

Analysis and interpretation of accounting ratios

J11/12/ (11/13 same)

2(f) Complete the following statement:

working capital is defined as Less[2]

(g) Bailee's trial balance at 31 March 2011 included the following items:

	\$
Trade payables	1 800
Trade receivables	1 300
Bank (Dr)	3 500
Drawings	4 700
Inventory	2 900
Provision for depreciation	3 300

(i) Calculate Bailee's working capital. Show your workings.

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.....[3]

(ii) Calculate Bailee's quick ratio. Show your workings and give your answer to two decimal places.

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

Ahsan Zarif, TCS <PAF Chapter>

J11/12/ (11/13 same)

3 Alcazar has a clothing business and sells for cash and on credit.

A summary of his cash book for the year ended 31 March 2011 shows the following:

\$	
Deposits for the year (cash and credit amounts from customers)	15 270
Payments for the year (to suppliers, expenses and drawings)	13 950

You are given the following additional information:

Cash sales for the year deposited at the bank \$2 680

	1 April 2010	31 March 2011
	\$	\$
Trade receivables	3 140	4 080
Inventory	1 780	1 920

An analysis of Alcazar's payments shows:

	\$
Purchases from suppliers	9 560
Carriage inwards	280
Rent	600
Electricity	360
Insurance	580
Wages paid to staff	1 370
Drawings	<u>1 200</u>
	<u>13 950</u>

REQUIRED

(a) Calculate Alcazar's credit sales for the year. Show your workings.

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.....[4]

- (b) Prepare Alcazar's income statement (showing the trading account) for the year ended 31 March 2011.

Alcazar
Income Statement for the year ended 31 March 2011

	\$	\$

[12]

- (c)(i) Calculate Alcazar's percentage of gross profit to sales for the year. Show your workings and give your answer to two decimal places.

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.....[3]

(ii) Calculate Alcazar’s percentage of net profit to sales for the year. Show your workings and give your answer to two decimal places.

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[3]

(d) Alcazar did not bank additional cash sales of \$2 500 which were, therefore, not included in his income statement.

(i) Recalculate the new percentage of gross profit to sales. Show your workings and give the calculation to **two** decimal places.

.....

[3]

(ii) State whether including these cash sales has **increased** or **decreased** the percentage of gross profit to sales.

.....[1]
 [Total: 26]

J11/12/ (11/13 same)

5(e) Piranha Limited is proposing to take a three year bank loan.

In the table below, place a tick (✓) under the correct heading to show the effect of taking the bank loan on the item.

	Increase	Decrease	No effect
Net profit			
Working capital			
Return on capital employed			

[6]

J11/21

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		4 100
Trade payables		5 300
Inventory		3 800
Bank overdraft		2 900

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]

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

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.....
.....[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

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.....[3]

(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.

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.....[2]

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

Will she be satisfied?

Explanation

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.....[2]

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

(i)

.....

(ii)

.....[2]

[Total: 18]

6 Hart is a trader. His Statement of Financial Position at 30 April 2012 was as follows.

Statement of Financial Position 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		120	
		11 400	
Current liabilities			
Trade payables	9 700		
Bank overdraft	4 100	(13 800)	
Net current assets			(2 400)
			7 100
Financed by:			
Capital			
Opening balance			10 000
Profit for the year			400
			10 400
Less: drawings			(3 300)
			7 100

REQUIRED

(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

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.....[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]

J11/22

6 Salma Ali is a trader. Her income statement for the year ended 31 January 2011 included the following:

	\$
Revenue (sales)	585 000
Purchases	390 000
Inventory 1 February 2010	31 600
Inventory 31 January 2011	32 100
Office expenses	51 300
Selling expenses	45 200

Salma Ali was disappointed with her results as they were worse than those of the previous financial year.

She decided to compare her results with those of other similar businesses for the same period, and obtained some average ratios from her trade association.

REQUIRED

(a) Complete the table below to show the ratios for Salma Ali's business for the year ended 31 January 2011

Calculations should be correct to two decimal places.
You may use the space below for your workings.

Ratio	Average for the trade	Salma Ali's business
percentage of gross profit to sales	36.50%	%
percentage of net profit to sales	15.25%	%
rate of inventory turnover	13.60 times	times

[9]

(b) For each ratio suggest one possible reason for the difference between Salma Ali's ratio and the average ratio for the trade.

(i) Percentage of gross profit to sales

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(ii) Percentage of net profit to sales

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(iii) Rate of inventory turnover

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[6]

(c) Suggest three factors which Salma Ali should consider when comparing her business to other businesses.

(i)

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(ii)

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(iii)

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[6]

[Total: 21]

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J12/12

5 The following is the trial balance of Rachel Smith at 31 March 2012.

	\$	\$
Bank	5 280	
Cash	160	
Purchases	42 500	
Revenue		63 100
Inventory at 1 April 2011	3 100	
Carriage inwards	1 050	
Carriage outwards	540	
Purchase returns		1 900
Premises	38 600	
Equipment	9 600	
Provision for depreciation of equipment		3 840
Trade receivables	5 000	
Trade payables		3 900
Bad debts	190	
General expenses	1 620	
Property tax	6 000	
Wages	7 100	
Capital		48 000
	120 740	120 740

The following additional information is available at 31 March 2012.

- Inventory was valued at \$3 750.
- A bonus of \$180 is to be accrued in the wages account.
- Property tax includes \$1 200 paid in advance.
- Depreciation of \$1 920 is to be provided for the year.
- A provision for doubtful debts of 3% of the trade receivables is to be created.

REQUIRED

- (a) Prepare the income statement for the year ended 31 March 2012.

Rachel Smith

Income Statement for the year ended 31 March 2012

	\$	\$

[16]

(b) (i) From your answer to (a), calculate the percentage of gross profit to revenue. Show your workings and give your answer to **two** decimal places.

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.....[2]

(ii) Suggest **one** way in which Rachel Smith could improve this percentage.

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

(c) (i) From your answer to (a), calculate the percentage of profit for the year to revenue. Show your workings and give your answer to two decimal places.

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

(ii) Suggest one way in which Rachel Smith could improve this percentage.

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

[Total: 24]

Ahsan Zarif, TCS <PAF Chapter>

J12/13

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

	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]

J12/21

3 Mark Mutanda is a business consultant. His financial year ends on 31 January. He provided the following information on 31 January 2012.

	\$
Income from clients	82 100
Insurance	5 630
Wages and salaries	33 000
Rent received	2 600
Rates paid	5 200
Provision for doubtful debts 1 February 2011	154
Loan interest paid	900
Office expenses	17 177
Cash drawings	16 000
Capital 1 February 2011	200 000

Additional information

- 1 On 31 January 2012 insurance prepaid amounted to \$2 320 and wages of \$3 200 are to be accrued.
- 2 The rent received covers a period of 13 months to 28 February 2012.
- 3 The office expenses include \$214 for Mark Mutanda’s home telephone bill.
- 4 A 10-year loan of \$20 000 was received on 1 February 2011. Interest is charged at 6% per annum.
- 5 The provision for doubtful debts is maintained at 2% of the trade receivables. On 31 January 2012 the trade receivables totalled \$6 800.
- 6 Fixtures and fittings cost \$5 250. They are depreciated at 10% per annum on the straight line method.
- 7 Office equipment was valued at \$1 900 on 1 February 2011. Additional office equipment costing \$600 was purchased during the year. There were no sales of office equipment during the year. On 31 January 2012 the office equipment was valued at \$2 100.

REQUIRED

(a) Prepare the income statement of Mark Mutanda for the year ended 31 January 2012.

Mark Mutanda
Income Statement for the year ended 31 January 2012

	\$	\$

[18]

(b) Write up the capital account of Mark Mutanda for the year ended 31 January 2012.

Mark Mutanda
Capital account

Date	Details	\$	Date	Details	\$

[6]

(c) Calculate the return on capital employed (ROCE) for Mark Mutanda. Use the total capital employed on 1 February 2011. Show your workings and give your answer to **two** decimal places.

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[3]

(d) Explain the importance of the return on capital employed (ROCE).

.....

[2]

(e) The return on capital employed (ROCE) is lower than it was in the previous year. Suggest one reason for this.

.....

[2]

[Total: 31]

J12/22

1 Dalia Said's total purchases for the year ended 31 March 2012 were \$33 400. On 31 March 2012, her trade payables amounted to \$2 600. Dalia Said is allowed a period of 30 days in which to pay her accounts.

REQUIRED

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

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

(e) State **one** advantage to Dalia Said of paying creditors **after** the due date.

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

(f) State **one** disadvantage to Dalia Said of paying creditors **after** the due date.

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

Dalia Said is concerned that some of her credit customers are exceeding the period of credit allowed.

(g) Suggest **three** ways in which Dalia Said could improve the collection period for trade receivables.

(i)
(ii)
(iii)[3]

J12/22

3 After the preparation of the manufacturing account for the year ended 30 April 2012, Herman Wagner prepared an income statement showing a gross profit of \$170 200 and total expenses of \$144 000.

On 1 May 2011 Herman Wagner's capital was \$130 000. On that date he borrowed \$20 000 (repayable on 30 April 2016) from Cashco Ltd.

REQUIRED

(d) Calculate the return on capital employed (ROCE) for Herman Wagner. Use the total capital employed on 1 May 2011. The calculation should be correct to **two** decimal places. Show your workings.

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

- (e) The return on capital employed (ROCE) calculated on 30 April 2011 was 19.50%.
State and explain whether Herman Wagner will be satisfied with the ratio you calculated in (d).

