

# Business Ratios



5 (a) Explain the meaning of the following accounting terms.

(i) Margin

.....  
 .....  
 .....

(ii) Mark-up

.....  
 .....  
 .....[4]

(b) Zakari is a trader. He provides the following information for the year ended 31 January 2004.

	\$	\$	\$
Sales – cash			24 000
credit			66 000
Cost of sales –			
Opening stock		25 000	
Purchases – cash	18 000		
credit	<u>52 000</u>	<u>70 000</u>	
		95 000	
Closing stock		<u>30 200</u>	64 800
Running expenses			14 400
Debtors at 31 January 2004			6 300
Creditors at 31 January 2004			5 700

Zakari decides to compare his results with those for the previous financial year.

(i) Complete the following table to show the ratios for Zakari's business for the year ended 31 January 2004. You may use the space below for your workings.

Workings

Place the ratios you have calculated into the box below.

Ratio	Year ended 31 January 2003	Year ended 31 January 2004
Gross profit as a percentage of sales	25%	%
Net profit as a percentage of sales	10%	%
Collection period for debtors	28 days	days
Payment period for creditors	35 days	days

[6]

- (ii) For **each** ratio suggest **two** possible reasons which could account for the change in the ratio between 31 January 2003 and 31 January 2004.

Gross profit as a percentage of sales

1. ....
2. ....

Net profit as a percentage of sales

1. ....
2. ....

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Collection period for debtors

1. ....
2. ....

Payment period for creditors

1. ....
2. ....[8]

(c) Name **three** business people who would be interested in the final accounts of Zakari.

In each case state **one** reason **why** that person would be interested in Zakari's final accounts.

(i) .....

.....

.....

(ii) .....

.....

.....

(iii) .....

.....

.....[6]

[Total: 24]

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3 David Hoon is a sole trader. He prepared the following Balance Sheet at 28 February 2005.

*David Hoon  
Balance Sheet at 28 February 2005*

	\$	\$	\$
Fixed Assets at book value			45 000
Current Assets			
Stock		12 000	
Debtors		9 500	
Cash		<u>500</u>	
		22 000	
Current Liabilities			
Creditors	6 300		
Bank overdraft	<u>8 200</u>	<u>14 500</u>	<u>7 500</u>
			<u>52 500</u>
Capital			<u>52 500</u>

**REQUIRED**

(a) (i) Calculate, correct to **two** decimal places, David's current ratio and quick ratio at 28 February 2005. Show your workings.

1 Current ratio

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.....

.....

.....

.....

.....

.....[2]

2 Quick ratio

.....

.....

.....

.....

.....

.....[2]

- (ii) State and explain which of the above ratios gives a better indication of the liquidity position of David's business.

Name of ratio .....[1]

Explanation.....

.....  
.....[2]

David Hoon's net profit for the year ended 28 February 2005 was \$4950.

**REQUIRED**

- (b) Calculate, correct to **two** decimal places, David's return on capital employed (ROCE). Base your calculation on the capital at 28 February 2005. Show your workings.

.....  
.....  
.....  
.....[2]

All David Hoon's sales are made on credit. His debtors are allowed a period of 30 days in which to pay their accounts. For the year ended 28 February 2005 his sales were \$69 300.

**REQUIRED**

- (c) (i) Calculate David's collection period for debtors. Show your workings.

.....  
.....  
.....  
.....[2]

- (ii) State and explain whether you think David will regard this ratio as satisfactory.

Will David be satisfied?.....[1]

Explanation.....

.....  
.....[1]

David Hoon purchases all his goods on credit. He is allowed a period of 60 days in which to pay his accounts. For the year ended 28 February 2005 his purchases were \$47 600.

**REQUIRED**

(d) (i) Calculate David's payment period for creditors. Show your workings.

.....  
.....  
.....  
.....[2]

(ii) State **one** possible **advantage** to David of paying his creditors before the due date.

.....  
.....[1]

(iii) State **one** possible **disadvantage** to David of paying his creditors before the due date.

