

5 Ratio Analysis

Question 1 Sunshine Traders

1

Current Ratio

| 30 June 2019 | |
|--------------|---|
| | $\frac{11,000 + 7,000 + \$1,000 + 16,000}{8,000 + 3,000 + 1,000 + 2,000}$ |
| | $\frac{35,000}{14,000}$ |
| = | 2.50 or 250% |

The current ratio of Sunshine Traders on 30 June 2019 is:

b 250%

Question 2 Sunshine Traders

The current ratio calculated in question 1 indicates that Sunshine Traders:

b has \$2.50 in current assets available to pay every \$1.00 in current liabilities

Question 3 Sunshine Traders

The current ratio calculated in question 1 indicates that Sunshine Traders:

c should be able to pay its short term debts and that Sunshine Traders has extra current assets available.

Question 4 Computer Solutions

Current Ratio

| 30 June 2018 | |
|--------------|--|
| | $\frac{3,000 + 2,000 + 1,000 + 7,000 + 11,000}{6,000 + 2,000 + 3,000 + 1,000 + 4,000}$ |
| | $\frac{24,000}{16,000}$ |
| = | 1.50 or 150% |

The current ratio of Computer Solutions on 30 June 2018 is:

- c 150%

Question 5 Computer Solutions

The current ratio calculated in question 4 indicates that Computer Solutions:

- c has \$1.50 in current assets available to pay every \$1.00 in current liabilities

Question 6 Computer Solutions

The current ratio in question 4 indicates that Computer Solutions:

- b should be able to pay its short term debts

Question 7 Car Hire

Car Hire had a current ratio of 93% on 30 June 2021. This indicates that Car Hire:

- a may find it difficult to pay its short term debts **or** Car Hire is operating in an industry in which money is collected from sales very quickly

Question 8

| A | B | C |
|------------------------|-------------------------|-------------------------|
| $\frac{10,000}{7,000}$ | $\frac{31,000}{37,000}$ | $\frac{25,000}{11,000}$ |
| = 143% | = 84% | = 227% |

| | | |
|---|--|---|
| 1 | the business may find it difficult to pay its short term debts | B |
| 2 | the business should be able to pay its short term debts | A |
| 3 | the business should be able to pay its short term debts and that the business has extra current assets available | C |

Question 9
Furniture Land

The current ratio of Furniture Land indicates that the business:

- a may find it difficult to pay its short term debts

Question 10
Clothes and the Man

The current ratio of Clothes and the Man indicates that:

- c the business should be able to pay its short term debts and that the business has extra current assets available.

Question 11
Camera Place

The current ratio of Camera Place indicates that:

- b the business should be able to pay its short term debts

Question 12
Books 4 U

Quick Asset Ratio

| 30 June 2019 | |
|--------------|---------------------------|
| | $9,400 + 1,000$ |
| | <hr/> |
| | $5,200 + 1,000 + \$3,000$ |
| = | 1.13 or 113% |

Question 13
Books 4 U

The quick asset ratio calculated in question 12 indicates that Books 4 U on 30 June 2019:

- b should be able to pay its short term debts.

Question 14
Photocopier City

Photocopier City had a quick asset ratio of 95% on 30 June 2026. This ratio indicates that Photocopier City:

- b in an emergency, may not be able to pay its short term debts

Question 15
Home Traders

Home Traders had a quick asset ratio of 117% on 30 June 2025. This ratio indicates that Home Traders:

- a should be able to pay its short term debts

Question 16
Basil Faulty Computers

Quick Asset Ratio

| 30 June 2019 | |
|--------------|---|
| | $15,100 + 2,000 + 1,000$ |
| | <hr/> |
| | $9,000 + 3,000 + 1,000 + 2,000 + 7,000$ |
| = | 0.82 or 82% |

Question 17
Basil Faulty Computers

The quick ratio calculated in question 16 indicates that Basil Faulty Computers on 30 June 2017:

- a may, in an emergency, find it difficult to pay its short term debts

Question 18
WA Sports Memorabilia

WA Sports Memorabilia had a quick asset ratio of 114% on 30 June 2021. This ratio indicates that WA Sports Memorabilia:

- a should be able to pay its short term debts

Question 19
A2B Couriers

A2B Couriers had a quick asset ratio of 91% on 30 June 2017. This ratio indicates that A2B Couriers:

- b in an emergency, may not be able to pay its short term debts.