Will he be satisfied?

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Explanation

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.....[3]

J12/22

5 Bethany Searle provided the following information at 31 March 2012.

	\$
Trade payables	21 570
Trade receivables	19 540
Bank overdraft	2 880
Cash	100
Inventory	14 210

REQUIRED

- (c) Calculate the quick ratio. The calculation should be correct to two decimal places. Show your workings.

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.....[2]

- (d) Explain the importance of the quick ratio to Bethany Searle.

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.....[2]

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

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.....[2]

N12/12

2(e) Lynch bought goods, \$100, on credit, but he recorded this as \$1 000.

Name the type of error which has been made.

.....[1]

6 Conrad has a supermarket and sells food and other groceries. Congo has a smaller shop and only sells fresh fruit and vegetables.

The following information is available for the year ended 30 September 2012.

	Conrad \$	Congo \$
Revenue	120 000	48 000
Gross profit	42 000	26 400
Profit for the year	14 400	17 600
Capital at 1 October 2011	96 000	50 000

REQUIRED

(a) (i) For **each** business, calculate the percentage of gross profit to revenue. Show your workings and give your answers to **one** decimal place.

Conrad	Congo

[4]

(ii) Give **one** reason for the difference in the percentage of gross profit to revenue between the two businesses.

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

- (b) (i) For each business calculate the percentage of profit for the year to revenue. Show your workings and give your answers to one decimal place.

Conrad	Congo

[4]

- (ii) State **one** reason for the difference in the percentage of profit for the year to revenue between the two businesses.

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.....

.....

.....[2]

- (c) (i) For each business calculate the return on the opening capital employed. Show your workings and give your answers to one decimal place.

Conrad	Congo

[4]

- (ii) Give **one** reason for the difference in the return on opening capital employed between the two businesses.

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.....[2]

- (d) Conrad believes that he will increase his profit by increasing his sales. Explain why this may not be the case.

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.....[2]

[Total: 20]

N12/13

3 Prince makes engine parts. His financial year ends on 30 September.

The following items remained on Prince's books after the preparation of the income statement for the year ended 30 September 2012.

	\$
Bank	500 Dr
Bank loan (repayable 2018)	2 800
Capital	6 800
Equipment at cost	3 500
Inventory	3 300
Motor vehicle at cost	4 500
Other payables	900
Provision for depreciation – equipment	600
Provision for depreciation – motor vehicle	1 000
Trade payables	2 700
Trade receivables	3 000

REQUIRED

(a) Prepare Prince's Statement of Financial Position at 30 September 2012.

Prince
Statement of Financial Position at 30 September 2012

	\$	\$

[9]

Prince is interested in how easily he can turn the current assets of his business into cash and whether his business will be able to pay the current liabilities as they fall due.

REQUIRED

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

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.....[1]

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

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

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

Will he be satisfied?

Reason

.....[3]

(c)(i) State the formula for the calculation of the quick (acid test) ratio.

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

(ii) Calculate Prince's quick (acid test) ratio at 30 September 2012. Show your workings and give your answer to **two** decimal places.

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

(iii) State and explain whether Prince will be satisfied with his quick (acid test) ratio.

Will he be satisfied?

Reason

.....[3]

(d) Suggest **one** way in which Prince could encourage his customers to pay their accounts more quickly.

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

(e) Suggest **one** way in which Prince could improve his working capital.

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

[Total: 25]

N12/13

4 Mlongo buys and sells mirrors. The following information is available for the year ended 31 October 2012.

	\$
Carriage inwards	50
Carriage outwards	100
Inventory at 1 November 2011	1 300
Operating expenses	680
Purchases	4 650
Rent	780
Revenue	8 000
Returns inwards	215

Rent includes \$260 paid in advance. Additional operating expenses of \$120 are to be accrued.

REQUIRED

(a) State what is meant by the term “inventory”.

.....
 [1]

Mlongo sells three different types of mirror and provided the following information about his inventory at 31 October 2012.

Mirror type	Units in stock	Cost per unit	Selling price per unit
		\$	\$
Full-length mirror	15	55	85
Wall mirror	50	15	21
Table mirror	36	25	20

REQUIRED

(b) Calculate the value of Mlongo’s inventory at 31 October 2012. Show your workings.

.....

 [4]

- (c) From the information and your answer to **(b)**, prepare Mlongo's income statement for the year ended 31 October 2012.

Mlongo
Income Statement for the year ended 31 October 2012

	\$	\$

[9]

Mlongo knows that the rate of inventory turnover is important to a business.

REQUIRED

- (d)(i) State the formula for the calculation of the rate of inventory turnover.

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

- (ii) Calculate Mlongo's rate of inventory turnover for the year ended 31 October 2012. Show your workings and give your answer to **one** decimal place.

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.....[2]

- (e) Mlongo plans to reduce his closing inventory at 31 October 2013. State the effect of this on his rate of inventory turnover. Give a reason for your answer.

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

(f) State one type of business which will have a low rate of inventory turnover.

.....[1]
[Total: 20]

N12/22

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.

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.....[2]

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

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..... [2]

(d) Assuming that Tariq Osman's average inventory is \$6 000, calculate the rate of inventory turnover. The calculation should be correct to **two** decimal places. Show your workings.

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..... [2]

(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.

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

(g) Calculate the quick ratio (acid test ratio). The calculation should be correct to **two** decimal places. Show your workings.

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

Ahsan Zarif, TCS <PAF Chapter>

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

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

(i) Suggest one way in which Tariq Osman could improve his quick ratio (acid test ratio).

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

[Total: 26]

N12/23

1 Nadia Dhari is a trader. Her financial year ends on 30 June. She does not maintain many accounting records but was able to provide the following information at 30 June 2012.

	\$
Fixtures and fittings at book value (cost \$7 000)	5 600
Motor vehicle at book value (cost \$12 000)	6 600
Bank	4 120 debit
Trade payables	3 100
Trade receivables	3 500
Inventory	2 800
Other receivables	220
Other payables	350
Loan repayable 31 December 2020	3 000

The following adjustments are required on 30 June 2012.

- 1 A bad debt, \$70, should be written off.
- 2 The fixtures and fittings should be depreciated at 20% per annum using the reducing (diminishing) balance method.
- 3 The motor vehicle should be depreciated at 15% per annum on cost.

REQUIRED

(a) Draw up a statement of affairs for Nadia Dhari at 30 June 2012.

The statement of affairs should show the different types of assets and liabilities and the total capital at that date.

On 1 July 2011 Nadia Dhari's capital was \$8 200. On 1 December 2011 she introduced a further \$5 000 as capital which was paid into the business bank account.

During the year ended 30 June 2012 Nadia Dhari made the following drawings:

	\$
Cash	2 800
Goods	350

REQUIRED

- (b) Using the capital you calculated in (a) and the information above, calculate Nadia Dhari's profit or loss for the year ended 30 June 2012.
Your answer may be in the form of either an arithmetic calculation or a capital account.

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..... [7]

All Nadia Dhari's sales and purchases are made on credit terms. She allows her credit customers a period of 30 days in which to pay their accounts.

The credit sales for the year ended 30 June 2012 amounted to \$28 900.

REQUIRED

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

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

- (d) State whether Nadia Dhari will be satisfied with the ratio you calculated in (c).

..... [1]

- (e) Explain how Nadia Dhari's payment period for trade payables may be affected by the collection period for trade receivables.

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

[Total: 25]

N12/23

3 Daisy Matumo provides secretarial services for small businesses. Her financial year ends on 31 October. She provided the following information for the year ended 31 October 2012.

	\$
Fees from clients	35 120
Assistant's wages	18 750
Office expenses	11 265
Cost of new office equipment	3 000
Proceeds of sale of old office equipment	200
Rent received from tenant	2 750
Drawings	6 200

Additional information:

- 1 The rent received from the tenant includes \$150 which was outstanding on 1 November 2011.
- 2 On 1 November 2011 wages accrued amounted to \$300. On 31 October 2012 wages accrued amounted to \$450.
- 3 On 31 October 2012 fees due from clients amounted to \$520.
- 4 The office equipment sold during the year had cost \$3450 and had been depreciated by \$3 025 at the date of sale.
- 5 The new office equipment was purchased on 1 August 2012.
Office equipment is depreciated at the rate of 20% per annum. Depreciation is calculated from the date of purchase.
- 6 Daisy Matumo's capital on 1 November 2011 was \$60 000.

REQUIRED

(a) Prepare the income statement of Daisy Matumo for the year ended 31 October 2012.

Daisy Matumo
Income Statement for the year ended 31 October 2012

	\$	\$

- (b) Prepare the capital account of Daisy Matumo for the year ended 31 October 2012. Where a traditional "T" account is used it should be balanced and the balance brought down on 1 November 2012.

Daisy Matumo
Capital account

Date	Details	\$	Date	Details	\$

[4]

- (c) Using the capital on 31 October 2012, calculate the return on capital employed (ROCE). The calculation should be correct to **two** decimal places. Show your workings.

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.....[2]

After the preparation of the financial statements for the year ended 31 October 2012 the following errors were discovered.

- 1 Office expenses, \$100, paid from petty cash had not been transferred to the office expenses account.
- 2 No entry had been made for \$2 000 withdrawn from the bank for personal use.
- 3 No entry had been made for the purchase of a motor vehicle, \$9 100, on credit.

REQUIRED

- (d) Indicate the effect of **each** error on the return on capital employed. Give a reason for each of your answers. The first one has been completed as an example.