.....  
.....[1]

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[Total: 17]

- 5 Maria Mafule is a sole trader. She sells leather goods to retail shops. Her financial year ends on 30 September. She provided the following information:

For the year ended 30 September 2006

	\$	\$
Sales cash	13 000	
credit	<u>47 000</u>	60 000
Purchases cash	5 000	
credit	<u>39 000</u>	44 000

At 30 September 2006

	\$
Stock	3900
Debtors	5200
Creditors	4200
Bank overdraft	2800

Maria decides to compare her liquidity position on 30 September 2006 with that on 30 September 2005.

#### REQUIRED

- (a) Complete the table on the following page to show the ratios for Maria's business for the year ended 30 September 2006. You may use the space below for your workings.

Calculations should be correct to **two** decimal places for (i) and (ii) and should be rounded up to the next whole day for (iii) and (iv).

Workings

Place the ratios you have calculated into the box below.

	Ratio	Year ended 30 September 2005	Year ended 30 September 2006
(i)	Current ratio	2.39 : 1	
(ii)	Quick ratio	1.06 : 1	
(iii)	Collection period for debtors	34 days	
(iv)	Payment period for creditors	26 days	

[6]

(b) For **each** of the following ratios suggest **one** possible reason which could account for the change in the ratio between 30 September 2005 and 30 September 2006.

Current ratio

.....

.....

Quick Ratio

.....

.....

[2]

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(c) For **each** of the following ratios suggest **two** possible reasons which could account for the change in the ratio between 30 September 2005 and 30 September 2006.

Collection period for debtors

(i) .....

.....

(ii) .....

.....

Payment period for creditors

(i) .....

.....

(ii) .....

..... [4]

Maria Mafula is interested in comparing her results with those of another business and has obtained the final accounts of some other businesses in the same city.

**REQUIRED**

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(d) Explain **three** factors which Maria should bear in mind when attempting to compare her results with the accounts she has obtained relating to other businesses.

(i) .....

.....

(ii) .....

.....

(iii) .....

..... [6]

**[Total: 18]**

- 5 Mona El Tawil is a sole trader. Her financial year ends on 31 December. She provided the following information:

**For the year ended 31 December 2006**

	\$	\$
Sales – cash	115 000	
credit	<u>275 000</u>	390 000
Purchases – cash	5 000	
credit	<u>465 000</u>	470 000

**At 31 December 2006**

	\$
Debtors	29 000
Creditors	40 000
Stock	34 000
Bank	7 000 debit
Fixed assets	180 000

Mona El Tawil decides to compare her position with that at the end of the previous financial year.

**REQUIRED**

- (a) Complete the table on page 19 to show the ratios for Mona El Tawil's business for the year ended 31 December 2006. You may use the space below for your workings.

Calculations should be correct to **two** decimal places for (i) and (ii) and should be rounded up to the next whole day for (iii) and (iv).

Use the space below for your workings

Place the ratios you have calculated for 5 (a) into the table below.

	Ratio	Year ended 31 December 2005	Year ended 31 December 2006
(i)	Current ratio	2.25 : 1	
(ii)	Quick ratio	0.75 : 1	
(iii)	Collection period for debtors	30 days	days
(iv)	Payment period for creditors	24 days	days

[6]

(b) Explain why the quick ratio is more reliable than the current ratio as an indicator of liquidity.

.....

.....

.....

.....

..... [2]

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(c) State whether Mona El Tawil will be satisfied with the change in the quick ratio.

..... [1]

(d) Suggest **one** possible reason which could account for the change in the current ratio.

.....

..... [2]

(e) State and explain whether you think Mona El Tawil will be satisfied with the change in the debtors' collection period.

(i) Will she be satisfied? ..... [1]

(ii) Explanation ..... [2]

.....

- (f) Explain how the change in the debtors' collection period may have affected the payment period for creditors.

.....  
 .....  
 ..... [2]

- (g) Name **one** other ratio which would help Mona El Tawil assess the liquidity position.

..... [1]

Mona El Tawil would like to compare her results with those of other businesses.

