7. CALCULATE AND INTERPRET LIQUIDITY RATIOS

A. *Business P*

Ratio	Calculation	Percentage expression	Ratio expression
Working capital/ Current ratio	74 400 / 74 000	100.5%	1.00: 1.0
Quick asset ratio	1 000 + 25 000 / 66 000	39.4%	0.39: 1.0
Gearing	8 000 + 66 000 + 50 800 / (179 400 – 124 800)	228%	2.28: 1.0

B. *Business Q*

Ratio	Calculation	Percentage expression	Ratio expression
Working capital/ Current ratio	63900 / 90500	70.6%	0.71: 1.0
Quick asset ratio	11000 + 45000 / 14500 + 76000	61.9%	0.62: 1.0
Gearing	997400 / 1476900 - 997400	20.8%	0.21: 1.0

C. *Business R*

Ratio	Calculation	Percentage expression	Ratio expression
Working capital/ Current ratio	645 000 / 400 500	161.0%	1.61: 1.0
Quick asset ratio	645000 – 100000 – 5500 / 400500	134.7%	1.35: 1.0
Gearing	400500 + 60000 / (965000 – 460500)	91.3%	0.91: 1.0

8. CALCULATE RATIOS AND INTERPRET

Kieran's Kitchenware Kapers

Liquidity and Gearing

Ratio	2026	2027
Current ratio	63.7%	210.7%
Quick ratio	102.8%	153.4%
Gearing	101.5%	117.1%

The liquidity of the business has increased over the previous two years, indicating the possibility of idle cash becoming available. This could potentially be considered as part of Kieran's financing options. Inventory levels have fallen, with turnover increasing and so more stock appears to be being sold more rapidly. Gearing has increased slightly, though it is still manageable. With an additional $40000 loan, gearing would increase to 134.4% which is a serviceable level of debt as long as interest rates are not too high, and as lone as the profit of the business moves into positive range.

9. ANALYSIS OF RATIO INFORMATION

Jive Jewellery

Liquidity:

- Working capital ratio good, strong short term asset base and potentially idle cash which should be invested or used to fund purchases.
- Concern with quick asset ratio, though are creditors quite high relative to the inventory and prepayments which are excluded from this ratio? Indicates a concern which is not apparent from just looking at working capital.
- Ideally should be at 200% as for every dollar of liability there is two dollars of current asset for repayment – very safe.
- Industry average is lower than the business for both – appears to be much stronger than its competition.

Leverage:

- Low gearing, trend toward a further decrease.
- Industry is lower still which means it has better results in this area
- If interest rates are not a concern there is no pressure on cash flow
- More internally generated funds than external.

10. FINANCIAL INFORMATION AND ANALYSIS

Pepperoni Pete's Pizza Treats

Liquidity ratios

2022 current ratio $= \frac{158000}{36000}$

$= 438\%$

2023 current ratio $= \frac{109500}{44000}$

$= 249\%$

2022 quick ratio $= \frac{19500}{36000}$

$= 54.1\%$

2023 quick ratio $= \frac{24000}{44000}$

$= 54.5\%$

Stability

2022 gearing $= \frac{236000}{668000}$

$= 35.3\%$

2023 gearing $= \frac{224000}{696500}$

$= 32.2\%$

5. CALCULATE PROFITABILITY RATIOS AND CONSIDER A LOAN

Sally's Surf Store.

RATIO	CALCULATION ON 2013 INFORMATION	CALCULATION IF LOAN TAKEN
Gross profit ratio	55%	42%
Profit margin	35%	37%
Selling expenses ratio	6%	6%
Return on equity	500%	616%
Return on assets	75%	92%
Debt to equity	85%	9%

6. CALCULATE RATIOS FOR A MANUFACTURING BUSINESS AND COMPARE

Clyde Dale's Carpets and Horsehair Rugs

A. Gross profit ratio $= \frac{200\ 000}{440\ 000}$

$= 45.4\%$

Profit margin $= \frac{21\ 000}{440\ 000}$

$= 4.8\%$

Selling costs ratio $= \frac{92\ 000}{440\ 000}$

$= 20.9\%$

Office costs ratio $= \frac{52\ 000}{440\ 000}$

$= 11.8\%$

Transport costs ratio $= \frac{25\ 000}{440\ 000}$

$= 5.7\%$

Finance costs ratio $= \frac{30\ 000}{440\ 000}$

B. The profitability of the business has declined. Sales have not altered over the two years, meaning that there must have been a relative increase in cost of sales, as well as in some or all of the expense categories.

The gross profit ratio decrease may be due to more low profit carpets being sold than high mark-up carpets, or increase in cost of sales such as purchasing or freighting the carpets.

The profit margin has decreased by a larger proportion and so the number of low mark-up items being sold and the use of specials must be investigated. Any large increases in expense must be considered. The transport costs ratio has remained constant, so the other expense categories should be considered. For the overall expense ratio to increase by 15% is a very negative trend.