Error 1	Effect on return on capital employed (ROCE)	
	Increase <u>Decrease</u> No effect	
Reason	The profit for the year decreases but the capital has not changed so the return on capital decreases.	

(i) Error 2 Effect on return on capital employed (ROCE)

Increase	Decrease	No effect
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Reason

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.....[2]

(ii) Error 3 Effect on return on capital employed (ROCE)

Increase	Decrease	No effect
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Reason

.....

.....[2]

[Total: 22]

J13/12

6 Jarvis Limited provided the following information about its assets and liabilities:

At 31 March	2012	2013
	\$	\$
Machinery at book value	95 000	76 000
Fixtures and fittings at book value	11 000	36 000
Vehicle at book value	4 000	26 000
Inventory	19 000	27 000
Trade receivables	16 000	18 000
Bank	8 000	-
Trade payables	14 000	21 000
Bank overdraft	-	6 000
Long term loan	10 000	15 000

(a)(i) Calculate to **two** decimal places the current ratio at **both** 31 March 2012 and 31 March 2013.

.....

.....

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.....

.....[4]

(ii) Suggest **one** reason for the change in the current ratio.

.....

.....

.....

.....[1]

(b)(i) Calculate to **two** decimal places the quick ratio (acid test ratio) at both 31 March 2012 and 31 March 2013.

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

(ii) Suggest **one** possible effect of the change in the quick ratio (acid test ratio).

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

(c) Suggest **two** reasons for the change in the company's bank balance

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

The equity section of Jarvis Limited's Statement of Financial Positions showed the following:

At 31 March	2012	2013
	\$	\$
Ordinary shares of \$0.50 each	100 000	100 000
Retained earnings	29 000	31 000
General reserve	-	10 000

The profit for the year ended 31 March 2013 was \$26 000.

On 1 June 2012 the directors paid a dividend of \$0.03 per share. On 15 January 2013 they paid a further dividend of 8%.

(d) Prepare the appropriation account for the year ended 31 March 2013.

Jarvis Limited
Appropriation Account for the year ended 31 March 2013

	\$	\$

[7]

(e) Explain why Jarvis Limited created a general reserve.

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

(f) Explain the difference between authorised and issued share capital.

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

[Total: 24]

J13/21

4 The financial year of Sildean Ltd ends on 30 April. The following balances appeared on the books after the preparation of the income statement for the year ended 30 April 2013.

	\$
Non-current assets at cost	206 000
Provision for depreciation of non-current assets	12 500
Ordinary share capital 280 000 shares of \$0.50 each	140 000
4% Debentures	40 000
Trade payables	14 156
Trade receivables	15 400
Inventory	16 300
Petty cash	200
Bank overdraft	7 982
Provision for doubtful debts	462
General reserve 1 May 2012	10 000
Retained profits 1 May 2012	2 000

Additional information

- 1 The profit for the year ended 30 April 2013 before debenture interest was \$24 800.
- 2 During the year ended 30 April 2013 an interim ordinary share dividend of \$0.05 per share was paid.
- 3 At 30 April 2013:

A whole year's interest on debentures was accrued
No final ordinary share dividend was proposed
It was proposed to transfer \$5 000 to general reserve

(a) Calculate the retained profit for the year ended 30 April 2013.

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

(b) Prepare the Statement of Financial Position of Sildean Ltd at 30 April 2013.

Sildean Ltd
Statement of Financial Position at 30 April 2013

	\$	\$

[10]

(c)(i) Calculate the current ratio at 30 April 2013. The calculation should be correct to **two** decimal places.

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

(ii) Calculate the quick ratio at 30 April 2013. The calculation should be correct to **two** decimal places.

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

(iii) Explain the importance of the quick ratio to Sildean Ltd.

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

(iv) Suggest **two** ways in which Sildean Ltd could increase the quick ratio.

1.....

 2.....
[2]

J13/22

5 Tazeen Shah is a wholesaler. Her financial year ends on 31 January. She purchases all her goods on credit terms and is allowed 30 days credit by her suppliers. All her sales are made on credit terms and she allows her customers 21 days credit.

She provided the following information.

	31 January 2012	31 January 2013
Collection period for trade receivables	30 days	36 days
Payment period for trade payables	44 days	40 days
Current ratio	2 : 1	1.75 : 1
Return on capital employed (ROCE)	15%	18%

(a) State the purpose of calculating the collection period for trade receivables.

.....
[1]

(b) State whether Tazeen Shah will be satisfied with the change in the collection period for trade receivables. Give a reason for your answer.

Satisfied?

Reason

.....[3]

(c) State whether the credit suppliers will be satisfied with the payment period for the year ended 31 January 2013. Give a reason for your answer.

Satisfied?

Reason

.....[3]

(d) Explain why it is important for Tazeen Shah to have an adequate amount of working capital.

.....

[2]

(e) Tazeen Shah made the following transactions on 1 February 2013.

State, giving a reason, how each transaction would affect Tazeen Shah's working capital. The first one has been completed as an example.

Transaction	Effect on Working Capital	Reason
Paid \$10 000 to A1 Finance as part repayment of loan	<i>Decrease \$10 000</i>	<i>Current assets decrease No change in current liabilities</i>
Goods, \$135, were purchased on credit from Abu & Co		
Paid \$280 to Farouk, a credit supplier, in full settlement of \$300 owing		
Withdrew \$150 from the bank to restore the petty cash imprest		

[6]

(f) State whether Tazeen Shah will be satisfied with the change in the return on capital employed (ROCE).

Satisfied?

Reason

.....

.....[3]

(g) The following transactions took place on 31 January 2013, but were not entered in the accounting records.

State, giving a reason, how each transaction would affect Tazeen Shah's return on capital employed (ROCE).

Transaction	Effect on Return on Capital Employed (ROCE)	Reason
Goods, \$1230, were purchased for cash	<i>No change</i>	<i>No change in profit for the year No change in total current assets so no change in capital employed</i>
Additional capital, \$10 000, was placed in the business bank account		
Fixtures, \$500, were purchased by cheque		

[6]

- (h) Tazeen Shah’s financial statements do not provide a complete picture of the performance and position of her business.

State how non-financial aspects may be regarded as a limitation of financial statements.

.....

[2]

[Total: 26]

N13/13

- 6(b) At the start of business on 1 July 2013 the working capital (net current assets) of the business was \$12 100. Calculate the value of working capital after the transactions above have taken place.

	\$
Opening working capital	12 100
Transaction 1	
2	
3	
4	
Closing working capital	

[5]

- (c) Complete the table below. Write ‘Increase’, ‘Decrease’ or ‘No effect’ to indicate the effect **each** transaction has on the current ratio and the quick (acid test) ratio. The first one has been completed as an example.

Transaction	Current ratio	Quick (acid test) ratio
1	<i>Increase</i>	<i>Increase</i>
2		
3		
4		

[6]

N13/22

- 1 Saira Rehman is concerned that her working capital on 1 October 2013 was lower than on the same date in 2012.

- (d) Explain what is meant by working capital.

.....

[2]

(e) State and explain the effect of each of the following transactions on Saira Rehman’s working capital. The first one has been completed as an example.

Transaction	Effect on Working capital	Reason
Purchased equipment, \$2 000, and paid by cheque.	<i>Decrease by \$2 000</i>	<i>The bank balance will decrease by \$2 000 and so the working capital will also decrease by the same amount.</i>
Returned damaged goods, \$35, to Annie Khan, a credit supplier.		
Paid Loans & Co \$2 015, representing repayment of a \$2 000 short-term loan and \$15 interest.		
Received a cheque for \$190 from Uzma Ali, a credit customer, in full settlement of \$200 owing.		

[6]

N13/22

2 Paul Matanga allows his credit customers 30 days in which to pay their accounts. On 31 July 2013 the trade receivables amounted to \$28 000.

The total sales for the year ended 31 July 2013 were:

	\$
Cash sales	26 000
Credit sales	224 000

(c)(i) State the formula for the calculation of the collection period for trade receivables.

.....
 [1]

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

.....

 [2]

(iii) Explain how the collection period for trade receivables may affect Paul Matanga’s liquidity position.

.....

 [2]

N13/22

6 Patrick Murphy is a wholesaler. His financial year ends on 30 June. He provided the following information.

		\$
For the year ended 30 June 2013	Revenue	220 000
	Cost of sales	185 900
	Expenses	20 240
At 30 June 2013	Capital employed	110 880

(a) Complete the following tables.

Percentage of gross profit to revenue		
Formula	Workings to one decimal place	Answer

Percentage of profit for the year to revenue		
Formula	Workings to one decimal place	Answer

Return on capital employed (ROCE)		
Formula	Workings to one decimal place	Answer

[8]

Patrick Murphy decided to compare his business results with those of Kelly Limited, another wholesaler dealing in the same type of goods.

The ratios calculated for Kelly Limited were:

Gross profit as a percentage of revenue	18.3%
Profit for the year as a percentage of revenue	5.2%
Return on capital employed (ROCE)	10.8%

(b)(i) Suggest **one** possible reason why Patrick Murphy's gross profit as a percentage of revenue is different to that of Kelly Limited.

.....
[2]

(ii) Suggest **one** possible reason why Patrick Murphy's profit for the year as a percentage of revenue is different to that of Kelly Limited.

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

(c)(i) Explain the importance of the return on capital employed (ROCE).

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

(ii) State which business is making the best use of the capital employed.