She is aware that even comparing with a business of a similar size dealing in similar goods can produce misleading results.

**REQUIRED**

- (h) List **four** things Mona El Tawil should consider when comparing her results with those of a similar business.

The first has been completed as an example.

- (i) *There may be differences that affect profitability e.g. one business may rent premises and the other business may own premises.*

- (ii) .....
- .....
- .....

- (iii) .....
- .....
- .....

- (iv) .....
- .....
- ..... [3]

[Total: 20]

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- 3 (a) Complete the missing items (i) to (viii) in Farouk's balance sheet.

Farouk  
Balance Sheet at 30 September 2007

	Cost	Provision for depreciation	(i) <input style="width: 100%;" type="text"/>
	\$	\$	\$
Fixed assets			
Machinery	2 800	700	2 100
Fixtures and fittings	1 200	(ii) <input style="width: 100%;" type="text"/>	900
	<u>4 000</u>	<u>1 000</u>	<u>3 000</u>
Current assets			
Stock		5 200	
Debtors		(iii) <input style="width: 100%;" type="text"/>	
Cash and bank		<u>1 100</u>	
		14 900	
Less Current liabilities			
Creditors		<u>3 800</u>	
(iv) <input style="width: 100%;" type="text"/>			<u>11 100</u>
Net assets			(v) <input style="width: 100%;" type="text"/>
Financed by			
Capital at 1 October 2006			13 000
Add (vi) <input style="width: 100%;" type="text"/>			<u>6 700</u>
			19 700
Less drawings			(vii) <input style="width: 100%;" type="text"/>
Capital at 30 September 2007			(viii) <input style="width: 100%;" type="text"/>

[8]

(b) From the information in part (a) above, calculate to **two** decimal places:

(i) Farouk's current ratio;

.....  
.....  
.....  
..... [4]

(ii) Farouk's return on opening capital employed.

.....  
.....  
.....  
..... [4]

(c) Farouk's brother Ahmed has a business which has a higher return on capital employed than Farouk's business. Suggest **two** reasons for this difference.

(i) ..... [www.igcseaccounts.com](http://www.igcseaccounts.com) .....

.....  
.....  
.....

(ii) .....

.....  
.....  
..... [4]

[Total: 20]

- 5 Marie Mutunda is a sole trader. Her financial year ends on 31 December. She provided the following information.

For  
Examiner's  
Use

For the year ended 31 December 2009

	\$	\$
Sales – cash	115 000	
credit	<u>275 000</u>	390 000
Purchases – cash	5 000	
credit	<u>465 000</u>	470 000

At 31 December 2009

Trade receivables (debtors)	29 000
Trade payables (creditors)	40 000
Inventory (stock)	34 000
Bank	7 000 debit
Non-current assets (fixed assets)	180 000

Marie Mutunda decides to compare her position with that at the end of the previous financial year.

#### REQUIRED

- (a) Complete the table on the following page to show the ratios for Marie Mutunda's business for the year ended 31 December 2009. You may use the space below for your workings.

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Calculations should be correct to **two** decimal places for (i) and (ii) and should be rounded up to the next whole day for (iii) and (iv).

Use the space below for your workings.

Place the ratios you have calculated for 5 (a) into the table below.

For  
Examiner's  
Use

	Ratio	Year ended 31 December 2008	Year ended 31 December 2009
(i)	Current ratio	2.25:1	
(ii)	Quick ratio	0.75 : 1	
(iii)	Collection period for debtors	30 days	days
(iv)	Payment period for creditors	24 days	days

[8]

(b) (i) Explain why the quick ratio is more reliable than the current ratio as an indicator of liquidity.

.....

.....

.....

..... [3]

(ii) Explain whether Marie Mutunda will be satisfied with the change in the quick ratio.

.....

.....

.....

..... [3]

(c) (i) State and explain whether you think Marie Mutunda will be satisfied with the change in the debtors' collection period.

Will she be satisfied? .....

Explanation .....

..... [3]

(ii) Explain how the change in the debtors' collection period may have affected the payment period for creditors.

.....

.....

