UNIT 20

ACCOUNTING RATIOS

Question 1

Percentage gross profit to revenue (gross profit margin)

\[
\text{Gross profit x 100} \quad \text{i.e.} \frac{\$160,000 \times 100}{\$800,000} \quad \text{i.e.} 20\%
\]

Rate of inventory turnover

\[
\text{Cost of sales} \quad \text{i.e.} \frac{\$640,000}{32,000} \quad \text{i.e.} 20 \times
\]

Percentage of profit to revenue (profit margin)

\[
\text{Profit x 100} \quad \text{i.e.} \frac{\$100,000 \times 100}{\$800,000} \quad \text{i.e.} 12.5\%
\]

Question 2

Percentage gross profit to revenue (gross profit margin)

\[
\text{Gross profit x 100} \quad \text{i.e.} \frac{\$240,000 \times 100}{\$720,000} \quad \text{i.e.} 33.33\%
\]

Rate of inventory turnover

\[
\text{Cost of sales} \quad \text{i.e.} \frac{\$480,000}{30,000} \quad \text{i.e.} 16 \times
\]

Percentage of profit to revenue (profit margin)

\[
\text{Profit x 100} \quad \text{i.e.} \frac{\$57,600 \times 100}{\$720,000} \quad \text{i.e.} 8\%
\]

Question 3

Current ratio

\[
\frac{\text{Current assets}}{\text{current liabilities}} \quad \text{i.e.} \frac{36,000}{24,000} \quad \text{i.e.} 1.5:1
\]

Quick ratio (acid test ratio)

\[
\frac{\text{Liquid assets}}{\text{current liabilities}} \quad \text{i.e.} \frac{19,000}{24,000} \quad \text{i.e.} 0.79:1
\]

Return on capital employed (ROCE)

\[
\text{Profit x 100} \quad \text{i.e.} \frac{\$45,000 \times 100}{\$306,000} \quad \text{i.e.} 14.71\%
\]
Trade receivables collection period

Trade receivables x 365  i.e.$16 000 x 365  i.e.27 days  
Credit sales  $224 000

Trade payables payment period

Trade payables x 365  i.e.$14 000 x 365  i.e.34 days  
Credit purchases  $154 000

Question 4

Current ratio

Current assets:current liabilities  i.e.72 000:40 000  i.e.1.8:1

Quick ratio (acid test ratio)

Liquid assets:current liabilities  i.e.18 000:40 000  i.e.0.45:1

Return on capital employed (ROCE)

Profit x 100  i.e.$75 000 x 100  i.e.11.08%  
Capital employed  $677 000

Trade receivables collection period

Trade receivables x 365  i.e.$8000 x 365  i.e.41 days  
Credit sales  $72 000

Trade payables payment period

Trade payables x 365  i.e.$39 000 x 365  i.e.34 days  
Credit purchases  $429 000
PREPARING FOR THE EXAMINATION

<table>
<thead>
<tr>
<th>Q</th>
<th>Ans</th>
<th>Q</th>
<th>Ans</th>
<th>Q</th>
<th>Ans</th>
<th>Q</th>
<th>Ans</th>
</tr>
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<tr>
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<td>B</td>
<td>6</td>
<td>C</td>
<td>7</td>
<td>C</td>
<td>8</td>
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Question 11

(a)

Abdullah
Income Statement (Extract)
for the year ended 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>$</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>320 000</td>
<td></td>
</tr>
<tr>
<td>Opening inventory</td>
<td>17 000</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>253 000</td>
<td></td>
</tr>
<tr>
<td>Add carriage</td>
<td>(i) inwards</td>
<td>3 000</td>
</tr>
<tr>
<td>Closing inventory</td>
<td>33 000</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(ii) 240 000</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>80 000</td>
<td></td>
</tr>
<tr>
<td>Discounts</td>
<td>(iii) 2 000</td>
<td></td>
</tr>
<tr>
<td>General expenses</td>
<td>8 000</td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>(iv) 40 000</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>11 000</td>
<td></td>
</tr>
<tr>
<td>(v) Profit for year</td>
<td>64 000</td>
<td>16 000</td>
</tr>
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</table>

(b)

Percentage gross profit to revenue (gross profit margin)

\[
\text{Gross profit \times 100} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100 = \frac{80 000}{320 000} \times 100 = 25\% \]

Rate of inventory turnover

\[
\text{Cost of sales \times \text{Average inventory}} = \frac{\$240 000}{25 000} = 9.6 \text{ times} 
\]

Percentage of profit to revenue (profit margin)

\[
\text{Profit \times 100} = \frac{\text{Profit}}{\text{Revenue}} \times 100 = \frac{16 000}{320 000} \times 100 = 5\% 
\]
Question 12

(a) Balance Sheet at 30 June 2012

<table>
<thead>
<tr>
<th>NON-CURRENT ASSETS</th>
<th>$</th>
<th>Cost</th>
<th>$</th>
<th>Accumulated Deprcn</th>
<th>$</th>
<th>Net</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>440 000</td>
<td></td>
<td>220 000</td>
<td>(i) 220 000</td>
<td></td>
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<tr>
<td>CURRENT ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>14 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td>13 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Prepayments</td>
<td></td>
<td>5 000</td>
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</tr>
<tr>
<td>Cash at bank</td>
<td></td>
<td>8 000</td>
<td></td>
<td></td>
<td>(ii) 40 000</td>
<td></td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>(iii) 17 000</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accruals</td>
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<td>3 000</td>
<td></td>
<td></td>
<td>(iv) 20 000</td>
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</tr>
<tr>
<td>(v) Net current assets</td>
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<td></td>
<td></td>
<td>20 000</td>
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<tr>
<td>CAPITAL</td>
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<td></td>
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<tr>
<td>Add profit</td>
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<td>80 000</td>
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<td>(v) 240 000</td>
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<td>Less drawings</td>
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<td>(vi) 40 000</td>
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<td></td>
</tr>
<tr>
<td>(vi) 240 000</td>
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</tr>
</tbody>
</table>

(b) Current ratio

Current assets:current liabilities i.e.40 000:20 000 i.e.2:1

Quick ratio (acid test ratio)

Liquid assets:current liabilities i.e.26 000:20 000 i.e.1.3:1

Return on capital employed (ROCE)

Profit x 100 i.e.$80 000 x 100 i.e.33.33%
Capital employed $240 000

Trade receivables collection period

Trade receivables x 365 i.e.$13 000 x 365 i.e.31 days
Credit sales $155 000

Trade payables payment period

Trade payables x 365 i.e.$17 000 x 365 i.e.31 days
Credit purchases $204 000