.....[1]

Patrick Murphy is aware that even if he compares his results with those of a business trading in the same type of goods, the information can be misleading.

(d) Explain **two** other factors Patrick Murphy should consider when comparing his results with those of a similar business.

1
.....
.....

2
.....
.....[4]

[Total: 19]

Ahsan Zarif, TCS <PAF Chapter>

N13/23

5 Katie Sango is a trader who buys and sells on credit terms. She is concerned about her profitability and efficiency and provided the following information.

	Year ended 31 July	
	2012	2013
Gross profit as a percentage of revenue	24.80%	24.75%
Expenses as a percentage of revenue	12.15%	14.15%
Profit for the year as a percentage of revenue	12.65%	10.60%
Return on capital employed (ROCE)	9.50%	11.20%

(a) State how the change in the expenses percentage has affected the efficiency of the business.

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

(b) Suggest **one** way in which the profit for the year as a percentage of revenue may be increased.

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

(c) (i) State the meaning of the term capital employed.

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

(ii) State what the return on capital employed measures.

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

(iii) Suggest **one** reason why the return on capital employed increased even though the profit for the year reduced.

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

(d) State the effect (if any) of each of the following proposals. The first one has been completed as an example.

Increase selling prices	
Effect on the gross profit percentage	One other effect on the business
<i>Increase</i>	<i>Total sales may fall if customers can buy cheaper elsewhere</i>
Reduce the trade discount allowed to customers	
Effect on the gross profit percentage	One other effect on the business
Reduce the cash discount allowed to customers	
Effect on the gross profit percentage	One other effect on the business

[6]

N13/23

5(e) State how each of the following may be regarded as a limitation of financial statements.

Non-financial aspects

.....

.....

.....

.....

Historical cost

.....

.....

.....

.....[4]

[Total: 18]

6 Morwenna provided the following information about her assets and liabilities at 30 April 2014.

	\$
Motor vehicles at cost	18 000
Provision for depreciation of motor vehicles	6 200
Fixtures and fittings at cost	15 000
Provision for depreciation of fixtures and fittings	4 500
Goodwill	10 000
Inventory	41 000
Trade receivables	28 000
Bank	2 200 Cr
Trade payables	44 000

REQUIRED

(c) Calculate to two decimal places Morwenna’s current ratio at 30 April 2014.

.....

.....

.....

.....[2]

When Morwenna’s accountant checked her figures he discovered the following.

- 1 The goodwill figure represented Morwenna’s estimate of the value of the good reputation of her business.
- 2 Inventory had been calculated at selling price, after applying a mark up of \$10 250.
- 3 During the year motor vehicle repairs, \$800, had been debited to the motor vehicle account. This did not affect the depreciation for the year.
- 4 During the year new fixtures and fittings, \$1 000, had been debited to the stationery account. No depreciation was charged on non-current assets purchased during the year.
- 5 On 30 April 2014, Morwenna was two months in arrears in paying her rent of \$1 500 a month.

REQUIRED

(d) Prepare Morwenna’s statement of financial position at 30 April 2014 showing her capital at that date.

Morwenna
Statement of Financial Position at 30 April 2014

	\$	\$	\$

[14]

(e) Calculate to two decimal places Morwenna’s current ratio at 30 April 2014 based on her statement of financial position figures.

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

(f) Comment on the liquidity of Morwenna’s business.

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

J14/21

6 Maria Khumalo is a trader. Her financial year ends on 31 March.

She provided the following summary of her assets and liabilities on 31 March 2014.

	\$	\$
Capital	145 000	
Profit for the year	35 000	180 000
Trade payables		36 800
Bank overdraft		12 200
Short term loan		5 000
		234 000
Non-current assets		175 000
Inventory		21 500
Petty cash		100
Trade receivables		37 400
		234 000

For the year ended 31 March 2014:

	\$
Revenue	450 000
Cost of sales	310 000
Expenses	105 000

Maria Khumalo wishes to compare the performance of her business for the year ended 31 March 2014 with that of the previous financial year.

REQUIRED

- (a) Complete the table below to show the ratios for Maria Khumalo's business for the year ended 31 March 2014. Calculations should be correct to **two** decimal places.

Ratio	Year ended 31 March	
	2013	2014
percentage of gross profit to revenue (sales)	28.10%	%
percentage of profit for the year to revenue (sales)	10.25%	%
current ratio	1.95 : 1	
quick ratio	0.90 : 1	

[8]

You may use the space for your workings.

Workings

(b) Suggest two reasons for the change in the percentage of gross profit to revenue (sales).

1

1 [2]

(c) State the year in which Maria Khumalo had better control over her expenses. Give a reason for your answer.

Year ended 31 March

Reason

.....

..... [3]

(d) Complete the following table by placing a tick (✓) in the correct column to show how each of the following transactions would affect the current ratio. The first one has been completed as an example.

	Increase	Decrease	No effect
Receipt of long term loan	✓		
Cheque paid to credit supplier			
Goods taken for own use			
Purchase of non-current asset on credit			

[3]

(e) State whether Maria Khumalo would be satisfied with the change in her liquidity position. Give a reason for your answer.

Satisfied?

Reason

.....

..... [3]

[Total: 19]

J14/22

6 After making the necessary adjustments, Bali Sudhaker prepared a corrected income statement for the year ended 30 April 2014.

He provided the following information.

	\$
Revenue	39 500
Cost of sales	28 200
Total expenses	7 900

REQUIRED

(c) Complete the table below to show the ratios for the year ended 30 April 2014. Calculations should be to **two** decimal places. You may use the space below for your workings.

Ratio	Year ended 30 April 2013	Year ended 30 April 2014
percentage of gross profit to revenue (sales)	25.75%	%
percentage of profit for the year to revenue (sales)	10.50%	%

[4]

Workings

(d) Suggest one possible reason for the change in the percentage of gross profit to revenue (sales).

.....
[2]

(e) State whether the efficiency of the business has increased or decreased. Give a reason for your answer.

Increased or decreased

Reason

.....[2]

[Total: 20]

N14/22

1 Sahira Ali's purchases for the year ended 31 October 2014 were as follows.

	\$
Cash purchases	300
Credit purchases	21 200

On 31 October 2014 Sahira Ali owed her credit suppliers \$3 100.

REQUIRED

(d) State the formula for the calculation of the payment period for trade payables.

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

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

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

(f) Suggest **one** advantage to Sahira Ali of paying her credit suppliers before the due date.

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

(g) Suggest one disadvantage to Sahira Ali of paying her credit suppliers before the due date.

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

Ahsan Zarif, TCS <PAF Chapter 7

N14/22

4 Adil Shanker provided the following information for his financial year ended 31 May 2014.

	\$
Revenue (sales)	47 600
Cost of sales	38 400

REQUIRED

(d) Calculate the percentage of gross profit to revenue (sales). The calculation should be correct to **two** decimal places.

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

(e) Suggest **two** reasons why the percentage of gross profit to revenue (sales) is lower than it was in the previous year.

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

(f) State **two** reasons why Adil Shanker's bank manager would be interested in his financial statements.

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

(g) Name **two** other business people who would be interested in Adil Shanker's financial statements.

1
2[2]

N14/23

- 1 Peter Pickard sells on both cash and credit terms. He allows his credit customers a period of 30 days in which to pay their accounts.

The sales for the year ended 31 August 2014 were:

	\$
Cash sales	4 100
Credit sales	29 600

On 31 August 2014 the trade receivables amounted to \$2 340.

REQUIRED

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

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

- (j) State whether Peter Pickard would be satisfied with the collection period for trade receivables.

.....[1]

- (k) Explain how Peter Pickard's payment period for trade payables may be affected by the collection period for trade receivables.

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

Ahsan Zarif, TCS <PAF Chapter>

N14/23

5 The financial year of Zilani Limited ends on 30 September.

The following information is available.

For the year ended 30 September 2014	\$	\$
Revenue (sales)		480 000
Cost of sales		310 000
Expenses		94 000
On 30 September 2014		
Capital employed		635 000
Inventory	30 800	
Trade receivables	<u>56 000</u>	86 800
Trade payables	51 500	
Bank overdraft	15 300	
Short term loan	<u>5 000</u>	71 800

REQUIRED

(a) Calculate the percentage of gross profit to revenue (sales). The calculation should be correct to **two** decimal places.

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

The percentage of gross profit to revenue (sales) is lower than in 2013.

(b) Suggest **two** reasons why it is lower.

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

(c) Calculate the percentage of profit for the year to revenue (sales). The calculation should be correct to **two** decimal places.

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

(d) Suggest **two** ways in which the percentage of profit for the year to revenue (sales) could be improved.

1

2

.....[2]

(e) Calculate the return on capital employed (ROCE). The calculation should be correct to **two** decimal places.

.....

.....

.....

.....[2]

(f) Explain the importance of the return on capital employed (ROCE) to Zilani Limited.

.....

.....

.....

.....[2]

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

.....

.....

.....

.....[2]

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

.....

.....

.....

.....[2]

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

.....

.....

.....

.....[2]

- (j) Complete the table by placing a tick (✓) in the correct column to show how each of the following transactions would affect the working capital of Zilani Limited.

	Increase	Decrease	No effect
Issue of additional shares			
Cheque paid to credit supplier			
Repayment of long term loan			
Purchase of goods on credit			
Sale of unused non-current asset			
Cheque paid for repairs to non-current asset			

[6]

- (k) Suggest two problems Zilani Limited may encounter if its working capital is inadequate.