..... [2]

(iii) Marie Mutunda’s creditors allow her a credit period of 21 days.

Explain **two** disadvantages to Marie Mutunda of **not** paying the creditors within the set period.

1 .....

.....

2 .....

..... [2]

Marie Mutunda would like to compare her results with those of other businesses.

She is aware that even comparing with a business of a similar size dealing in similar goods can produce misleading results.

**REQUIRED**

(d) List **four** things Marie Mutunda should consider when comparing her results with those of a similar business.

The first has been completed as an example.

(i) *There may be differences that affect profitability e.g. one business may rent premises and the other business may own premises.*

(ii) .....

.....

.....

(iii) .....

.....

.....

(iv) .....

.....

..... [3]

For  
Examiner's  
Use

In addition to Marie Mutunda, the owner, other people are also interested in the financial statements (final accounts) of Marie Mutunda’s business.

For  
Examiner's  
Use

**REQUIRED**

- (e) List **two** business people (excluding the owner) who would be interested in Marie Mutunda’s financial statements (final accounts).

In each case state **one** reason for that person’s interest.

(i) Business person .....

Reason for their interest .....

.....

..... [2]

(ii) Business person .....

Reason for their interest .....

.....

..... [2]

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[Total: 28]

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- 4 Electra and Zorba each run a different type of restaurant.

For the year ended 31 August 2008 they have recorded the following information:

	Electra's restaurant	Zorba's restaurant
	\$	\$
Sales	112 000	80 000
Cost of sales	95 200	60 000
Expenses	5 600	8 000
Stock at 1 September 2007	2 000	7 000
Stock at 31 August 2008	2 500	6 200

For  
Examiner's  
Use

### REQUIRED

- (a) For **each** restaurant, calculate the following ratios, correct to **one** decimal place. Use the boxes on the following page for your workings. Write your answer for **each** ratio in the table below.

		Electra's restaurant	Zorba's restaurant
(i)	Percentage of gross profit to sales		
(ii)	Percentage of net profit to sales		
(iii)	Rate of stock turnover		

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[12]

- (b) For **each** of the following ratios, suggest **one** business reason to explain the difference in the ratios between Electra's and Zorba's restaurants.

Percentage of gross profit to sales	Reason
Rate of stock turnover	Reason

[4]

[Total: 16]

WORKINGS

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Examiner's  
Use

	Electra's restaurant	Zorba's restaurant
(i)		
(ii)		
(iii)	www.igcseaccounts.com	

- 5 Kalpna Khan started a business on 1 April 2007. On that date she rented premises larger than she required so that she had space for future expansion. She employs ten staff to make exclusive hand-made sweets and chocolates, which are sold to department stores and personal customers.

For  
Examiner's  
Use

She provided the following information:

ratio	Year ended 31 March 2008	Year ended 31 March 2009
percentage of gross profit to sales	25 %	21 %
percentage of net profit to sales	10 %	9 %

**REQUIRED**

- (a) Suggest **two** reasons for the fall in the percentage of **gross** profit to sales.

(i) .....

.....

(ii) .....

..... [2]

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- (b) Explain **one** way in which the percentage of **net** profit to sales could be increased.

.....

..... [1]

Kalpna Khan is interested in the effect of expenses on her profitability.

**REQUIRED**

- (c) Using the information in the table above, calculate the percentage of expenses to sales for **each** year. Show your calculations.

(i) Year ended 31 March 2008

.....

.....

(ii) Year ended 31 March 2009

.....

..... [2]

- (d) Explain how the change in the percentage of expenses to sales has affected the efficiency of the business.

For  
Examiner's  
Use

.....

.....

..... [2]

Kalpna Khan is allowed a period of 60 days in which to pay her creditors. She allows her debtors a period of 30 days in which to pay their accounts.

On 31 March 2009 Kalpna Khan owed \$44 500 to her creditors and her debtors owed \$38 500.

Kalpna Khan's purchases and sales for the year ended 31 March 2009 were:

		\$
Purchases – cash		4 000
	credit	320 000
Sales – cash		50 000
	credit	400 000

**REQUIRED**

- (e) Complete the table below to show the ratios for the year ended 31 March 2009.

