%
Between ₹5,00,000/- and ₹ 10,00,000/-	7.5%
Above ₹ 10,00,000/-	10%

On the last day of June 2017, Ravi sat down with some of his pocket books in which he had written his accounts for the three months period. (01 April 2017 to 30 June 2017) He found the following in them.

<p>He had filled diesel in his mini truck 16 times during the three months' time, from the petrol bunk. Each time he filled diesel for ₹3000/- and paid cash after a week. He had not yet paid for the last fill.</p>
<p>He could sell products worth ₹3,24,000/- in April, but products worth ₹12000/- was returned as the expiry date was over.</p> <p>In May, he sold products worth ₹6,00,500/-, but 8% of it was returned by the retailers.</p> <p>In June the sales were for ₹6,85,000/- and returns amounted to ₹15000/-</p>
<p>He incurred repairs and other expenses for ₹12,000/-</p>
<p>He paid toll amounting ₹6000/- for six months from 01 April 2017.</p>

**Analyse the above transactions and prepare the following:**

1. Opening balance sheet of Ravi as on 01 April 2017
2. Compute Ravi's cash balance as on 30 June 2017
3. Prepare his P&L account for the three months (01 April to 30 June), considering all incomes and expenses, including depreciation.
4. Make a balance sheet at the end of June.
5. Give comments on his financial performance for these three months.