1

2

.....[2]

[Total: 26]

J15/12

- 5 Amangul had the following assets and liabilities at 31 January 2015.

	\$
Equipment	16 000
Motor vehicle	4 800
Inventory	3 100
Trade payables	900
Trade receivables	750
Prepaid insurance	100
Accrued wages	190
Bank	470 credit

REQUIRED

- (a) Calculate Amangul's working capital at 31 January 2015.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....[3]

(b) Calculate to two decimal places the following ratios at 31 January 2015.

- 1 Current ratio
.....
.....
.....
- 2 Quick (acid test) ratio
.....
.....
.....[4]

On 31 January 2014 the ratios were as follows.

Current ratio	1.61 : 1
Quick (acid test) ratio	0.98 : 1

REQUIRED

(c) Comment on the liquidity of Amangul's business.

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

Ahsan Zarif, TCS <PAF Chapter>

During February 2015 the following transactions took place.

- 1 Took out long term bank loan, \$10 000.
- 2 Bought delivery van, \$8 000, paying by cheque.
- 3 Bought inventory, \$300, from John on credit.
- 4 Sold goods for cash, \$80 (cost \$50).

REQUIRED

(d) Complete the following table to show the double entry needed to record each transaction.

Transaction	Account debited	\$	Account credited	\$
1				
2				
3				
4				

[8]

[Total: 19]

J15/13

5 Antoinette provided the following information.

Revenue for the year ended 30 November 2014	\$1 000
Inventory at 1 December 2013	\$60
Inventory at 30 November 2014	\$40
Gross profit margin	40%
Net profit margin	15%

REQUIRED

(a) Calculate the following for the year ended 30 November 2014.

Gross profit

.....

Cost of sales

.....

Purchases

.....

Profit for the year

.....

Expenses

.....
[7]

Antoinette's brother, Louis, has a business selling similar type of goods. His gross profit margin is 40% and his net profit margin is 20%.

REQUIRED

(b) State one reason for the difference in the ratios.

.....
 [1]

(c) Calculate Antoinette's inventory turnover in days. Round up your answer to the next whole day.

.....

 [4]

(d) Suggest two reasons why Louis' inventory turnover is faster than Antoinette's.

1
 2 [2]

(e) State two advantages to Antoinette of going into partnership with Louis.

1
 2 [2]

[Total: 16]

J15/23

3 Malala Khan is concerned that her working capital is very low. She is considering four courses of action which may increase her working capital.

REQUIRED

(c) Complete the following table by placing a tick (✓) in the correct column to show how each course of action would affect Malala Khan's working capital.

	Increase	Decrease	No effect
Reduce the credit period allowed to credit customers			
Sell a motor vehicle which is no longer used			
Arrange with the bank to have a loan for six months			
Allow cash discount to credit customers who pay promptly			

[4]

(d) State three reasons why it is important for Malala Khan to have an adequate amount of working capital.

1

 2

 3
 [3]

J15/23

5 Dylan Kelly is a trader. After the preparation of his draft income statement for the year ended 28 February 2015 some errors were discovered.

REQUIRED

(a) Complete the following table to show by how much correcting each of the errors would affect the profit for the year.

Error	Increase \$	Decrease \$
Sales returns, \$420, had not been recorded		
Inventory on 1 March 2014 was overstated by \$1 500		
The income statement included rent and rates, \$6 150, for 15 months to 31 May 2015		
Discount allowed, \$180, had been recorded as discount received		

[8]

After the correction of the errors on 28 February 2015, Dylan Kelly provided the following information.

	\$
Inventory	9 900
Trade receivables	7 350
Trade payables	6 870
Bank	1 120 debit
Loan repayable 30 June 2015	5 000

REQUIRED

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

.....

.....

.....

.....[2]

(c) Comment on your answer to (b).

.....

.....

.....

.....[2]

(d) State how the calculation of the quick ratio differs from the calculation of the current ratio.

.....[1]

Dylan Kelly allows his credit customers 30 days credit. The sales for the year ended 28 February 2015 were \$90 000, of which \$18 500 represented cash sales.

REQUIRED

(e) State the formula for the calculation of the collection period for trade receivables.

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

(f) Calculate the collection period for trade receivables. Round up your answer to the next whole day.

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

(g) Comment on your answer to (f).

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

(h) Suggest two ways in which Dylan Kelly could improve the collection period for trade receivables.

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

Dylan Kelly is allowed 40 days credit by his credit suppliers. For the year ended 28 February 2015 the payment period for trade payables was 36 days.

REQUIRED

(i) Comment on Dylan Kelly's payment period for trade payables.

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

[Total: 22]

1 Nyasha Chingono prepared the following sales ledger control account on 30 April 2015.

Nyasha Chingono
Sales ledger control account

Date	Details	\$	Date	Details	\$
2015			2015		
April 1	Balance b/d	750	April 30	Sales returns	60
30	Sales	990		Bank	637
	Interest charged	10		Discount	13
				Bad debts	120
				Contra	120
				Balance c/d	800
		1 750			1 750
2015					
May 1	Balance b/d	800			

(e) Suggest **two** ways Nyasha Chingono could reduce the risk of bad debts.

- 1
- 2 [2]

Nyasha Chingono allows her credit customers 14 days credit. The total credit sales for the year ended 30 April 2015 were \$12 600.

REQUIRED

(f) Calculate the collection period for trade receivables, using the closing balance on the sales ledger control account. Round up your answer to the next whole day.

- [2]

(g) State whether Nyasha Chingono would be satisfied with the collection period for trade receivables.

- [1]

(h) Suggest two ways Nyasha Chingono could improve the collection period for trade receivables.

- 1
- 2 [2]

J15/22

4 Rania Gharib is a trader. Her financial year ends on 31 January. All sales are made for cash and all purchases are made on credit terms. Rania Gharib provided the following information.

1

	At 1 February 2014	At 31 January 2015
	\$	\$
Inventory	4 700	3 150
Fixtures and fittings at valuation	6 900	7 300
Trade payables	2 950	3 720

2 Payments during the year ended 31 January 2015

\$

Credit suppliers	40 120
Wages	9 520
Rent and rates	5 200
Insurance for 14 months to 31 March 2015	840
Fixtures and fittings	1 100

3 Amounts received during the year ended 31 January 2015

Cash from sales	63 660
-----------------	--------

4 Cash discounts received from credit suppliers

820

REQUIRED

(a) Prepare the income statement for the year ended 31 January 2015.

Rania Gharib

Income Statement for the year ended 31 January 2015

	\$	\$

(b) Calculate the rate of inventory turnover. The calculation should be correct to two decimal places.

.....

[3]

(c) Suggest two reasons why the rate of inventory turnover has improved.

1
 2[2]

(d) Explain what is measured by the return on capital employed (ROCE).

.....

[2]

(e) Calculate the return on capital employed (ROCE), using the profit for the year in (a) and the capital employed of \$83 000. The calculation should be correct to two decimal places.

.....

[2]

(f) Suggest one reason why the return on capital employed is higher than it was in the previous year.

.....
[1]

After the preparation of the income statement for the year ended 31 January 2015, it was discovered that the opening inventory had been overvalued by \$250.

REQUIRED

(g) Complete the following table to show the effect of this. The first one has been completed as an example.

	Overstated	Understated	no effect
gross profit for the year ended 31 January 2014	✓		
credit balance on capital account on 1 February 2014			
gross profit for the year ended 31 January 2015			
profit for the year ended 31 January 2015			
current assets at 31 January 2015			

[4]

[Total: 27]

N15/22

4(d) Complete the following table by placing a tick (✓) in the correct column to show how each of the following transactions would affect the working capital of Moses and Tobias Iyambo.

	Increase	Decrease	No effect
Selling surplus equipment			
Delay paying credit suppliers			
Paying surplus cash into bank			
Writing off a bad debt			

[4]

N15/22

5 Kelbrook Limited provided the following information.

- 1 The issued share capital consists of 180 000 ordinary shares of \$0.50 each.
- 2 On 1 October 2014:
General reserve \$4 000
Retained earnings \$5 500
- 3 The profit for the year ended 30 September 2015 was \$9 000.
\$2 000 of this was transferred to the general reserve.
An interim dividend of \$4 500 was paid during the year.
No dividends were proposed at the end of the year.

REQUIRED

- (a) Prepare the equity and reserves section of the statement of financial position at 30 September 2015.

Kelbrook Limited
Extract from Statement of Financial Position at 30 September 2015

.....
.....
.....
.....
.....
.....
..... [5]

Kelbrook Limited provided the following information at 30 September 2015.

	\$
Non-current assets at book value	102 200
Bank overdraft	6 100
Inventory	5 100
Trade receivables	8 500
Trade payables	4 300
Other payables	1 400

REQUIRED

(b) Complete the following table.

Current ratio	
Workings	Answer to two decimal places

Quick (Acid test) ratio	
Workings	Answer to two decimal places

Return on capital employed (ROCE)	
Workings	Answer to two decimal places

[6]

The ratios calculated at 30 September 2014 were:

Current ratio	2.51 : 1
Quick ratio	1.57 : 1
Return on capital employed (ROCE)	12.55%

REQUIRED

(c) Comment on the change in the current ratio.

.....

.....

.....

.....[2]

(d) Suggest one reason for the change in the quick ratio.

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

(e) Suggest two ways to improve the return on capital employed (ROCE).

1
2[2]

Kelbrook Limited provided the following information for the year ended 30 September 2015.

	\$
Credit sales	45 000
Cash sales	5 000

Credit customers are allowed 60 days credit.

