



Worksheet 4: Identifying analysis in paragraphs answers

1 The loan from the bank will cost Sergio more interest than borrowing from his friend Miguel.

With the loan from the bank Sergio has more pressure to earn profits as the interest will be paid irrespective of profits. The loan from the bank need security and Sergio could lose his business if he fails to repay as the bank will take his assets.

2 The claim is material in the context of Y Limited's income statement (loss from operations).

The company's lawyers have confirmed that Y Limited has an 80% probability of losing the case therefore its obligation to pay is probable. The sum \$36 000 to be paid is a reliable estimate therefore Y Limited should make a provision of \$36 000 as an expense in the statement of profit and loss and show the same amount as current liabilities in the statement of financial position.

3 M Ltd have now eliminated a rival and have gained the partnership's list of customers to widen their customer base which may lead to greater sales revenue and therefore profit. M Ltd will also gain synergy/economies of scale.

4 The increase in import duty caused the cost of the machine to increase by \$25 000. Payback period is 3 years 117 days. Accounting rate of return (ARR) is 11.54%. Net present value (NPV) is (\$15 100) which is changed from positive NPV to negative NPV due to the increase in the cost of the machine.

5 Malcolm will receive the dividend of \$4000 as a shareholder. As a partner his share of profit was \$6000. It would therefore appear that his income will be lower. However, he is no longer providing labour to the partnership, so he is free to work and earn elsewhere.