

19 A business provides the following extract from its income statement.

	\$
opening inventory	15 000
purchases	180 000
closing inventory	<u>(18 750)</u>
cost of sales	176 250

What is the rate of inventory turnover?

- A** 9.4 times
- B** 9.6 times
- C** 10.4 times
- D** 10.7 times

20 Which actions would, in general, improve the liquid (acid test) ratio of a business in the short term?

- 1 delaying trade payables
- 2 selling inventory
- 3 selling surplus non-current assets
- 4 trade receivables paying their debts

- A** 1 and 4 **B** 2 and 3 **C** 3 only **D** 4 only

21 Why is inventory excluded from the calculation of the quick ratio?

- A** Business can choose either FIFO and AVCO for inventory valuation.
- B** Inventory can become obsolete easily.
- C** Inventory is the slowest current asset to be converted into cash.
- D** The value of inventory fluctuates.

22 A business uses absorption costing and applies an overhead absorption rate based on direct labour hours.

Why does the business distinguish between direct and indirect labour?

- 1 to aid the preparation of a quote
- 2 to assist when planning production
- 3 to help when purchasing materials

- A** 1 only **B** 1, 2 and 3 **C** 2 and 3 only **D** 3 only