Chapter 12 Class Exam

Name:________________ Score:____________

Answer all questions

Suggested Exam Length: 30 minutes

Short Questions (20 marks) – 10 minutes

Long Questions (40 marks) – 20 minutes

Student Input (Pre-exam)

How confident are you about this exam?

What topic am I worried about before I look at the exam? Why?

What strategies did you use to study for this exam? What was the best one?

Which activities in class did you most enjoy for this topic?

Student Reflection (Post-exam)

How happy were you with your result?

What were the hardest questions? Why?

Is there any exam technique I should change/use again for my next exam?

What topics should I look over again?

Short Questions (20 marks)

Q1 Short

7. Liquidity issues continue to be a cause of concern for many small businesses.

(a) Explain the term liquidity.

(b) The figures below are taken from Cahill's newsagents.

Calculate the Acid Test Ratio for Cahill's newsagents.

	€
Closing Stock	14,000
Current Assets	93,200
Current Liabilities	72,000

Formula	
Workings	
Answer	

Q2 Short

Stylish Tile & Bath Ltd provided the following financial information for 2020:

Net Profit	€72,000	Return on Investment 2019 = 7%
Issued Ordinary Share Capital	€450,000	
Long Term Loan	€100,000	
Retained Earnings	€26,000	

(i) Calculate the **Return on Investment (ROI)** for the owners of Stylish Tile & Bath Ltd for 2020. Show your formula and your workings.
(ii) Analyse the significance of the change in the Return on Investment for Stylish Tile & Bath Ltd.
MS: (i) 6m (6 @ 1m) (ii) 4m (2+2)

(i)

(ii)

Long Questions (40 marks)

Q1 (A) From the figures given below for **2024 calculate** the following for Touch Of Class Design Ltd. (show your workings):

(i) Net profit margin; **(iii)** Return on Investment
(ii) Current ratio; **(iv)** Debt Equity ratio.

TOC Design Ltd: Information for 2024		TOC Design Ltd: Results for 2023	
Sales	€180,000	Net Profit Margin	20.5%
Net Profit	€28,400	Current Ratio	2:1
Current Assets	€18,000	Return on Investment	8%
Current Liabilities	€12,000	Debt/Equity Ratio	0.7:1
Issued Ordinary Share Capital	€280,000		.
Long-Term Loan	€300,000		
Retained Earnings	€60,000		

(i) Net profit margin *(give formula and show workings)*

(ii) Current ratio *(give formula and show workings)*

(iii) Return on Investment *(give formula and show workings)*

(iv) Debt Equity ratio *(give formula and show workings)*

(B) (i) Analyse the profitability and liquidity of TOC Design Ltd for 2024, with reference to the results for 2023 shown in the box above.
(ii) Should TOC Design Ltd expand its business? Outline **one** reason for your answer.
(iii) Outline **two** limitations of using ratios to analyse the final accounts of a business. (25m)

(i) Profitability

(i) Liquidity

(ii)

YES/NO;

(iii)

1.

2.

Short Questions (20 marks)

(a)	**Explain the term liquidity.** The ability of a business to repay their current liabilities from their current assets. The ability of a firm to repay their short term creditors/liabilities that are falling due within one year.	4m (2+2)
(b)	**Calculate the Acid Test Ratio for Cahill's newsagents.** **Formula**: (Current Assets – closing stock) : Current Liabilities ❷ **Workings:** (❶€93,200 - ❶€14,000) : ❶€72,000 €79,200 : €72,000 ❶**1.1:1**	Calculation: 6 marks

Question			Possible Responses	Max Mark
8.		(i)	**Calculate the Return on Investment (ROI) for the owners of Stylish Tile & Bath Ltd for 2020.** (Show your formula and your workings). $\frac{\textbf{Net Profit}}{\textbf{Capital employed}} \times \frac{\textbf{100}}{\textbf{1}}$ ❶ $\frac{72,000 \text{ ❶}}{450,000 \text{ ❶} + 100,000 \text{ ❶} + 26,000 \text{ ❶}} \times \frac{100}{1}$ $\frac{72,000}{576,000} \times \frac{100}{1} = 12.5\%$ ❶	10 6@1m
		(ii)	**Analyse the significance of the change in the Return on Investment for Stylish Tile & Bath Ltd.** **Easier to attract Investors** Potential investors are more likely to provide capital when they see the return on investment has improved from one year to the next. **Potential to fund expansion** As the return on investment improves the business can choose to build capital reserves that can be used to fund expansion. The business is also more likely to be approved for finance to fund expansion. **Indicates an increase in profitability/Business decision making has been effective.** An increase in the return on investment indicates an improvement in net profit due to increased sales and or reduced expenses. This will encourage management that they are following the correct course of action. **Potential wage demand form employees/trade unions**	4m (2+2)

Long Questions (40 marks)

1. (A) Using the figures given below for 2020, **calculate** the following for Touch of Class Design Ltd. *(Show your workings.)*

(i) Net profit margin

(ii) Current ratio

(iii) Return on investment

(iv) Debt : Equity ratio (20 marks)

TOC Design Ltd: information for 2020		**TOC Design Ltd: results for 2019**	
Sales	€180,000	Net profit margin	20.5%
Net profit	€28,400	Current ratio	2:1
Current assets	€18,000	Return on investment	8%
Creditors falling due within 1 year	€12,000	Debt : Equity ratio	0.7:1
Issued ordinary share capital	€280,000		
Long-term loan	€300,000		
Retained earnings	€60,000		

Marking scheme and tips: 4 @ 5m (1m for the formula, 3m for the workings, 1m for the answer)

(i) Net profit margin *(give formula and show workings)*

(Net Profit/Sales) × 100 → €28,400/€180,000 × 100 = 15.78%

(ii) Current ratio *(give formula and show workings)*

Current assets : Creditors falling due within 1 year

€18,000 : €12,000 = 1.5:1

(iii) Return on investment *(give formula and show workings)*

(Net profit/Capital employed) × 100

€28,400/(€280,000 + €300,000 + €60,000) × 100 = €28,400/€640,000 × 100 = 4.44%

(iv) Debt : Equity ratio *(give formula and show workings)*

Debt capital : Equity capital

€300,000 : (€280,000 + €60,000) = €300,000 : €340,000 = .88:1

(B) (i) Analyse the profitability and liquidity of TOC Design Ltd in 2020. Refer to the results for 2019 shown in part (A).

(ii) Should TOC Design Ltd expand its business? Outline **one** reason for your answer.

(iii) Outline **two** limitations of using ratios to analyse the final accounts of a business. (25 marks)

Marking scheme and tips

(i) Profitability 6m (3 + 3), liquidity 5m (3 + 2)

(ii) Yes/no 1m, reason 4m

(iii) 9m (5 + 4)

(i) Profitability: *Net profit has fallen from 20.5% to 15.78%. Return on investment has fallen from 8% to 4.44%. Both these trends are negative and indicate there may have been an increase in costs (e.g. raw materials, stock) or a drop in the selling price.*

Liquidity: *The current ratio has dropped from 2:1 to 1.5:1. TOC Design's ability to pay off short-term debt as it arises has become worse – they are less liquid.*

(ii) **YES / NO** *Yes*

Although their gearing ratio has become more geared, they are still lowly geared (below 1:1) so are in a position to increase their loan to expand.

(iii) 1. *It doesn't reflect changes to staff. The figures won't show if a key member of staff has left, or staff morale overall. If turnover has increased, productivity may fall, as new staff need to be trained up.*

2. *It doesn't show new competition. If rivals have just launched new products or improved their range, it's not reflected in the ratios but might be bad for future business.*