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Calculations should be rounded up to the next whole day.

ratio	Year ended 31 March 2008	Year ended 31 March 2009
payment period for creditors	61 days	.....days
collection period for debtors	29 days	.....days

[4]

Use the space below for your workings.

(f) Using the figures in the table above, explain the effect of the change in the ratios on the liquidity of Kalpna Khan's business.

For  
Examiner's  
Use

.....  
.....  
..... [2]

(g) Explain **two** ways in which Kalpna Khan could improve the collection period for debtors.

(i) .....  
.....  
(ii) .....  
..... [2]

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Kalpna Khan wishes to compare her results with those of a similar business. She is aware that there are problems in making such a comparison.

For  
Examiner's  
Use

**REQUIRED**

(h) Explain how **each** of the following affects inter-firm comparison. Use examples to illustrate your answers.

The first has been completed as an example.

(i) Different type of expenses

*One business may own premises, another may rent premises. This affects the expenses and the profit and the profitability ratios – making comparison difficult.*

(ii) Non-monetary factors

.....  
.....  
.....  
.....

(iii) Accounting policies

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.....  
.....  
.....  
..... [4]

**[Total: 19]**

- 3 Dindas has prepared his final accounts for the year ended 30 September 2009 and his balance sheet is as follows.

For  
Examiner's  
Use

Dindas  
Balance Sheet at 30 September 2009

	\$	\$	\$
Fixed assets at net book value			9 600
Current assets			
Stock		2 400	
Debtors		11 200	
Bank		3 250	
Prepaid expenses		<u>850</u>	
		17 700	
Current liabilities			
Creditors	8 100		
Accrued expenses	<u>1 300</u>		
		<u>9 400</u>	
Net current assets			<u>8 300</u>
			17 900
Long term liabilities			
Bank loan repayable 2012			<u>6 200</u>
			<u>11 700</u>
Financed by:			
Capital at 1 October 2008			10 000
Add: Net profit			<u>12 500</u>
			22 500
Less: Drawings			<u>10 800</u>
Capital at 30 September 2009			<u>11 700</u>

**REQUIRED**

- (a) From the information in Dindas's balance sheet above, calculate the following. Show your workings and give the ratios to **two** decimal places.

- (i) Current ratio

.....

.....

.....

.....

.....

.....

[3]

(ii) Quick ratio

.....

.....

.....

.....

..... [4]

(iii) Working capital

.....

.....

..... [3]

Dindas wishes to know the effect on his working capital of making changes to his business.

**REQUIRED**

(b) In the table below, for each proposed change, place a tick (✓) under the correct heading to show the effect on his working capital.

	Working capital		
	Increase	Decrease	No effect
Introduce additional money as capital			
Reduce debtors by collecting outstanding amounts			
Repay outstanding amount of loan from bank			
Reduce personal drawings			

[8]

[Total: 18]

4 Helmut Lang is a trader. All his sales and purchases are made on credit terms.

He provided the following information for the year ended 30 April 2010.

For  
Examiner's  
Use

	\$
Revenue (sales)	430 500
Inventory (stock) 1 March 2009	25 200
Inventory (stock) 30 April 2010	28 000
Ordinary goods purchased (Purchases)	347 200

**REQUIRED**

(a) Explain the meaning of **each** of the following terms.

(i) Mark-up

.....

..... [1]

(ii) Margin

.....

..... [1]

(b) (i) Calculate the percentage mark-up.

Show your workings.

.....

.....

.....

.....

..... [4]

(ii) Calculate the percentage margin.

Show your workings.

.....

.....

.....

.....

..... [2]

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(c) Suggest **two** ways in which Helmut Lang could improve his profit margin.

- 1 .....
- 2 ..... [2]

For  
Examiner's  
Use

Helmut Lang provided the following information at 30 April 2010.

	\$
Inventory (stock)	28 000
Trade receivables (trade debtors)	36 300
Trade payables (trade creditors)	29 600
Petty cash	100
Bank overdraft	13 200

**REQUIRED**

(d) Calculate the current ratio. The calculation should be correct to **two** decimal places.

