

WHAT MAKES BUSINESS GOING? ACCOUNTING PROFIT VS ECONOMIC PROFIT

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Pratishtha Bhardwaj, a student, was given a topic to speak on “Where students run to?” as part of an activity of ‘English club’ of her college. She spoke about the Bakery in the vicinity of their college, where the students spend their time to refresh and relax. Arzoo, her class mate was quite impressed for her style of presentation and English Language skills and shared the same with her friend Ankit. He did not pay any attention to the sophisticated English language or the very true experience of every other student. Her speech made him focus and observe the contradictions related to behavior of the Bakery. On the one hand Bakery was a busy place (see Figure 1), reflecting active business. On the other, he had noticed the frequent changes of ownership of Bakery - Fresh ‘n’ Tasty. He took change of ownership as a symptom of loss in business. As a passionate student of economics, he wanted to dig deeper into the business/economic aspect of this change of ownership of Fresh ‘n’ Tasty and understand, what makes business going?

The following were the lines Pratishtha spoke about the Bakery, which gives a clear picture of activity, at the bakery.

“In the hectic PGDM life of a hostel student, the most convenient place of escape is the nearby Bakery - Fresh ‘n’ Tasty. Yes! It is situated right across the road in a way that

hides the enormous gates, inside which our life rushes by among assignments, projects and presentations, and as we take that turn towards Fresh ‘n’ Tasty, we hear unhindered laughter of friends and join in.

As someone who frequents this small shop, known simply as the Bakery among the student community, I go there for all reasons. During exams it’s the much needed coffee, or ice cream shakes, and drinks to sooth the exam fever. With its wide variety of junk food, from chips and cakes to Maggi and burgers as well as fruits and juices for the health conscious, it serves as a cheap alternative to our mess food. Being just a hop away, it saves time.

Be it any time of the day, you can see people flocking to the place. Not just us students but guys from the surrounding corporate like Tech Mahindra, TATA Consultancy Services, TATA Power, Infosys, General Electric, Dubas Engineering, and laborers from nearby construction sites. Everyone, small or big, can be seen at the place for the much needed break. As it caters to people from all surrounding areas, the Bakery is always full. Always.

It’s not just the place you rush off to for a bite at the last minute, it is our rendezvous with friends living in the other hostel, it’s the place where students blow out smoke circles, it’s



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where the whole class sings and celebrates your birthday, It's where you can hear gossip and exchange stories, it's also the place where you are if you have nowhere else to be.

We go to nicer, starrier restaurants or clubs for planned parties, but the little memories we make over chai-coffee and noodles cannot be replaced. It is 'The Adda' . It is the hangout that helps us cope up with the fast pace of MBA life by providing us a place where we can pant at will.

Without exaggerations, Bakery is the place that will pop up into our heads as we reminisce our college life a few years down the line".

The First Owner of Fresh 'n' Tasty'

So the story goes like this; the first owner, Nanjundappa, who was in his forties, working with a small company as a security guard and earning Rs.10, 000 a month, was not at all happy with his job, after his father-in-law received a huge sum of Rs 2 crores. Nanjundappa's father-in-law inherited around half-an-acre of land in a village by name Avalahalli near Bangalore. The village became an inherent part of the Bangalore Urban Agglomeration and became a hot spot of real estate business. He sold his land as the price he got from the property was much higher than the yield he gets from it. Nanjundappa decided to start a Bakery, as it involves only buying and selling, and as he did not have any other skills. Nanjundappa succeeded in getting Rs.12 Lakhs from his father-in-law to start the business – Bakery. He paid Rs. 10 Lakhs for acquiring the newly built premises of a shopping complex, in the midst of many software companies; and used Rs. 2 Lakhs for running the business. He started it with some of the basic snacks and juices. The activities of Nanjundappa's business included purchases and sales of