Question 20
Furniture Land

1

Debt to Equity Ratio

| Furniture Land | |
|----------------|--------|
| | 27,000 |
| | <hr/> |
| | 66,000 |
| = | 41% |

2

| |
|--|
| The business has a below average level of debt |
|--|

Question 21

Alpha and Omega Traders

1

Debt to Equity Ratio

| Alpha Traders | |
|---------------|--------|
| | 64,000 |
| | <hr/> |
| | 50,000 |
| = | 128% |

| Omega Traders | |
|---------------|---------|
| | 62,000 |
| | <hr/> |
| | 103,000 |
| = | 60% |

You would choose Omega Traders as it has a lower level of debt and a higher profit for the year ended 30 June 2029.

Question 22

Car Radio City

1

Debt to Equity Ratio

| Car Radio City | |
|----------------|--------|
| | 98,000 |
| | <hr/> |
| | 34,000 |
| = | 288% |

Given the very high debt to equity ratio, the owner of Car Radio City will find it difficult to obtain a loan. The second shop should be financed from the owner's capital.

Question 23
Forward Business College

1

Debt to Equity Ratio

| Forward Business College | |
|--------------------------|--------------------------|
| | $\frac{81,000}{109,000}$ |
| = | 74% |

The business has a higher than average level of debt

Question 24
Bed World

1

Gross Profit Ratio

| 30 June 2021 | |
|--------------|--------------------------|
| | $\frac{46,000}{100,000}$ |
| = | 46% |

2

- 2 The change in the gross profit ratio in 2021 may be because:
- a the business has found a cheaper supplier of beds.

Question 25
Furniture 4 You

1

Gross Profit Ratio

| 30 June 2017 | |
|--------------|--------------------------|
| | $\frac{40,000}{100,000}$ |
| = | 40% |

| 30 June 2018 | |
|--------------|--------------------------|
| | $\frac{33,000}{110,000}$ |
| = | 30% |

2

Which of the following reasons would explain the change in the gross profit ratio?

- a In July 2017 Furniture Giants, a rival business, opened a store 500 metres from Furniture 4 You. Furniture 4 You has had to reduce the selling price of its products.

Question 26
The Computer Store

1

Gross Profit Ratio

| 30 June 2018 | |
|--------------|---------|
| | 46,000 |
| | 107,000 |
| = | 43% |

| 30 June 2019 | |
|--------------|---------|
| | 45,000 |
| | 119,000 |
| = | 38% |

2

- b the business reduced the selling price of each computer by 8% in response to the lower prices being charged by competitors, but the cost price of each computer sold remaining unchanged.

Question 27
Tardin Suppliers

a

Tardin Suppliers
Income Statement (extract)
for the year ended 30 June 2028

| | | | |
|---------------------------|-----|-----|------------|
| Sales | | | 513 |
| Less Sales Returns | | | 24 |
| Less Discount Allowed | | | 73 |
| Net Sales | | | 416 |
| Less Cost of Sales | 198 | | |
| Cartage Inwards | 15 | | |
| Customs Duty | 16 | 229 | |
| Less Discount Received | | 34 | 195 |
| Gross Profit | | | 221 |

Gross Profit Ratio

| 30 June 2028 | |
|--------------|-------|
| | 221 |
| | 513 |
| = | 43.1% |

b

Tardin Suppliers may have found a cheaper supplier of inventory.