Show your workings.

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.....

.....

.....

..... [3]

(e) Calculate the quick ratio. The calculation should be correct to **two** decimal places.

Show your workings.

.....

.....

.....

..... [3]

Helmut Lang's quick ratio at 30 April 2009 was 1.25:1.

For  
Examiner's  
Use

**REQUIRED**

- (f) State and explain whether you think that Helmut Lang will be satisfied with the change in the quick ratio.

Will he be satisfied? .....

Explanation .....

.....

..... [3]

- (g) In the table below place a tick (✓) under the correct heading to show how **each** of the following transactions would affect Helmut Lang's working capital.

The first one has been completed as an example.

	transaction	effect on working capital		
		increase	decrease	no effect
(i)	introduction of further capital	✓		
(ii)	payment of creditor in cash			
(iii)	repayment of long term loan			

[2]

[Total: 21]

- 6 Ajit Singh is a trader. His financial year ends on 31 March.

He provided the following information for the year ended 31 March 2010.

	\$
Sales	54 000
Cost of sales	38 000
Expenses	9 000

Ajit Singh decided to compare his results with those for the previous financial year.

### REQUIRED

- (a) Complete the table to show the ratios for Ajit Singh's business for the year ended 31 March 2010. You may use the space below for your workings.

Calculations should be to **two** decimal places.

	Ratio	Year ended 31 March 2009	Year ended 31 March 2010
<b>(i)</b>	Percentage of gross profit to sales	35.50%	.....
<b>(ii)</b>	Percentage of net profit to sales	10.45%	.....

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[6]

Workings

(b) For each of the ratios in (a) comment on the change and suggest one reason for this.

(i) Percentage of gross profit to sales

Comment .....  
.....  
.....

Reason for change .....  
..... [4]

(ii) Percentage of net profit to sales

Comment .....  
.....  
.....

Reason for change .....  
..... [4]

(c) Ajit Singh is concerned that his working capital has reduced during the year ended 31 March 2010. [www.igcseaccounts.com](http://www.igcseaccounts.com)

Explain two disadvantages to Ajit Singh of having insufficient working capital

(i) .....  
.....

(ii) .....  
..... [4]

[Total: 18]

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5 Mark Utaka prepared the following trial balance **after** the calculation of the gross profit for the year ended 31 October 2010.

For  
Examiner's  
Use

	\$	\$
Gross profit		85 000
Expenses	49 000	
Inventory (stock) 31 October 2010	41 000	
Non-current (fixed) assets	300 000	
Trade receivables (debtors)	36 000	
Trade payables (creditors)		38 000
Bank	27 000	
Capital 1 November 2009		<u>330 000</u>
	<u>453 000</u>	<u>453 000</u>

Additional information:

- 1 The cost of sales was \$340 000.
- 2 The non-current (fixed) assets were purchased on 30 September 2010. No depreciation is charged in the year of purchase.

**REQUIRED**

(a) Calculate the following ratios. The calculations should be correct to **two** decimal places.

Show your workings.

(i) Percentage of gross profit to sales

.....

.....

.....

.....

..... [3]

(ii) Percentage of profit for the year (net profit) to sales

.....

.....

.....

.....

..... [3]

(iii) Return on capital employed (ROCE), using the capital on 1 November 2009

For  
Examiner's  
Use

.....  
.....  
.....  
.....  
..... [2]

(b) State **three** reasons why **each** of the above ratios is important to Mark Utaka.

(i) Percentage of gross profit to sales

1 .....  
.....  
2 .....  
.....  
3 .....  
..... [3]

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(ii) Percentage of profit for the year (net profit) to sales

1 .....  
.....  
2 .....  
.....  
3 .....  
..... [3]

(iii) Return on capital employed (ROCE)

For  
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Use

1 .....

.....

2 .....

.....

3 .....

..... [3]

Mark Utaka provided the following information about his inventory (stock).

