**Topic 3.3 Estimating Revenues, Costs and Profits: Activity**



Pets Haven is a business which is now two years old. Set up by Kevin and Emma, it provides a mobile pet-grooming service. They decided there was a gap in the market in their local area of Bournemouth and hope to extend the business to cover other services such as providing kennels for overnight accommodation for pets. To start the business they took out a loan for £20,000 repayable over five years. Most of this was used to pay for two vans. A small van transports equipment to allow grooming in the clients home. A large van acts as mobile premises and ‘doggie makeovers’ are given in the van itself. Around £5,000 was used to buy equipment for the business and set up a website. Kevin and Emma are paying back the loan at a rate of £400 per month.

They have a variety of other costs which stay the same however much work they complete. For example, they pay on accountant to sort out their finances. They have to pay insurance on their vans and for their business. They also advertise in the Yellow Pages. These costs add up to £5,200 a year. Each visit they make a client costs money too. There are petrol costs as well as the cost of shampoos and other grooming materials. These costs work out at £5 per session. The average price they charge clients is £20 per session. Kevin and Emma complete around ten sessions a day, which by the time you take holidays into account, is 2,000 sessions a year.

**Questions:**

1. Make a list of Kevin and Emma’s (**a**) fixed costs and (**b**) variables costs in running their business that are mentioned in the passage. (**4**)
2. (**a**) How many pet grooming sessions do they sell each year? (**b**) What is the average price paid by customers for each pet grooming session? (**c**) What s Kevin and Emma’s total sales revenue for the year? (**3**)
3. Kevin and Emma have worked out that their total Fixed Costs are £10,000 per year. Explain how they calculated this. (**3**)
4. (**a**) What is their variable cost per pet grooming session? (**b**) What are their total variable costs per year? (**2**)
5. Calculate the value of their total costs. (**3**)
6. How much profit do they make over a year giving 2,000 pet grooming sessions? (**3**)
7. Would they have a profit if they had only completed 400 sessions in a year? Explain your answer. (**6**)
8. What might be the advantages and disadvantages for them of expanding their business to offer kennels for overnight accommodation pets? (**9**)