**Cheeseman’s Enterprises, Inc.**

**Rockwell NC**

**March 2020**

After reviewing the business reports, Profit & Loss and Balance Sheet Statements for Cheeseman’s Enterprises, we determined the information as reported, are not adequate tools for use in managing the business and they don’t provide a sound understanding of the business status.

The Financial Statements, supplied by the accountants appear adequate to satisfy the needs of the Internal Revenue Service, but not for operating a successful convenience store.

The Profit & Loss Statement has limited information for use in analyzing the business performance. However, the following represents our observations from the information:

**2019 – Income and Cost of Goods Gone (COGG)**

Sales/income consists primarily of limited number of major categories.

* Fuel $ sales, no gallons stated.
* Diesel Fuel – no gallons or sales $ reported (combined with gasoline ?)
* Kerosene
* Sundry – this is a very large category including too many departments / product types.
* Cigarette & Tobacco
  + Sales reported for Cigarettes & Tobacco separately, however COG is combined as one category making proper analysis impossible.
* Lotto
* Beer
* Pizza
* Wine
  + Both years report 0 sales with COG resulting in negative gross profit(s).

**Gross Profit Dollars/Percentage**

***Sales – Cost of Goods Gone = Gross Profit***

In-store gross profit was $230,182 which represents a gross profit percent of 19.1% and industry expert studies (NACS, Convenience Store News, and CSP) and our personal experience, state this should be 27% – 31%, not including gasoline, lottery, and car wash. This number appears extremely low. Cigarette & Tobacco gross profit of 35.9% is inflating the total in store gross profit % figure. Cigarette gross profit typically is 16 – 18% and Tobacco is 25 – 28%. This category is disguising the real problem, ***low in-store gross profit %.***

**Some reasons for low store gross profit percent could be, but not limited to:**

* Not correctly determining the retail price.
* Employee theft *(which could include grazing – employees, family, friends and owners)*
* Vendor theft
* Shoplifting
* Waste, damaged goods
* Not taking physical inventories of in-store products.
* Improper counting products, departments/categories
* Incorrect sales recording at POS

The exact reason for this low gross profit result is not known at this time. Typically, it’s a combination of several of the above.

**In-store gross profit per gallon, this measurement allows the owner to determine:**

* In-Store Gross Profit ÷ Fuel Gallons = In-Store Gross Profit per Gallon.
* This valuable store benchmark cannot be computed without gasoline/diesel fuel gallons.

**2019 Expenses**

It is a common practice in our industry to compare expenses as a percentage of Gross Profit, but many accountants compare expenses to sales. On your profit and loss statement, operating expenses are listed without comparing them to sales **or** gross profit. Without a comparison of expenses to gross profit it is very difficult to manage store operating expense budgets.

Our industry has devised a set of benchmarks to help identify and manage operating expense abnormalities.

***Expenses as Reported***

* Credit Card Fees $3,283.
* Insurance & UST Insurance $8,932.
* Legal and Accounting $5,109.
* Repair and Maintenance $17,806.
* Wages – general $103,981.
* Wages – officers $31,200.
* Depreciation $1,600.
* Drive offs 0
* Cash over/short 0
* Rent 0
* Property Tax 0
* Interest 0
* Bank Charges 0
* Work Comp 0
* Utilities $18,209
* Total expenses $238,352 = (*91.4% of total gross profits)*

Similar expense results for 2020 reflect the same pattern of expenses outpacing gross profits.

**Important Note: the following are not reported for 2019 or 2020.**

* ***Cash over/short***
* ***Drive offs,***
* ***Rent***
* ***Property tax***
* ***Bad debt***
* ***Bank charges***
* ***Interest***

**Store Expenses as a % of Gross Profit as compared to industry benchmarks:**

The following expenses appear unusually high compared to *gross profit contributions:*

* Credit Card Fees 1.3% benchmark 6 – 10% / 6.3 cpg
* Insurance & UST Insurance 3.4% benchmark 1.5%
* Legal & Accounting 2.0% benchmark 1.5%
* Repair and Maintenance 6.8% benchmark 5.4%
* Wages – general 39.9% benchmark 30%
* Wages – officers 12.0% *‘included in above’*
* Depreciation .6% benchmark 3.5%
* Drive offs 0 benchmark 1.1%
* Cash shortage 0 *‘included in above’*
* Rent 0 benchmark 6.4%
* Property Tax 0 benchmark 3.1%
* Interest 0 benchmark 1.5%
* Work Comp 0 benchmark 3.9%
* Utilities 7.0 benchmark 6.3%
* Total expenses 91.4 benchmark 85.7 – 98.5%

Director’s Fee in 2019 at $1,000 stands out and could result in IRS audit.

In **2019**, daily gross profit: **$714** and expenses **$653** per day leaving a net profit of **$61** / day.

* If in-store gross profit % was in line with industry standards (29%):

Daily gross profit: **$1041** and expenses remain at **$653** per day, the daily profit would be **$388**. **An improvement of $327 / day.**

In **2020**, daily gross profit: **$747** and expenses **$651** per day leaving a net profit of **$96** / day.

* If in-store gross profit % was in line with industry standards (29%):

Daily gross profit: **$889** and expenses remain at **$651** per day, the daily profit would be **$238**.

**An improvement of $142 / day.**

In 2019, negative gasoline and kerosene gross profit appears unusual. This could indicate theft, either skimming or fuel dispenser/UST tank thefts?

* Are DIR’s closely monitored?
* Are EOM fuel variances reconciled?

**Balance Sheet:**

We view changes in the balance sheet from period to period. However there are a couple of items that caught our attention.

**Lottery Inventory** – not stated. That indicates lottery is not being inventoried.

**Cigarette Inventory** - not stated. That indicates cigarettes are not being inventoried.

**Fuel Inventory –** not stated. Is DIR properly done, every day?

**Inventory Sundries** – Increased $30,824 from 2012 to 2013. Is inventory taken monthly on all products? Are Cigarettes & Lottery counted each shift?

**Total Long Term Liabilities** – increased $20,000, was this done to improve operating cash?

**Summary:**

With changes in accounting, better end of month and yearly business reports, that provides adequate business records and, with operational controls and procedures the negative trend in the business can be reversed. The following are some suggested changes:

**Accounting:**

* Report fuel sales (gasoline & diesel fuel (if applicable), COG, and gross profit, include gallons
* Set up product categories that identifies;
  + Sales, cost of goods, gross profit dollars and gross profit percent for each
  + See department/category example included in support materials
* Report expense categories in dollars and percent of gross profit
* Report cash over/short results
* Consider a computer software accounting system for in-store daily record keeping.
  + See Amcom brochure in support materials.

**Operational controls:**

* Conduct a physical inventory of store products monthly.
  + With a proper back office system, items can be inventoried on a weekly basis, thereby eliminating end of month rush to count.
* ***Inventory cigarettes and lottery at the end of each shift, every day!***
* Reduce or eliminate slow moving products, 90 day rule.
* Do periodic cash audits, surprise check outs.
  + Trust But Verify!

**Procedures:**

* Monitor / verify vendor deliveries.
* Check invoices for price changes and maintain proper product markup.
* Check competitor’s products, promotions and product pricing

Regards,

Tom Terrono Bill Sawyer

*Note: The above material and forms are suggestions and recommendations only and may be used in the planning process and analysis of business records at the sole and absolute discretion of the user. They are not intended as a guarantee of profits or any other results and should not be construed in that manner.*