



MGMT 8500 CASE ONE

El Rancho Cantina



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EL RANCHO CANTINA (ELC)

Carlos Jimenez was reviewing the most recent financial statement of his restaurant. It was December 2020 and marked three years of his journey as an entrepreneur. Three years ago, he quit his position as Executive Chef in a leading hotel in downtown Toronto and opened his own Mexican restaurant, El Rancho Cantina (ELC). It was located near Vaughn Mills mall and attracted high volume of traffic.

Business has been good and growing steadily since the first year. It recorded year over revenue growth of 8% and net income growth of 5%. Operational results were equally impressive. It ranked in the top 50 in Open Table and received TripAdvisor's Award of Excellence in the last two years.

With this background, Carlos was feeling confident of expanding his business. He was aware of the booming food delivery business and was interested to expand his kitchen capacity. The expanded kitchen would allow him to process a higher volume of orders and serve the food delivery channel.

Carlos realized that for the proposed project, he would require additional capital to the extent of \$300, 000. One third of this amount would have to be borrowed from the bank where he had a banking relationship with. He called Branch Manager of the bank and set up an appointment for the following week.

Returning from the appointment, he met with you, the Accountant of the restaurant. The bank asked Carlos to provide following financial ratios in support of his case. Specifically, the bank wanted to know:

- Profitability ratios and its trend during the past three years?
- Inventory turnover ratio and its trend during the past three years?
- Interest turnover ratio and its trend over the past three years?
- What ratios was he using to measure the turnover and return on his assets?
- Current ratio and its trend over the past three years?

The bank would use the above information to determine Carlos' eligibility for the new loan.

Carlos was not aware of ratio analysis and wanted to know more about them and how they are useful in analyzing a business? He wanted to meet with you in three days' time with your responses.

Your response would be in form of a memo addressed to Carlos.

For that purpose, you would need to explain the formulas of each of ratios and provide a short explanation of what the ratios represent. You would then need to identify their trend pattern as well. For example, if a certain ratio increased from year two to year three, did that reflect an improving trend or a deteriorating trend, or vice versa?

Keep in mind that Carlos does not have an Accounting background, therefore your explanation has to be in a simple, easy to understand language for him to follow. Also keep in mind that ELC is a busy restaurant where guests pay through cash or credit card. Analyze the trend in relevant ratios with this fact in mind.

Required:

1. Prepare your memo with the following guidelines:
 - a. Word count: maximum 1000
 - b. Font: Arial, 11 point
 - c. Line spacing: 1.5
 - d. Cover page and table of contents
 - e. Header and Footer
 - f. Page numbering
2. No external research is required to write this report.
3. A good report would be one, which integrates related content you learned in Weeks 1-3, to the facts as presented in this case.
4. No quantitative analysis is necessary.
5. Please upload your responses in form of a **MS Word document**, to the assigned folder on eConestoga.
6. This assignment will be verified through Turnitin.
7. Plagiarism and any form of copying will be deemed as an offence and dealt with as per College policies.