**Liquidity and Leverage questions**

1. What is the difference between liquidity and leverage, and how can these be evaluated?

(4 marks)

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1. (12 marks)

Below is the summarised financial information for Grandstand Industries.

**Grandstand Industries**

**Income Statement**

**for the year ending**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2020**  $ | **2019**  $ | **2018**  $ |
| Sales | 50,000 | 100,000 | 88,000 |
| Less Cost of Sales | 34,000 | 60,000 | 57,200 |
| Gross Profit | 16,000 | 40,000 | 30,800 |
| Less operating expenses | 15,000 | 17,000 | 16,000 |
| **Profit** | **1,000** | **23,000** | **14,800** |

**Grandstand Industries**

**Balance Sheet**

**as at 30 June**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2020** | **2019** | **2018** |
| **Assets** | $ | $ | $ |
| Cash at bank | 100 | 2,000 | 2,000 |
| Accounts receivable | 9,400 | 8,000 | 2,500 |
| Prepaid expenses | 1,000 | 1,500 | 1,000 |
| Inventory | 15,000 | 16,000 | 15,000 |
| Equipment | 30,000 | 30,000 | 30,000 |
| Total Assets | 55,500 | 57,500 | 50,500 |
| **Liabilities** |  |  |  |
| Loan (due in November) | 25,500 | 5,500 | 6,700 |
| Total Liabilities | 25,500 | 5,500 | 6,700 |
| **Net Assets** | **30,000** | **52,000** | **43,800** |
| **Equity** |  |  |  |
| Capital | 29,000 | 29,000 | 29,000 |
| Add Profit | 1,000 | 23,000 | 14,800 |
| **Total Equity** | **30,000** | **52,000** | **43,800** |

**Additional information**

The business specialises in importing flag poles and related flag accessories. Unfortunately, a fall in demand has been experienced recently due to Covid-19 restrictions. The owner of the business has asked you to interpret the current figures in the financial statements.

**Required:**

1. Calculate the following ratios expressed as a percentage to two decimal places. (8 marks)

|  |  |  |
| --- | --- | --- |
| **Ratio** | **2020** | **2019** |
| **Working Capital** |  |  |
| **Quick Asset** |  |  |

1. Comment on the liquidity position of Grandstand Industries.(8 marks)

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