REQUIRED

(f) (i) Calculate the collection period for trade receivables. Round up your answer to the next whole day.

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

(ii) Comment on the collection period for trade receivables.

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

Kelbrook Limited is allowed 30 days credit by their credit suppliers. For the year ended 30 September 2015 the payment period was 52 days.

REQUIRED

(g) Comment on the payment period for trade payables.

.....
.....
.....
.....[2]
[Total: 22]

N15/23

4 Sanchi and Syed Mirza are in partnership, sharing profits and losses equally.

Their summarised income statement for the year ended 31 July 2015 was as follows.

	\$	\$
Revenue		45 000
Cost of sales		
Opening inventory	5 500	
Purchases	<u>33 500</u>	
	39 000	
Closing inventory	<u>6 500</u>	<u>32 500</u>
Gross profit		12 500
Expenses		<u>3 500</u>
Profit for the year		<u>9 000</u>

REQUIRED

(a) (i) State the formula for the calculation of the rate of inventory turnover.

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

(ii) Calculate the rate of inventory turnover. The calculation should be correct to **two** decimal places.

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

(iii) Suggest **two** reasons why the rate of inventory turnover is lower than it was in the previous year.

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

(b)(i) State the basis on which inventory should be valued.

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

(ii) Name the accounting principle which is being applied when inventory is valued on this basis.

.....[1]

After the preparation of the appropriation account for the year ended 31 July 2015, Sanchi and Syed Mirza updated their capital and current accounts.

At 31 July 2015 the partners' accounts were as follows.

Capital accounts

Date	Details	Sanchi	Syed	Date	Details	Sanchi	Syed
		\$	\$	2014		\$	\$
				Aug.1	Balance b/d	20 000	60 000
				2015			
				Feb.1	Current account	10 000	

Current accounts

Date	Details	Sanchi	Syed	Date	Details	Sanchi	Syed
2015		\$	\$	2014		\$	\$
Feb. 1	Capital a/c	10 000		Aug. 1	Balance b/d	16 000	4 000
July 31	Drawings	14 000	6 000	2015			
				July 31	Profit share	4 500	4 500

REQUIRED

- (c) Prepare an extract from the statement of financial position at 31 July 2015 to show the total funds provided by the partners.

Extract from Statement of Financial Position at 31 July 2015

	Sanchi	Syed Mirza	Total
	\$	\$	\$
Capital account			
Current account			

[5]

- (d) (i) State the formula for the calculation of the return on capital employed (ROCE).

.....
[1]

- (ii) Calculate the return on capital employed (ROCE), using your answer to (c) and the profit for the year. The calculation should be correct to **two** decimal places.

.....

[2]

(iii) Suggest **one** reason why the return on capital employed (ROCE) is lower than it was in the previous year.

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

(e) (i) Suggest **two** reasons why Syed Mirza would like to have interest on capital included in the partnership agreement.

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

(ii) Suggest **one** reason why Syed Mirza would like to have interest on drawings included in the partnership agreement.

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

(iii) Suggest **one** reason why Sanchi would like to have partner's salary included in the partnership agreement.

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

On 31 July 2015 the trade payables amounted to \$4100. The period of credit allowed is 30 days.

The purchases for the year ended 31 July 2015 were:

	\$
Cash purchases	2 500
Credit purchases	31 000

REQUIRED

(f) (i) State the formula for the calculation of the payment period for trade payables.

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

(ii) Calculate the payment period for trade payables. Round up your answer to the next whole day.

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

(iii) Comment on the payment period for trade payables.

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

The period of credit allowed to trade receivables is 30 days. The collection period was 55 days.

REQUIRED

(g) Suggest **two** ways how this may affect the liquidity of Sanchi and Syed Mirza.

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

[Total: 27]

J16/12

2(e) State how capital employed is calculated.

.....[1]

J16/22

6 David is a trader. The totals of his trial balance prepared on 31 January 2016 did not balance. The difference was entered in a suspense account and draft financial statements were prepared. The following information was extracted from the draft income statement for the year ended 31 January 2016.

	\$	
Cost of sales		59 600
Gross profit		15 800
Profit for the year		3 500

REQUIRED

(a)(i) Calculate the percentage of profit for the year to revenue. The calculation should be correct to **two** decimal places. Show your workings.

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

(ii) Suggest **two** reasons why the percentage of profit for the year to revenue is lower than the previous year.

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

N16/12

3 Malorie provided the following information.

	30 June 2015	30 June 2016
	\$	\$
Bank	400 debit	1 300 credit
Trade receivables	850	1 400
Trade payables	750	700
Inventory	550	?
Current ratio	?	1.2 : 1

REQUIRED

(f) Calculate:

(i) Malorie's current ratio at 30 June 2015 (to **one** decimal place)

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

(ii) Malorie's inventory at 30 June 2016

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

(g) Suggest **two** possible reasons for the change in Malorie's bank balance.

1
2[2]

Ahsan Zarif, TCS <PAF Chapter>

N16/22

6 Daniel's financial year ends on 31 July. He provided the following information for the year ended **31 July 2015**.

	\$
Cost of sales	285 000
Profit for the year	36 000
Gross profit was	30% of cost of sales.

REQUIRED

(a) (i) Calculate the gross profit.

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

(ii) Calculate the revenue.

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

(iii) Calculate the percentage of gross profit to revenue. The calculation should be to **two** decimal places.

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

(iv) Calculate the percentage of profit for the year to revenue. The calculation should be to **two** decimal places.

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

(b) Suggest **two** reasons why the percentage of gross profit to revenue is higher than it was in the previous financial year.

1

.....

2

..... [2]

(c) Suggest **two** reasons why the percentage of profit for the year to revenue is lower than it was in the previous financial year.

- 1
-
- 2
- [2]

N16/23

1 Jolindi believes that her working capital could be improved. She is considering five courses of action.

REQUIRED

(e) State whether **each** of the following courses of action would increase, decrease or have no effect on the working capital. Give a reason for your answer in each case. The first one has been completed as an example.

	Effect on working capital	Reason
Reduce credit sales and increase cash sales	<i>No effect</i>	<i>Trade receivables decrease and cash increases so total current assets is unchanged. No effect on current liabilities.</i>
Create a provision for doubtful debts		
Take a long-term bank loan		
Take a short-term bank loan		
Pay credit suppliers early to earn cash discount		

[8]

N16/23

6 Joey is a trader. His financial year ends on 30 September. He provided the following information for the year ended 30 September 2016.

	\$
Revenue	290 000
Cost of sales	224 025
Expenses	38 860

Joey obtained the trading results of DT Traders, another business in the same town, and decided to compare the profitability of the two businesses.

REQUIRED

(a) Complete the following table to show the ratios for Joey’s business. The calculations should be to **two** decimal places.

Ratio	Joey	DT Traders
Percentage of gross profit to revenue (gross profit margin)	%	18.50%
Percentage of profit for the year to revenue (net profit margin)	%	10.25%

You may use the space below for your workings.

[4]

Workings

(b) Suggest **two** reasons for the difference in the percentage of gross profit to revenue (gross profit margin).

- 1
-
- 2
- [2]

(c) Suggest **two** reasons for the difference in the percentage of profit for the year to revenue (net profit margin).

- 1
-
- 2
- [2]

(d) State which business had better control on its expenses.

..... [1]

Joey is hoping to increase the percentage of profit for the year to revenue (net profit margin) in the following financial year. He is considering four courses of action.

REQUIRED

(e) Complete the following table by placing a tick (✓) in the correct column to show how **each** course of action would affect Joey's percentage of profit for the year to revenue (net profit margin).

	Increase	Decrease	No effect
Buy in bulk from suppliers to obtain trade discount			
Offer cash discount to encourage credit customers to pay early			
Pay employees monthly instead of weekly			
Write off damaged inventory at the year end			

[4]

(f) State how **each** of the following may be regarded as a limitation of financial statements.

Historical cost

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

Non-financial factors

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

[4]

[Total: 17]

J17/11

5 JW Limited extracted the following balances from its books of account on 30 April 2017, **after** the gross profit had been calculated.

	\$
Gross profit	63 000
Distribution costs	24 000
Administrative expenses	16 000
Interim dividend paid	6 000
Debenture interest	3 000
Ordinary shares of \$1 each	100 000
General reserve	50 000
Retained earnings	?
Equipment at cost	260 000
Provision for depreciation of equipment	65 000
Inventory	33 000
Trade receivables	14 000
Bank	6 800 credit
Trade payables	17 500
10% Debentures (repayable 2025)	30 000

REQUIRED

(a) Prepare the trial balance at 30 April 2017. Insert a value for retained earnings.

JW Limited
Trial Balance at 30 April 2017

	Debit \$	Credit \$
Gross profit		
Distribution cost		
Administrative expenses		
Interim dividend paid		
Debenture interest		
Ordinary shares of \$1 each		
General reserve		
Retained earnings		
Equipment at cost		
Provision for depreciation of equipment		
Inventory		
Trade receivables		
Trade payables		
10% Debentures (repayable 2025)		

[9]

(b) Calculate the profit for the year. The depreciation charge for the year was \$13 000.

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

The directors of the company transferred \$10 000 to general reserve on 30 April 2017.

(d) Calculate to **two** decimal places the return on capital employed (ROCE) for the year ended 30 April 2017. (Use closing capital employed.)

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

(e) Suggest **two** reasons why JW Limited's return on capital employed (ROCE) is lower than the industry average.