Question 28
Kalamunda Traders

a

Kalamunda Traders
Income Statement (extract)
for the year ended 30 June 2028

| | | | |
|---------------------------|-----|-----|------------|
| Sales | | | 882 |
| Less Sales Returns | | | 40 |
| Less Discount Allowed | | | 26 |
| Net Sales | | | 816 |
| Less Cost of Sales | 355 | | |
| Cartage Inwards | 22 | | |
| Customs Duty | 45 | 422 | |
| Less Discount Received | | 15 | 407 |
| Gross Profit | | | 409 |

Gross Profit Ratio

| 30 June 2028 | |
|--------------|-------|
| | 409 |
| | 882 |
| = | 46.4% |

b

Kalamunda Traders has not been able to pass on increases in the cost of inventory purchased to customers.

Question 29
Hardware Kingdom

1

Gross Profit Ratio

| 30 June 2025 | |
|--------------|---------------------------|
| | $\frac{142,000}{240,000}$ |
| = | 59% |

| 30 June 2026 | |
|--------------|---------------------------|
| | $\frac{125,000}{249,000}$ |
| = | 50% |

2

- a a cut in the selling price of the inventory sold due to increased pressure from competitors.

Question 30
Stationery Land

Profit Ratio

| 30 June 2018 | 30 June 2019 |
|--------------------------|-------------------------|
| $\frac{19,000}{100,000}$ | $\frac{8,600}{110,000}$ |
| = 19% | = 7.8% |

2

The change in the profit ratio in 2019 was caused by:

- a an increase in expenses in 2019 other than COS.

Question 31
Clothes R Us

Gross Profit Ratio

| Year 1 | Year 2 | Year 3 |
|--------------------------|--------------------------|--------------------------|
| $\frac{40,000}{100,000}$ | $\frac{45,000}{100,000}$ | $\frac{45,000}{100,000}$ |
| = 40% | = 45% | 45% |

Profit Ratio

| Year 1 | Year 2 | Year 3 |
|--------------------------|--------------------------|--------------------------|
| $\frac{15,000}{100,000}$ | $\frac{21,000}{100,000}$ | $\frac{13,000}{100,000}$ |
| = 15% | = 21% | 13% |

- 2 Which of the following statements would explain the changes in the gross profit ratio and the net profit ratio in years 2 and 3.
- b Clothes R Us found a cheaper supplier of clothes in year 2 but expenses other than cost of sales increased in year 3.

Question 32
Fridge and Washer World

Gross Profit Ratio

| 30 June 2027 | |
|--------------|---------|
| | 148,500 |
| | <hr/> |
| | 330,000 |
| = | 45% |

Profit Ratio

| 30 June 2027 | |
|--------------|---------|
| | 54,000 |
| | <hr/> |
| | 330,000 |
| = | 16.4% |

The profit ratio has increased in 2027 from 11% to 16.4%. The gross profit ratio remains unchanged. Therefore, the business has been more successful in 2027 in controlling its expenses (other than COS).

Question 33

Biz Traders

1

Expense Ratio

| 30 June 2018 | |
|--------------|-------------------------|
| | 35,000 + 19,000 + 5,000 |
| | <hr/> 150,000 |
| | 59,000 |
| | <hr/> 150,000 |
| = | 39% |

| 30 June 2019 | |
|--------------|-------------------------|
| | 33,000 + 22,000 + 6,000 |
| | <hr/> 180,000 |
| | 61,000 |
| | <hr/> 180,000 |
| = | 34% |

2

The business has been very successful in controlling its expenses in 2019 as the operating expense ratio has decreased from 39% to 34%.

Question 34
Lawn Mower City

Gross Profit Ratio

| 30 June 2027 | |
|--------------|---------|
| | 169,000 |
| | <hr/> |
| | 411,000 |
| = | 41% |

Profit Ratio

| 30 June 2027 | |
|--------------|---------|
| | 21,000 |
| | <hr/> |
| | 411,000 |
| = | 5.1% |

Expense Ratio

| 30 June 2027 | |
|--------------|---------|
| | 148,000 |
| | <hr/> |
| | 411,000 |
| = | 36% |

The increase in the 2028 expense ratio (from 31% to 36%) and the lower 2028 gross profit ratio (from 46% to 41%) has caused a decrease in the 2028 profit ratio from 11% to 5.1%.

