

- 3 The directors of B Limited have provided the following information.

Statement of financial position at 31 December 2020

| | |
|------------------------------|----------------|
| Assets | \$ |
| Non-current assets | 656 000 |
| Current assets | |
| Inventory | 34 000 |
| Trade receivables | 31 000 |
| | <u>65 000</u> |
| Total assets | <u>721 000</u> |
| Equity and liabilities | |
| Equity | |
| Issued share capital | 500 000 |
| Share premium | 67 000 |
| Retained earnings | 68 000 |
| Total equity | <u>635 000</u> |
| Non-current liabilities | |
| 8% Debenture (2025) | 50 000 |
| | <u>50 000</u> |
| Current liabilities | |
| Trade payables | 19 000 |
| Cash and cash equivalents | 17 000 |
| | <u>36 000</u> |
| Total liabilities | <u>86 000</u> |
| Total equity and liabilities | <u>721 000</u> |

- 1 The company's revenue for the year ended 31 December 2020 was \$540 000 of which 60% was on credit.
- 2 The company's profit for the year was \$80 000.

REQUIRED

- (a) Calculate the following ratios at 31 December 2020.

- (i) Current ratio (to **two** decimal places)

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(ii) Trade receivables turnover (days)

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[1]

(iii) Return on capital employed (to **two** decimal places)

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[2]

Additional information

The following ratios are available for **2019** along with comparative ratios for **2018**.

| | At 31 December 2019 | At 31 December 2018 |
|----------------------------|-------------------------------|-------------------------------|
| Current ratio | 2.20 : 1 | 2.10 : 1 |
| Trade receivables turnover | 37 days | 38 days |
| Return on capital employed | 15.57% | 14.32% |

REQUIRED

(b) Compare the company's position at 31 December **2020** with that of the previous two years in regard to the following ratios:

(i) Current ratio

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[2]

(ii) Trade receivables turnover (days)

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[2]

(iii) Return on capital employed

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[2]

(c) State **two** ways in which a company could improve its current ratio.

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2

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[2]

Additional information

Companies compare their financial performance with that of different businesses.

REQUIRED

(d) State **three** limitations of comparing the financial performance of different businesses.

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[3]