biscuits, chips, chocolates, juices and shakes and cakes. He also employed a person to prepare juices and milk shakes by agreeing to pay Rs. 9000 per month and another woman to clean the surroundings, four times a day and agreed to pay Rs. 8000 per month. After a month he was surprised to see that electricity and water bill came to Rs. 10,000. He had never received such a bill for his residence. Then he came to know that, for commercial area, this was a normal bill for lighting, and the gadgets including refrigerator. He felt that the person he employed was not doing his work properly and hence, the business was not going good. There was also lot of absenteeism by the workers; and Nanjundappa believed that some amount of money that the worker collected from customers in his absence was not being returned. His total cost of goods was Rs. 2, 12, 014 and total revenue from selling goods was Rs. 2, 38, 565 (see Annexure - 1). When other regular expenses were added to the purchases of goods, expenditure was more, and revenue was less. He ran it for 3 months and did not feel that the business to be remunerative, and decided to sell it off, as people were ready to buy it for Rs. 15 Lakhs.

The Second Owner of Fresh 'n' Tasty'

It was the time when all students came back after their winter internship. It was an altogether new Bakery. Walls were painted with fruity colors and new menu was posted in bold on the walls. Many new items were added along with everyone's favorite "Noodles".

Kemmick & Friends had taken over Fresh 'n' Tasty' from Nanjundappa. Kemmick's brother and Nanjundappa had a common friend, and through him they closed the deal. Kemmick, a fresh graduate from Kerala, came in search of a job to Bangalore, as he heard that Bangalore has lot many job opportunities for the educated; and as his brother got settled in

Bangalore. Even his friends, Ben, Roger and Sandeep landed in Bangalore. Though they attended different interviews at different companies, none of them were able to crack any. As they felt guilty of telling people that they were unable to get into jobs and as they had some financial support from family, they decided to get into business and be on their own. They grabbed the opportunity of buying the Bakery, confident that they can delight customers of their age group. They came with a lot more eatables and a variety of juices and shakes to the menu. They did not hire anyone for preparing shakes and juices, but they continued the services of the woman for cleaning. On the one hand, they ran the Bakery with a lot of interest and on the other, attended interviews whenever they got a call. All of them were happy that the business was growing and customers were very happy with their services. They also started taking orders for celebrations of birthday parties, parties on the eve of promotions and salary hikes and farewell parties. After running it for three months, Sandeep got an opportunity at Wipro Technologies Ltd. with a CTC of 3.6 Lakhs per annum. Others continued with the business. However, in the next two months everyone got offers of similar kind with the date of joining fast approaching. When Kemmick & Friends' were in a dilemma to continue with the growing business or join corporate, all their family, friends and relatives advised them to join corporate. The activities of Kemmick & Friends' business included many more items compared to Nanjundappa's business and hence the cost of goods and revenue were also more. The total cost of goods was Rs. 4, 23, 037 and total revenue from selling goods was Rs. 5,55,357 (see Annexure - 2). When other regular expenses were added to the purchases of goods for Kemmick & Friends' revenue was

more than expenditure. Still they decided to sell it and take their shares as per their investments.

The Third Owner of Fresh 'n' Tasty'

Manjunath, a 40 year old man took over Fresh 'n' Tasty from Kemmick & Friends. Manjunath, though started his life as a daily labourer, continued to earn and save more and more year after year and had a house of his own and 2 acres of land in his remote native village. Manjunath, his wife, and his son, who was not interested to continue his studies after failing 10th class started working at their own Bakery. Even his daughter, who was a college going girl was helping them whenever she had a holiday. Manjunath's wife was doing all the cleaning and the services of the woman cleaning the premises were discontinued. The activities of Manjunath's Business had more or less the same activities as that of Kemmick & Friends. He was able to make more revenue from fruit juices by reducing wastage. The total cost of goods was Rs. 4, 16, 884 and total revenue from selling goods was Rs. 7, 82, 340 (see Annexure - 3). When other regular expenses were added to the purchases of goods, revenue was more than expenditure. He continued the business.