	Cost	Net realisable value
	\$	\$
Inventory (stock) 1 November 2009	39 000	42 000
Inventory (stock) 31 October 2010	43 000	41 000

**REQUIRED**

(c) State the difference between cost and net realisable value.

.....  
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.....  
.....  
..... [2]

(d) Explain why the inventory (stock) at 31 October 2010 was included in the financial statements (final accounts) at net realisable value rather than at cost.

.....  
.....  
..... [2]

After the preparation of the income statement (trading account) for the year ended 31 October 2010 it was discovered that the inventory (stock) on 1 November 2009 had been included at net realisable value.

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**REQUIRED**

- (e) Complete the following table to indicate the effect of this error on the cost of sales, the gross profit and the net profit for the year ended 31 October 2010.

Place a tick (✓) under the correct heading to indicate whether the items would be overstated or understated.

	Overstated	Understated
Cost of sales		
Gross profit		
Profit for the year (Net profit)		

[3]

- (f) Explain **two** ways in which Mark Utaka could improve his rate of inventory (stock) turnover.

(i) .....  
.....

(ii) .....  
.....

[2]

**[Total: 26]**

6 Anna D’Souza is a trader. She buys and sells on both cash and credit terms.

Anna D’Souza allows her credit customers 21 days credit and her credit suppliers allow her 30 days credit.

The following information is available.

For the year ended 31 March 2011

	Purchases	Sales
	\$	\$
Cash	8 700	11 400
Credit	42 500	52 800

At 31 March 2011

	\$
Trade receivables	4100
Trade payables	5300
Inventory	3800
Bank overdraft	2900

**REQUIRED**

(a) Calculate the payment period for trade payables. Your answer should be rounded up to the next whole day. Show your workings.

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.....

.....

.....

..... [2]

(b) State and explain whether Anna D’Souza’s credit suppliers will regard the payment period as satisfactory.

Will they be satisfied? .....

Explanation .....

.....

..... [3]

For  
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Use

- (c) Calculate the collection period for trade receivables. Your answer should be rounded up to the next whole day. Show your workings.

.....  
.....  
.....  
..... [2]

- (d) The collection period for trade receivables for the year ended 31 March 2010 was 24 days.

State and explain whether the change in the collection period is an advantage or a disadvantage to Anna D'Souza.

Advantage or disadvantage? .....

Explanation .....

.....  
..... [3]

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- (e) Explain **two** ways in which Anna D'Souza could improve the collection period for trade receivables.

(i) .....

.....

(ii) .....

..... [2]

- (f) Calculate the current ratio. The calculation should be correct to **two** decimal places. Show your workings.

.....  
.....  
.....  
..... [2]

(g) State and explain whether Anna D'Souza will be satisfied with the ratio you calculated in (f).

For  
Examiner's  
Use

Will she be satisfied? .....

Explanation .....

.....  
..... [2]

(h) Explain **two** ways in which Anna D'Souza could increase her current ratio.

(i) .....

.....

(ii) .....

..... [2]

[Total: 18]

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- 6 Cole Limited and Fanza Limited are both electrical wholesalers. They provided the following information at 31 March 2012.

For  
Examiner's  
Use

	Cole Limited	Fanza Limited
	\$	\$
Inventory	18 000	36 000
Trade receivables	36 000	60 000
Trade payables	21 000	63 000
Cash at bank	4 800	
Bank overdraft		17 000

### REQUIRED

- (a) Complete the following table to show the figures for Fanza Limited. In each case, state the formula and show your workings.

		Cole Limited	Fanza Limited
(i)	Working capital	\$37 800	Formula  Calculation
(ii)	Current ratio	2.8:1	Formula  Calculation
(iii)	Quick (acid test) ratio	1.9:1	Formula  Calculation

[9]

(b) (i) State which company has the better current ratio. Give a reason for your answer.

.....  
.....  
.....  
..... [3]

(ii) State which company has the better quick (acid test) ratio. Give a reason for your answer.

.....  
.....  
.....  
..... [3]

Fanza Limited wishes to expand its business and needs to raise extra finance. It is considering issuing either preference shares or debentures.

