## 5 Ratio Analysis

## Question 1 Sunshine Traders

1

#### Current Ratio

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

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**

Α	В	С
10,000	31,000	25,000
7,000	37,000	11,000
= 143%	= 84%	= 227%

1	the business may find it difficult to pay its short term debts	В
2	the business should be able to pay its short term debts	Α
3	the business should be able to pay its short term debts and that the business has extra current assets available	С

## 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:

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

#### 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

# **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	
	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	
	50,000	
=	128%	

Omega Traders		
	62,000	
	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	
	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		
	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		
	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		
	40,000	
=	40%	

	30 June 2018	
	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

а

## 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

а

## 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 hass 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			
	142,000		
	240,000		
=	59%		

30 June 2026				
	125,000			
	249,000	_		
=	50%			

2

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
	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
40,000		45,000 100,000	<u>45,000</u> 100,000
= 40%	=	45%	45%

#### Profit Ratio

Year 1		Year 2	Year 3
<u>15,000</u> 100,000		21,000 100,000	<u>13,000</u> 100,000
= 15%	=	21%	13%

- 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			
	330,000	•		
=	45%			

#### Profit Ratio

30 June 2027		
	54,000	
	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	
	150,000	
	59,000 150,000	
=	39%	

30 June 2019		
	33,000 + 22,000 + 6,000	
_	180,000	
	61,000	
-	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

3	30 June 2027	
	169,000	
	411,000	-
=	41%	

#### Profit Ratio

30 June 2027		
	21,000	
	411,000	_
=	5.1%	

## Expense Ratio

,	30 June 2027	
	148,000	
	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	
	58,000	
=	16.7%	

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	
	85,000	
=	8%	

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

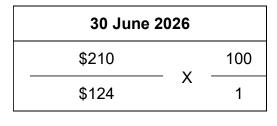
#### **Question 37**

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.

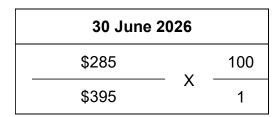
### Question 38 Bargain Traders

#### **Current Ratio**



b should be able to pay its short term debts

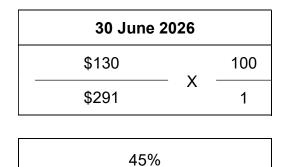
#### **Debt to Equity Ratio**



a a lower than average gearing ratio.

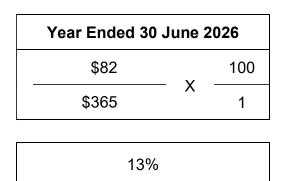
# **Question 38 continued Bargain Traders**

#### **Gross Profit Ratio**



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**



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

a True

## Question 39 Golf Land

#### Gross Profit Ratio

3	0 June 2024	
	40,000	
	100,000	•
=	40%	

30 June 2025		
	46,000	
	107,000	
=	43%	

- 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	
30,000 185,000	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

3	0 June 2024	
	46,000	
	86,000	-
=	53%	

3	0 June 2025	
	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.