Question 35
Furniture Galore

Return on Assets

a = 16.7%

| Year ended 30 June 2018 | |
|-------------------------|---------|
| | \$9,700 |
| | <hr/> |
| | 58,000 |
| = | 16.7% |

$$\text{Average assets} = (\$62,000 + \$54,000)/2$$

Question 36
Furniture Galore

The average return on assets for the type of business operated by Furniture Galore is 14%. The return on assets of Furniture Galore for the year ended 30 June 2018 indicates that this business:

- a has efficiently used its assets to generate profits

Question 35
Acme Traders

Return on Assets

c = 8%

| Year ended 30 June 2019 | |
|-------------------------|--------|
| | 6,800 |
| | <hr/> |
| | 85,000 |
| = | 8% |

$$\text{Average assets} = (\$80,000 + \$90,000)/2$$

Question 37

The average return on assets for the type of business operated by Acme Traders (in question 35) is 15%. The return on assets of Acme Traders for the year ended 30 June 2022 indicates that this business:

- b has not efficiently used its assets to generate profits.

Question 38
Bargain Traders

Current Ratio

| 30 June 2026 | | |
|--------------|---|-----|
| \$210 | | 100 |
| <hr/> | | |
| \$124 | X | 1 |

| |
|------|
| 169% |
|------|

- b should be able to pay its short term debts

Debt to Equity Ratio

| 30 June 2026 | | |
|--------------|---|-----|
| \$285 | | 100 |
| <hr/> | | |
| \$395 | X | 1 |

| |
|-----|
| 72% |
|-----|

- a a lower than average gearing ratio.

Question 38 continued
Bargain Traders

Gross Profit Ratio

| 30 June 2026 | | |
|--------------|---|-------|
| \$130 | | 100 |
| <hr/> | X | <hr/> |
| \$291 | | 1 |

| |
|-----|
| 45% |
|-----|

- c The business had to pay more in 2026 for its inventory and could not pass on this increase in the price of inventory to its customers.

Return on Assets

| Year Ended 30 June 2026 | | |
|-------------------------|---|-------|
| \$82 | | 100 |
| <hr/> | X | <hr/> |
| \$365 | | 1 |

| |
|-----|
| 13% |
|-----|

Bargain Traders has achieved an acceptable rate of return on assets.

- a True

Question 39
Golf Land

Gross Profit Ratio

| 30 June 2024 | |
|--------------|--------------------------|
| | $\frac{40,000}{100,000}$ |
| = | 40% |

| 30 June 2025 | |
|--------------|--------------------------|
| | $\frac{46,000}{107,000}$ |
| = | 43% |

- 2 Which of the following reasons would explain the change in the gross profit ratio?
- b Golf Land found a cheaper supplier of golf equipment in China.

Question 40
Excel Traders and All Right Traders

1

Return on Assets

| Excel Traders | | All Right Traders | |
|---------------|--------------------------|-------------------|--------------------------|
| | $\frac{30,000}{185,000}$ | | $\frac{41,000}{290,000}$ |
| = | 16.2% | = | 14.1% |

2

Excel Traders has achieved the better return on assets.

Question 41
Toy Wonderland

Gross Profit Ratio

| 30 June 2024 | |
|--------------|-------------------------|
| | $\frac{46,000}{86,000}$ |
| = | 53% |

| 30 June 2025 | |
|--------------|-------------------------|
| | $\frac{43,000}{91,000}$ |
| = | 47% |

- 2 Which of the following reasons could explain the change in the gross profit ratio.
- c The business had to pay more in 2025 for each toy that it purchased and could not pass on this increase in the price of inventory to the customers.