

3 Anna has obtained the following data at 31 December 2016 in respect of Ravi, a possible new customer.

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Trade receivables	20 640	
Cash and cash equivalents	4 840	debit
Inventory	38 100	
Trade payables	28 760	

Other figures obtained are:

Sales for the year	331 750
Inventory at 1 January 2016	46 200

Ravi has a mark-up of 25%.

REQUIRED

(a) Calculate the following ratios for Ravi's business to **two** decimal places:

(i) Current ratio

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(ii) Liquid (acid test) ratio

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(iii) Rate of inventory turnover

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Additional information

Anna has also obtained the following data in respect of Yuan, another possible customer.

Current ratio	3.82 : 1
Liquid (acid test) ratio	1.63 : 1
Rate of inventory turnover	6.69 times per year

Anna's main concern when choosing the customer is that they should pay her promptly.

REQUIRED

(b) Advise Anna which customer she should choose. Justify your answer.

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(c) State **three** limitations to a business of using ratio analysis.

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