

(b) Suggest **two** reasons why the balance on a retained earnings account may be lower than the profit for the year.

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(c) Calculate the following ratios.

(i) Rate of inventory turnover (to **two** decimal places)

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..... [2]

(ii) Liquid (acid test) ratio (to **two** decimal places)

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..... [2]

(iii) Trade payables turnover (days)

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..... [2]

Additional information

The following information is available for XY Limited, a competitor of AB Limited.

Rate of inventory turnover	8.75 times
Liquid (acid test) ratio	0.85 : 1
Trade payables turnover (days)	42 days

REQUIRED

- (d) Discuss the performance of AB Limited by comparing the ratios calculated in part (c) with those of XY Limited.

Rate of inventory turnover

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Liquid (acid test) ratio

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Trade payables turnover (days)

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Additional information

The financial statements of AB Limited for the year ended 30 April 2017 showed a draft profit for the year of \$71 000. A review of the books of account revealed the following errors:

- 1 A sales invoice for \$234 had been recorded as \$324.
- 2 Returns outwards account had been overcast by \$100.
- 3 Inventory of \$1200 had been omitted from closing inventory.

REQUIRED

- (f) Calculate the revised profit for the year ended 30 April 2017.

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- (g) Explain the difference between a capital reserve and a revenue reserve.

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