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

(f) Suggest **three** ways in which JW Limited could increase its return on capital employed (ROCE).

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

J17/21

5 Bradley makes all purchases on credit terms and sells on both cash and credit terms. If credit customers pay their accounts within 30 days they are allowed a cash discount. If the accounts of credit suppliers are paid within 40 days Bradley is entitled to a cash discount.

The following information is available.

	31 December 2015	31 December 2016
Payment period for trade payables	41 days	38 days
Collection period for trade receivables	34 days	28 days

REQUIRED

(c) Suggest **two** reasons for the change in the trade receivables collection period.

1

.....

2

..... [2]

(d) State **two** effects of the change in the trade payables payment period.

1

.....

2

..... [2]

The credit suppliers are proposing to reduce the credit period to 30 days.

REQUIRED

(e) Suggest **two** ways in which this may affect Bradley.

1

.....

2

..... [2]

J17/22

1 Shiromi is a trader in office equipment. Her financial year ends on 30 April. She provided the following information.

	At 30 April 2016	At 30 April 2017
Current ratio	1.49 : 1	0.92 : 1

All purchases are made on credit terms and all sales are made for cash.

REQUIRED

(b) Suggest **two** reasons for the change in the current ratio.

- 1
- 2 [2]

(c) Suggest **two** problems Shiromi may encounter because her working capital is inadequate.

- 1
- 2 [2]

Shiromi is hoping to increase her working capital and is considering four courses of action.

REQUIRED

(d) Complete the table by placing a tick (✓) in the correct column to show how **each** course of action would affect Shiromi's working capital.

	Increase	Decrease	No effect
Take out a short-term bank loan			
Repay a long-term bank loan			
Sell goods on credit terms instead of for cash			
Obtain a higher rate of cash discount			

[4]

Shiromi bought office equipment on credit.

REQUIRED

(e) State why this transaction increased Shiromi's current assets.

-
- [1]

(f) Suggest **two** reasons why Shiromi’s return on capital employed (ROCE) was lower on 30 April 2017 than it was on 30 April 2016.

1

.....

2

..... [2]

J17/22

2 Waheed’s financial year ends on 31 March. He provided the following information.

All goods are bought and sold on credit terms. A cash discount is received from credit suppliers if payment is made within 45 days. A cash discount is allowed to credit customers if payment is made within 30 days.

	At 31 March 2016	At 31 March 2017
Trade receivables collection period	33 days	29 days
Trade payables payment period	44 days	46 days

REQUIRED

(e) State whether Waheed would be satisfied with the change in the collection period for trade receivables. Give a reason for your answer.

Satisfied?

Reason

..... [2]

(f) State **one** advantage to Waheed’s suppliers of the change in the payment period.

.....

.....

..... [1]

(g) State **one** disadvantage to Waheed’s suppliers of the change in the payment period.

.....

.....

..... [1]

(h) Comment on how a collection period of 29 days and a payment period of 46 days may affect Waheed’s liquidity position.

.....

.....

.....

..... [2]

N17/12

6 Tyler had the following assets and liabilities on 31 July 2017.

	\$
trade payables	2 900
other payables	900
non-current assets	8 200
inventory	3 000
trade receivables	2 200
other receivables	400
bank overdraft	600

Tyler was concerned about his working capital position.

REQUIRED

(a) State how working capital is calculated.

.....[1]

(b) Calculate (to **two** decimal places) the current ratio on 31 July 2017.

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

(c) Name **one** other ratio which would help Tyler to assess his liquidity position.

.....[1]

(d) Explain **two** reasons why Tyler is right to be concerned about his working capital position.

1
.....
.....
2
.....
.....[4]

(e) Complete the following table stating the effect on working capital and owner's capital of **each** transaction. Where a transaction has no effect, write 'No Effect'. The first one has been completed as an example.

		working capital	owner's capital
1	introduced \$2000 capital in the form of cash	Increase \$2 000	Increase \$2 000
2	received a long term loan, \$500		
3	bought inventory, \$400, on credit		
4	sold goods costing \$100 for \$180 cash		

[6]

(f) State which transaction increased capital employed without affecting profit.

.....[1]

(g) State **one** reason why Tyler would want to calculate his return on capital employed.

.....
[1]

[Total: 16]

N17/21

2 On 31 August 2017 Mahendra's trade receivables amounted to \$20 520. He allows his credit customers 30 days credit.

The sales for the year ended 31 August 2017 were \$229 000, of which \$42 300 represented cash sales.

REQUIRED

(e) (i) State the formula for the calculation of the trade receivables collection period.

.....
 [1]

(ii) Calculate the trade receivables collection period. Round up your answer to the next whole day.

.....

 [2]

(f) Suggest **two** ways in which Mahendra could improve the trade receivables collection period.

1

 2
 [2]

Mahendra is allowed 21 days credit by his credit suppliers. His trade payables payment period was calculated at 20 days at 31 August 2016 and 30 days at 31 August 2017.

REQUIRED

(g) State the formula for the calculation of the trade payables payment period.

.....
 [1]

(h) Comment on the possible reaction of Mahendra’s credit suppliers to the change in the ratio.

.....

 [2]

N17/21

4 Hanif’s financial year ends on 31 July. He provided the following information on 31 July 2017.

	\$
Inventory	87 500
Trade payables	81 500
Trade receivables	56 200
Petty cash	100
Bank overdraft	17 100

REQUIRED

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

.....

 [2]

(b) Comment on your answer to (a).

.....

 [2]

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

.....

 [2]

(d) Suggest **two** reasons why the quick ratio is lower than it was at the end of the previous financial year.

1

.....

2

..... [2]

(e) Suggest **two** problems Hanif may encounter if his working capital is inadequate.

1

.....

2

..... [2]

(f) Complete the table by placing a tick (✓) in the correct column to show how **each** of the following transactions would affect the current ratio and the quick ratio. The first one has been completed as an example.

	current ratio			quick ratio		
	Increase	Decrease	No effect	Increase	Decrease	No effect
introduce \$20 000 additional capital	✓			✓		
obtain short-term bank loan \$10 000						
sell half the inventory at cost price						

[4]

Hanif provided the following information for the year ended 31 July 2017.

	\$
Revenue	999 750
Cost of sales	765 990

Inventory at 31 July 2017 was \$15 500 more than the inventory at 1 August 2016.

REQUIRED

(g) State the formula for the calculation of the rate of inventory turnover (in times).

.....

..... [1]

(h) Calculate the rate of inventory turnover (in times). The calculation should be correct to **two** decimal places.

.....

.....

.....

..... [2]

(i) Suggest **two** reasons why the rate of inventory turnover is lower than it was in the previous year.

1

.....

2

..... [2]

[Total: 19]

J18/12

3 Kumu purchases goods for resale on both cash and credit terms. Kumu’s credit suppliers allow 30 days for payment of invoices.

Kumu provided the following information for the year ended 30 April 2018.

	\$
Trade payables 1 May 2017	19 800
Trade payables 30 April 2018	22 200
Discount allowed	480
Discount received	330
Interest charged by suppliers	122
Credit purchases	180 870
Cash purchases	26 400
Sales ledger balances set off against purchases ledger balances	400

REQUIRED

(a) Select the relevant items and prepare the purchases ledger control account for the year ended 30 April 2018. Insert the amount paid to credit suppliers.

Kumu
Purchases ledger control account

Date	Details	\$	Date	Details	\$

[8]

(b) State the formula for calculating the trade payables payment period.

.....

.....[1]

(c) Calculate the trade payables payment period for the year ended 30 April 2018. Round up your answer to the next whole day.

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

(d) State whether Kumu’s suppliers would be satisfied with her trade payables payment period. Give a reason for your answer.

Satisfied?

Reason

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

(e) State **two** problems Kumu may face if her trade payables payment period is unsatisfactory.

1

.....

2

.....[2]

Kumu provided the following information for the year ended 30 April 2018.

	\$
Cost of sales	205 000
Gross profit	92 250
Inventory at 30 April 2018	35 000

REQUIRED

(f) Calculate the percentage mark-up Kumu has applied.

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

J18/21

5 Ravi is considering ways to increase his gross profit.

REQUIRED

(g) Complete the table by placing a tick (✓) in the correct column to indicate how **each** of the following proposals would affect Ravi’s gross profit.

	Increase	Decrease	No effect
Reduce the rate of trade discount allowed to credit customers			
Reduce the rate of cash discount allowed to credit customers			

[2]

(h) Comment on the possible effects of Ravi’s proposal to increase the mark-up from 20% to 25%.

.....

.....

.....

.....

.....

.....[2]

J18/22

5 On 30 April 2018 Aretta was concerned that her quick (acid test) ratio was very low. She considered six proposals to improve the ratio.

REQUIRED

(b) State the formula for the calculation of the quick (acid test) ratio.

.....

.....[1]

(c) Complete the following table by placing a tick (✓) in the correct column to indicate the effect of **each** proposal on Aretta’s quick (acid test) ratio. The first one has been completed as an example.

	Proposal	effect on quick ratio		
		Increase	Decrease	No effect
1	purchase a motor vehicle on credit		✓	
2	pay credit suppliers early to receive cash discount			
3	obtain a bank overdraft and repay the loan immediately			
4	arrange for the loan to be extended to 2 years			
5	sell on credit terms rather than on cash terms			
6	reduce inventory by selling half at cost price			

[5]

Ava is proposing to ask clients to pay cash instead of offering credit terms.

(d) Suggest **two** effects of this proposal.

