

Note: Higher level questions are marked with an asterisk*

3. Buggy and Bertie Ltd

Summarized below are the financial statements for two similar retail stores, Buggy Ltd and Bertie Ltd. Both sell children's scooters in the Birmingham region:

Statement of profit or loss accounts for the year ended				
30 June 2023				
	Buggy Ltd		Bertie Ltd	
	£	£	£	£
Sales		80,000		120,000
Cost of sales		60,000		96,000
Gross profit		20,000		24,000
Depreciation	1,000		3,000	
Other expenses	9,000		6,000	
		10,000		9,000
OPERATING PROFIT		10,000		15,000

Statement of financial position as at 30 June 2023				
	Buggy Ltd		Bertie Ltd	
	£	£	£	£

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ASSETS		
NON-CURRENT ASSETS		
at net book value	2,000	14,000
CURRENT ASSETS		
Inventories	15,000	17,500
Trade receivables	25,000	20,000
Bank balance	5,000	2,500
	45,000	40,000
TOTAL ASSETS	47,000	54,000
EQUITY AND LIABILITIES		
Equity		
Ordinary £1 shares	25,000	20,000
Share premium	5,000	8,000
Retained profits	12,000	16,000
Current liabilities		
Trade payables	5,000	10,000
	47,000	54,000

REQUIRED:

(a) Calculate the following ratios:

(i) Return on capital employed

(ii) Gross profit margin

(iii) Operating profit margin

(iv) Acid test ratio

(v) Inventory days

(vi) Trade receivable days

(vii) Trade payable days.

(b) Briefly interpret the ratios you have computed for the two companies, under the headings of profitability, liquidity, and working capital management.

4. Acid test ratio

Discuss each of the following statements, explaining whether they are true or false:

- a. The acid test ratio is a measure of the very short-term liquidity of a business.
- b. The acid test ratio will always be greater than the current ratio.
- c. The higher the acid test ratio, the better the liquidity of the business.

5. Greatworth Ltd

Greatworth Ltd had the following ratios at 31 December 2023 and 31 December 2022:

	2023	2022
Gross profit margin	25%	28%

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Trade payable days	40 days	44 days
Trade receivable days	30 days	35 days

REQUIRED:

- Give possible reasons why the gross profit margin made by Greatworth Ltd has decreased from 2022 to 2023.
- What explanations could there be for Greatworth Ltd to be paying its trade payable 4 days more quickly in 2023 than in 2022.
- Explain what may have occurred to have led to the change in trade receivable days between 2022 and 2023.

***6. Ager Ltd**

The statement of profit or loss of Ager Ltd is given below along with an extract from the statement of financial position as at 30 September 2023.

Ager Ltd

Statement of profit or loss for the year ended 30 September 2023

	£	£
Sales		804,000
Opening inventories	82,000	
Purchases	<u>612,000</u>	
	694,000	
Closing inventories	<u>98,000</u>	
		<u>596,000</u>
Gross Profit		208,000
Expenses		<u>45,000</u>

Net profit **163,000**

Extract from the statement of financial position

As at 30 September 2023

Current assets

Inventories	98,000
Trade receivables	112,000
Prepayments	<u>9,000</u>
	<u>219,000</u>

Current liabilities

Bank overdraft	17,000
Trade payables	71,000
Accruals	11,000
Corporation tax due	<u>41,000</u>
	<u>140,000</u>

For the year ended **30 September 2022**, the following ratios were computed:

i)	Current ratio	1.6 : 1
ii)	Acid test ratio	1.2 : 1
iii)	Trade receivable days	42 days
iv)	Trade payable days	43 days
v)	Inventory days	50 days

REQUIRED:

- a) Calculate the above five ratios for the year ended 30 September 2023.

- b) Interpret the ratios computed for 2023 and compare them with the ratios for 2022.
- c) Advise the management of the company as to two ways in which the overdraft could be reduced by improving the management of working capital.

7. TC Ltd

The following ratios were computed for TC Ltd based on the company's 2023 and 2022 accounts:

	2023	2022
Trade receivable days	39 days	43 days
Inventory days	44 days	38 days

REQUIRED:

Explain which of the following statements are true and which are false:

- a) On average, TC Ltd's trade receivables are taking longer to pay in 2023 than in 2022.
- b) On average, TC Ltd's inventories are being held for six days longer in 2023.
- c) Give reasons why trade receivable days might decrease from one year to the next and why inventory days increase from one year to the next.