**REQUIRED**

(c) State **two** features of preference shares.

(i) .....  
.....  
.....  
(ii) .....  
.....  
..... [4]

(d) State **two** features of debentures.

(i) .....  
.....  
.....  
(ii) .....  
.....  
..... [4]

[Total: 23]

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6 Hart is a trader. His balance sheet at 30 April 2012 was as follows.

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Balance Sheet at 30 April 2012

	\$	\$	\$
Tangible non-current assets (at book value)			9 500
Current assets			
Inventory		3 900	
Trade receivables		6 600	
Other receivables		780	
Cash		<u>120</u>	
		11 400	
Current liabilities			
Trade payables	9 700		
Bank overdraft	<u>4 100</u>	<u>13 800</u>	
Net current assets			<u>(2 400)</u>
			<u>7 100</u>
Financed by			
Capital			
Opening balance			10 000
Profit for the year			<u>400</u>
			10 400
Less drawings			<u>3 300</u>
			<u>7 100</u>

REQUIRED

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(a) State what is meant by a business being a going concern.

.....  
 ..... [2]

(b) (i) State the formula for the calculation of the current ratio.

.....  
 ..... [1]

(ii) Calculate Hart's current ratio at 30 April 2012.  
 Show your workings and give your answer to **two** decimal places.

.....  
 .....  
 .....  
 ..... [2]

(iii) State and explain whether Hart will be satisfied with his current ratio.

Will he be satisfied? .....

Reason .....

.....

..... [3]

Hart believes that he could make more profit if he increased his sales. He decided to ask the bank for a long-term loan of \$10 000 to help him buy additional inventory.

If the bank agreed to the loan, interest at 5% per annum would be charged.

Hart intended to use the loan to repay the bank overdraft and to purchase additional inventory.

**REQUIRED**

(c) In the table below, place a tick (✓) under the correct heading to show the effect taking the loan will have on the following items.

	Increase	Decrease	No effect
Capital			
Current assets			
Current liabilities			
Non-current liabilities			

[4]

(d) State **two** reasons why the bank would want to see Hart's financial statements before agreeing to the loan.

(i) .....

.....

(ii) .....

..... [4]

(e) The bank decided to refuse Hart’s application for a loan.  
Suggest **two** reasons for the bank’s decision.

(i) .....

.....

(ii) .....

..... [4]

(f) Suggest **two** other possible sources of finance for Hart’s business.

(i) .....

.....

(ii) .....

..... [4]

[Total: 24]

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5 Tariq Osman is a trader. His financial year ends on 30 September.

All his sales are made on credit terms.

The selling price is calculated by marking up the cost price by 25%.

Tariq Osman provided the following information.

		\$
1 October 2011	Trade receivables	4 950
During the year ended 30 September 2012:		
	Cheques received from credit customers	56 360
	Discount allowed to credit customers	1 640
	Bad debts written off	1 260
30 September 2012	Trade receivables	6 290
	Trade payables	6 150
	Inventory	5 800
	Bank overdraft	1 240
	Petty cash	100

**REQUIRED**

(a) Calculate the credit sales for the year ended 30 September 2012.

Your answer may be in the form of a ledger account or an arithmetic calculation.

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[6]

(b) Using your answer to (a) and the information above, calculate the gross profit for the year ended 30 September 2012.

Show your workings.

.....

.....

.....

.....

.....

[2]

For  
Examiner's  
Use

(c) Using your answers to (a) and (b), calculate the cost of sales.

Show your workings.

.....  
.....  
.....  
..... [2]

(d) Assuming that Tariq Osman's average inventory is \$6000, calculate the rate of inventory turnover.

The calculation should be correct to **two** decimal places.

Show your workings.

.....  
.....  
.....  
..... [2]

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(e) Suggest **two** ways in which the rate of inventory turnover could be improved.

1 .....

2 .....

..... [4]

(f) Calculate the current ratio.

The calculation should be correct to **two** decimal places.

Show your workings.

.....  
.....  
.....  
..... [3]