- 1
- 2
- [2]

N18/21

4 After correcting the errors, Rizwan prepared financial statements for the year ended 30 September 2018.

He provided the following information.

	30 September	
	2017	2018
Percentage of gross profit to revenue (gross profit margin)	30.88%	33.45%
Percentage of profit to revenue (net profit margin)	15.55%	14.35%
Return on capital employed	6.13%	8.27%

REQUIRED

(c) Suggest **two** reasons for the change in the percentage of gross profit to revenue.

- 1
- 2
- [2]

(d) State the year in which Rizwan had a better control of his expenses. Give a reason for your answer.

Year ended 30 September

Reason

..... [2]

(e) Suggest **two** ways in which the percentage of profit to revenue could be improved.

- 1
- 2
- [2]

(f) Suggest **two** reasons for the change in the return on capital employed.

- 1
- 2
- [2]

N18/22

5 Mariam is a trader. Her financial year ends on 31 July.

She provided the following information.

	\$
For the year ended 31 July 2018	
Total sales – credit	192 000
cash	28 000
	220 000
Total purchases – credit	154 500
cash	20 500
	175 000
At 31 July 2018	
Inventory	14 900
Trade receivables	16 200
Cash	100
Trade payables	16 500
Bank overdraft	3 700

REQUIRED

- (a) Complete the table on the opposite page to show the ratios for the year ended 31 July 2018. You may use the space below for your workings.

Workings

Ahsan Zarif, TCS <PAF Chapter>

Ratio	2018	2017
Current ratio (to two decimal places)		1.95 : 1
Quick (acid test) ratio (to two decimal places)		1.15 : 1
Trade receivables collection period (rounded up to the next whole day)		27 days
Trade payables payment period (rounded up to the next whole day)		32 days

[8]

(b) Suggest **two** reasons for the change in the current ratio.

- 1
- 2 [2]

(c) Complete the following table by placing a tick (✓) in the correct column to show how **each** of the following courses of action would affect Mariam's current ratio.

	Increase	Decrease	No effect
introduce \$4 000 additional capital in order to pay off the bank overdraft			
sell half the inventory at cost price to a cash purchaser			
convert a \$10 000 long-term bank loan into a bank overdraft			
increase the bank overdraft by \$16 500 in order to repay the trade payables			

[4]

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

-
-
-
-
-
-
- [2]

(e) Comment on the change in the quick (acid test) ratio.

-
-
-
- [2]

(f) Comment on the change in the trade receivables collection period.

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

(g) (i) Suggest **one** advantage to Mariam of the change in the trade payables payment period.

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

(ii) Suggest **one** disadvantage to Mariam of the change in the trade payables payment period.

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

[Total: 22]

J19/12

6 The directors of S Limited are concerned about the working capital of the company at the end of the first year of trading.

The following information is available at 30 April 2019

	\$
Inventory	27 400
Trade payables	28 700
Trade receivables	25 200
Bank overdraft	10 800

REQUIRED

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

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

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

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

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

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

- (g) Complete the table by placing a tick (✓) in the correct column to show how **each** of the following would affect the working capital of S Limited.

	Increase	Decrease	No effect
issue additional debentures			
pay operating expenses by cheque			
sell goods for cash instead of on credit			
delay paying credit suppliers			
sell unused non-current assets			
reduce credit period for credit customers			

[6]

- (h) Suggest **two** problems the directors of S Limited may encounter if the working capital is inadequate.

1

.....

2

.....

[2]

J19/21

- 2 Jade's year ends on 30 April. She provided the following information.

For the year ended 30 April 2019	\$
Credit sales	29 600
Cash sales	26 400
Credit purchases	30 300
Cash purchases	5 200
At 30 April 2019	
Total trade receivables	2 800
Total trade payables	2 350

Jade allows her credit customers 28 days credit and is allowed 30 days credit by her credit suppliers.

On 30 April 2018 Jade calculated that the trade receivables collection period was 29 days and that the trade payables payment period was 35 days.

REQUIRED

- (c) Calculate the trade receivables collection period for the year ended 30 April 2019. Round up your answer to the next whole day.

.....

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.....

[2]

(d) Suggest **one** advantage to Jade of the change in the trade receivables collection period.

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

(e) Suggest **one** disadvantage to Jade of the change in the trade receivables collection period.

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

(f) Calculate the trade payables payment period for the year ended 30 April 2019. Round up your answer to the next whole day.

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

(g) State whether the trade payables would be satisfied with the change in the trade payables payment period. Give a reason for your answer.

Satisfied?

Reason

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

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J19/21

4 Liam and Mia provided the following information at 31 January 2019.

	\$
Inventory	38 440
Trade payables	36 250
Trade receivables	42 060
Bank overdraft	14 150

REQUIRED

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

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

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

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

Liam and Mia would like to improve the liquidity of their business.

Liam has suggested that both the current ratio and the quick (acid test) ratio could be improved if they introduce extra capital.

REQUIRED

(e) (i) Suggest **one** other way in which they could increase **both** the current ratio and the quick (acid test) ratio.

Give a reason for your answer.

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

(ii) State why selling inventory at cost price would increase the quick (acid test) ratio but would not affect the current ratio.

Give a reason for your answer.

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

Liam and Mia are considering inviting their brother, Darren, to become a partner in the business.

REQUIRED

(f) Suggest **four** factors they should consider before inviting Darren to become a partner.

1

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2

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3

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4

.....

[4]

J19/22

5 Myra is a trader. Her financial year ends on 31 December.

Myra provided the following information.

For the year ended 31 December 2018	\$
Sales (all on credit)	118 000
Purchases (all on credit)	94 000
Cost of sales	94 350
Profit for the year before interest	14 100
Profit for the year after interest	9 900
At 31 December 2018	
Non-current assets at book value	266 000
Inventory	8 500
Trade receivables	7 250
Bank overdraft	4 150
Trade payables	6 600

Myra allows her credit customers 14 days credit. The trade receivables collection period calculated at 31 December 2017 was 18 days.

Myra is allowed 28 days credit by her credit suppliers. The trade payables payment period calculated at 31 December 2017 was 30 days.

REQUIRED

(a) (i) Calculate the trade receivables collection period for the year ended 31 December 2018. Round up your answer to the next whole day.

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.....

[2]

(ii) Suggest **two** ways in which the trade receivables collection period may be improved.

1

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2

..... [2]

(b) (i) Calculate the trade payables payment period for the year ended 31 December 2018. Round up your answer to the next whole day.

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.....

.....

..... [2]

(ii) Suggest **two** ways in which the change in the trade payables payment period may affect Myra.

1

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2

..... [2]

(c) Calculate the following to **two** decimal places.

(i) Percentage of gross profit to revenue (gross profit margin)

.....

.....

.....

..... [2]

(ii) Profit for the year to revenue (net profit margin)

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..... [2]

(iii) Return on capital employed (ROCE)

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..... [2]

N19/21

5 Lili trades on credit terms. If Lili’s credit customers pay their accounts within 30 days they are entitled to a cash discount. If Lili pays her credit suppliers within 40 days she is entitled to a cash discount.

Lili provided the following information.

	31 July 2018	31 July 2019
Trade receivables collection period	33 days	29 days
Trade payables payment period	38 days	44 days

REQUIRED

(b) Suggest **two** reasons for the change in the trade receivables collection period.

1

.....

2

..... [2]

(c) State **one** disadvantage to the credit suppliers of the change in the payment period.

.....

..... [1]

Lili’s credit suppliers are proposing to reduce the credit period to 30 days and increase the cash discount to 3%.

REQUIRED

(d) Discuss how this may affect Lili.

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..... [2]

N19/22

- 6 Rashida started a business trading in fruit and vegetables on 1 July 2017. She rents shop premises. She works in the shop herself and does not employ any staff. All goods are sold on cash terms.

Rashida provided the following information at the end of her second year of trading.

	\$
Capital	53 000
Interest-free long term loan from family	10 000
Inventory 1 July 2018	860
Inventory 30 June 2019	920
Cost of sales	35 490
Revenue	42 000
Operating expenses	3 772

REQUIRED

- (a) Complete the table to show the ratios for Rashida for the year ended 30 June 2019. Calculations should be correct to **two** decimal places.

You may use the space at the bottom of this page for your workings.

Percentage of gross profit to revenue	%
Percentage of profit to revenue	%
Return on capital employed	%
Rate of inventory turnover	times

[8]

Workings

Rashida decided to compare her results with those of her two brothers Damon and Hakim. They formed a partnership eight years ago when they purchased premises and started a business as furniture wholesalers. They now employ ten warehouse workers. All goods are sold on credit terms to retail stores.

REQUIRED

(b) Explain why Rashida had a lower percentage of gross profit to revenue than her brothers.

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

(c) Suggest **one** reason why Rashida’s rate of inventory turnover is higher than that of her brothers.

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

(d) Suggest **two** expenses which would appear in the income statement of Damon and Hakim but would not appear in the income statement of Rashida.

1
2 [2]

(e) Suggest **four** factors which Rashida should consider when comparing her results with those of her brothers.

1
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2
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3
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4
..... [4]

Rashida is disappointed with the percentage of gross profit to revenue. She is considering increasing the selling price.

REQUIRED

(f) Discuss how an increase in selling price may affect Rashida’s business.

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

Rashida is considering asking her sister, Sabeena, to join her in the business.

(g) State **three** factors Rashida should consider before formally inviting Sabeena to become a partner.

- 1
 - 2
 - 3
- [3]

[Total: 22]

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