Figure 1: Photo Picturing the Business at Fresh 'n' Tasty



Annexure 1: Purchases and Sales of Nanjundappa's Business (in Rs. Per month)

Products Sold	Quantity Procured	Cost per Item	Total Cost	Quantity Sold	Price	Total Revenue
Biscuits	1270	4.5	5715	1270	5	6350
	895	8.5	7607.5	840	10	8400
	425	21	8925	350	25	8750
	515	25.5	13132.5	417	30	12510
Chips	350	8.5	2975	333	10	3330
	733	17.6	12900.8	733	20	14660
Chocolates	525	25.5	13387.5	400	30	12000
	235	8.5	1997.5	200	10	2000
	125	19	2375	73	25	1825
	35	39.6	1386	7	45	315
	40	88	3520	4	100	400
Juices and Shakes	520	80	41600	1708	20	34160
	170	70	11900	833	35	29155
	105	180	18900	1067	50	53350
Cakes	300	15	4500	300	20	6000
	425	22.5	9562.5	417	30	12510
	165	122	20130	107	150	16050
	150	210	31500	84	200	16800
			212014.3			238565

Source: Primary Data collected and compiled, based on interviews with the current owner, customers of Bakery - Fresh 'n' Tasty, and observations of authors. Data was collected during June and July 2016.

Notes:

1. Biscuits included, Tiger, Cookies, Maska Chaska, Dream Cream , Moms Magic ; Chips included, Lays, Bingo ; Chocolates included, Dairy Milk, Munch, Gems, Milkybar ; Juices and Shakes included, Apple, Sweet Lemon , Pomegranate ; Cakes included, Britannia .
2. For Juices, (Fruits procured in kg's) The price of sweet lemon - Rs. 80/-; Pomegranate - Rs. 70/-; Apple - Rs. 180/-
3. The average number of glasses of juice per kg of fruit (including wastage of fruit due to spoilage) : sweet lemon (*Mausambi*) 3 glasses; Pomegranate - 5 glasses; Apple - 10 glasses

Annexure 2: Purchases and Sales of Kemmick's Business						
Products Sold	Quantity Procured	Cost per Item	Total Cost	Quantity Sold	Price	Total Revenue
Biscuits	673	4.5	3028.5	673	5	3365
	200	17.6	3520	173	20	3460
	920	21	19320	840	25	21000
	1140	25.5	29070	1066	40	42640
Chips	900	8.5	7650	900	10	9000
	1250	17.6	22000	1187	20	23740
	700	25.5	17850	610	30	18300
Chocolates	750	8.5	6375	710	10	7100
	220	39.6	8712	140	45	6300
	220	72	15840	140	85	11900
	260	88	22880	170	100	17000
Juice and Shakes	288	80	23040	1440	25	36000
	125	70	8750	875	40	35000
	128	180	23040	1280	50	64000
Cakes	375	21.5	8062.5	350	25	8750
	160	170	27200	90	200	18000
	120	252	30240	75	300	22500
Sandwich	540	45	24300	1372	35	48020
French Fries	375	30	11250	750	40	30000
Cigarettes	1000	4.5	4500	1000	5	5000
	2200	8.5	18700	2170	10	21700
	1895	12.5	23687.5	1850	15	27750
Soft Drinks	840	10.2	8568	806	12	9672
	290	17.6	5104	282	20	5640
	1900	26.5	50350	1860	32	59520
			423037.5			555357

Source: Primary Data collected and compiled, based on interviews with the current owner, customers of Bakery – Fresh ‘n’ Tasty, and observations of authors. Data was collected during June and July 2016.

