



Worksheet 3: Identifying analysis in simple sentences answers

- 1 The new machine has negative NPV (Net present value) therefore/as a result Z Limited should not purchase the machine.
- 2 The directors should agree with the shareholders because although the loan interest must be paid there is no requirement to pay a dividend.
- 3 Loan interest must be paid whether a profit is made or not so the company has less flexibility.
- 4 Setting a high price will lead to decrease in demand because fewer people would be able to afford our products.
- 5 Over absorption could lead to a higher selling price which could lead to lower demand and lower profit.
- 6 The company needs to generate enough cashflow to repay the loans so may find itself with cashflow problems.
- 7 The advantage of setting up the business as a sole trader is that you are your own boss. Therefore/as a result you do not have to waste time consulting anyone else so can take decisions straightaway.
- 8 The trend would appear to be towards negative retained earnings which may lead to no dividends at a future date.