Notes:

1. Biscuits included, Moms Magic, Tiger , Bourbon, Dream Cream, Oreo; Chips included, Lays, Bingo, Uncle Chips; Chocolates included, Milkybar, Dairy Milk, Gems, Bar One, Munch, Celebrations; Juice and Shakes included, Apple, Pomegranate, Sweet Lemon; Cakes included, Britannia , Winkies; Cigarettes included, Gold flake, Silk Cut , Capstain; Soft Drinks included, Mountain Dew, Thums Up, Fanta, Sprite, Coca Cola.
2. For Juices, it is Kgs. of Fruits procured. The price of sweet lemon - Rs. 80/-; Pomegranate - Rs. 70/- ; Apple - Rs. 180/-
3. The average number of glasses of juice per kg of fruit(including wastage of fruit due to spoil): Sweet Lemon – 3to 4 glasses; Apple – 10 glasses; Pomegranate – 8 glasses.
4. The price of 1kg of potato was Rs 30 and was used in making Sandwiches and French Fries.

Annexure 3: Purchases and Sales of Manjunath's Business						
Products Sold	Quantity Procured	Cost per Item	Total Cost	Quantity Sold	Price	Total Revenue
Biscuits	1380	4.5	6210	1366	5	6830
	1645	8.5	13982.5	1640	10	16400
	1160	21.5	24940	1150	25	28750
	1250	34.6	43250	1200	40	48000
Chips	400	8.5	3400	383	10	3830
	1030	17.6	18128	1030	20	20600
	525	25.5	13387.5	516	30	15480
Chocolates	226	17.6	3977.6	226	20	4520
	410	35	14350	405	40	16200
	130	88	11440	106	100	10600
	150	132	19800	140	150	21000
Juice and Shakes	98	80	7840	490	25	12250
	510	70	35700	4080	40	163200
	230	180	41400	2750	55	151250
Cakes	200	15.5	3100	190	20	3800
	145	76	11020	140	100	14000
	90	230	20700	85	300	25500
Sandwich	60	45	2700	119	45	5355
French Fries	25	30	750	50	55	2750
Ice Cream	1080	17.6	19008	1080	20	21600
	280	42.5	11900	265	50	13250
Soft Drinks	540	17.6	9504	540	20	10800
	640	25.5	16320	620	30	18600
	845	39.6	33462	830	45	37350
Momos	120	30	3600	355	50	17750
	50	150	7500	316	60	18960
Bread Omelet	1020	6	6120	540	50	27000
Snacks	55	5	275	300	10	3000
	80	15	1200	350	25	8750
	65	20	1300	285	35	9975
Noodles	52	35	1820	106	40	4240
	85	50	4250	205	50	10250
	70	65	4550	150	70	10500
			416884.6			782340

Source: Primary Data collected and compiled, based on interviews with the current owner, customers of Bakery – Fresh 'n' Tasty, and observations of authors. Data was collected during June and July 2016.

Notes:

1. Biscuits included, 50-50 , Maska Chaska, Moms Magic, Parle Americana, Dark Fantasy, Bourbon, Oreo, Chunkies, Dream Cream, Jim Jam, Digestive , Little Hearts ; Chips included, Lays, Tedhe Medhe, Bingo , Uncle Chips, Cheetos; Chocolates included, Dairy milk, Silk, Schmitten, 5 star, Kit kat, Nutties, Milkybar, Celebrations, Bournville; Juices included , Apple, Pomegranate, Sweet Lemon; Cakes included , Britannia, Winkies; Soft Drinks included, Mountain Dew, Pepsi, Thums Up, Coca Cola, Fanta, Mirinda, RC Cola, Paper Boat.
2. For Juices, it is Kgs. of Fruits procured. The price of sweet lemon - Rs. 80/-; Pomegranate - Rs. 70/-; Apple - Rs. 180/-
3. The average number of glasses of juice per fruit (including wastage of fruit due to spoil): Sweet Lemon (Mausambi) – 5-6 glasses; Apple – 12 glasses; Pomegranate- 8 glasses.
4. The price of 1kg of potato was Rs 30 and was used in making Sandwiches and French Fries.