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7. (a) Explain the term **working capital**.

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- (b) Outline **two** problems caused by insufficient working capital for a start-up business.

(i) 

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(ii) 

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5. (a) Using the figures below, calculate the **Debt/Equity ratio (Gearing)** of Lalco Ltd. for 2015.  
(Show your formula and workings.)

Reserves €130,000  
Long-term Loan €700,000  
Ordinary Share Capital €220,000

<b>Formula:</b>	<b>Workings:</b>
<b>Answer:</b>	

- (b) Outline whether Lalco Ltd. is highly geared or lowly geared **and** the possible effect this result has on the business.

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3. (a) Using the figures below, calculate the **Net Profit Percentage (Margin)** of Auburn Publishing Ltd for **2014**:

Sales	€50,000
Gross Profit	€22,000
Expenses	€12,000

Formula:

Workings:

Answer:

(Show your formula and workings)

- (b) If the Net Profit Percentage for **2013** was 25%, outline how management could use this information in making decisions.

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- 3.(a) Using the figures below calculate the **Current Ratio** for 'Sentry Ltd'.

(Show your workings)

Debtors	€12,000
Bank Overdraft	€20,000
Cash	€15,000
Creditors	€50,000
Closing Stock	€ 8,000

Workings

Answer:

- (b) Comment on the liquidity position of Sentry Ltd:

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2. (a) Explain the term 'Return on Investment' (ROI).

- (b) Using the figures below calculate the ROI for 'Natural Options Ltd.'. (Show your workings.)

Net Profit	€ 57,000
Ordinary Share Capital	€ 140,000
Reserves	€ 56,000
Long Term Loan	€ 24,000

Workings:

Answer

7. The following figures relate to a company for the past two years.

	<u>2005</u>	<u>2004</u>
	€	€
Authorised Share Capital	500,000	500,000
Ordinary Share Capital	420,000	320,000
Long-term loans	140,000	270,000
Retained Earnings	30,000	40,000

**Workings**

Calculate the Debt/Equity ratio for 2004 and 2005:

2004 \_\_\_\_\_ 2005 \_\_\_\_\_

Indicate, by means of a tick (✓), whether the trend is improving or disimproving and give **one** possible reason for this:

<b>Improving</b>		<b>Disimproving</b>	
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Reason: \_\_\_\_\_

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**10.** The following sales information is taken from the books of The Grand Hotel:

May 2004: Rooms €45,000; Bar €35,000; Restaurant €25,000; Functions €15,000.

May 2005: Rooms €60,000; Bar €40,000; Restaurant €30,000; Functions €95,000.

Illustrate this information in bar chart form.



8. The following are figures relating to Laser Ltd.

	2004	2003
Current Assets	90,000	85,000
Current Liabilities	60,000	40,000
Closing Stock	20,000	25,000

**Workings**

Calculate the Acid Test Ratio for 2003 and 2004.

2003 \_\_\_\_\_ 2004 \_\_\_\_\_

Indicate, by means of a tick (✓), whether the trend is improving or disimproving and give one possible reason for this.

<b>Improving</b>		<b>Disimproving</b>	
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Reason: \_\_\_\_\_

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6. (i) Explain why a business would calculate the Debt / Equity Ratio.

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(ii)

	2003
Long Term Loans	100,000
Ordinary Share Capital	50,000
Reserves	25,000
Overdrafts	15,000

**Workings**

Calculate the Debt / Equity Ratio for the year 2003: \_\_\_\_\_ : \_\_\_\_\_  
Show all workings.

10. Draft a Bar Chart from the following data:

<u>Cost Category</u>	<u>%</u>
Marketing	10
Transport	20
Raw Materials	25
Labour	30
Expenses	15



3. Distinguish between ‘Gross Profit’ and ‘Gross Pay.’

- (i)

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- (ii)

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9. Outline two reasons why a business would calculate the Working Capital Ratio.

(A)

(B)

Question 6

(A) Outline the financial rewards used for motivating employees. (15 marks)

(B) Equinox Design Ltd is a graphic design business.

From the figures given below for **2016**, **calculate** the following for Equinox Design Ltd:  
**(Show your workings.)**

- (i) Net Profit Margin
- (iii) Return on Investment
- (ii) Current Ratio
- (iv) Debt/Equity Ratio

Equinox Design Ltd: Information for 2016	
Sales	€200,000
Net Profit	€30,400
Current Assets	€20,000
Current Liabilities	€16,000
Issued Ordinary Share Capital	€300,000
Long-Term Loan	€400,000
Retained Earnings	€60,000


Equinox Design Ltd: Results for 2015	
Net Profit Margin	20.5%
Current Ratio	2:1
Return on Investment	8%
Debt/Equity Ratio	0.7:1

(20 marks)

- (C) (i) Analyse the profitability **and** liquidity of Equinox Design Ltd for 2016, with reference to the results for 2015 shown in the box above.
- (ii) Should Equinox Design Ltd expand its business? Outline **one** reason for your answer.
- (iii) Outline **two** limitations of using ratios to analyse the final accounts of a business.

(25 marks)  
(60 marks)

**(B)** The following figures are taken from the final accounts of Flame Ltd for 2013.



Flame Ltd	2013
	€
Authorised Share Capital	<b>900,000</b>
Issued Share Capital	<b>450,000</b>
Long Term Loan	<b>200,000</b>
Retained Earnings	<b>150,000</b>

- (i) Explain the term 'Debt/Equity Ratio'.
- (ii) Calculate the Debt/Equity Ratio for 2013. **Show your workings.**
- (iii) Discuss the importance of the Debt/Equity Ratio when deciding on new sources of finance for Flame Ltd. (20 marks)



- (B) The average performance of companies in the same industry as Bianua Ltd for 2011 is detailed in the table as follows:

Industry Average Results 2011	
ROI	11%
Current Ratio	2:1
Acid Test Ratio	1.2 :1
Debt/Equity Ratio	0.3:1

The following figures are taken from the final accounts of Bianua Ltd for 2011.

Bianua Ltd figures for 2011	€
Net Profit	50,000
Sales	975,000
Current Assets (including closing stock)	155,000
Long Term Loan	300,000
Ordinary Share Capital	500,000
Current Liabilities	85,000
Retained Earnings	100,000
Closing Stock	80,000

- (i) Calculate the following for 2011 for Bianua Ltd:
- Return On Investment (ROI)
  - Current Ratio
  - Acid Test Ratio
  - Debt/Equity Ratio.
- (20 marks)
- (ii) Analyse the *profitability* **and** *liquidity* of Bianua Ltd for 2011, with reference to the industry average results shown in the box above, **and** make recommendations for Bianua Ltd.
- (20 marks)

*Kilronan Ltd produces a range of chilled food products. Made from natural ingredients, the firm's award winning products have become household names. It is now one of the leading brands in Ireland and supplies all the major supermarket chains. Kilronan Ltd is considering either a 'merger' or a 'takeover' as a method of expansion within the Irish market. It is also considering how it will finance growth.*

- (B) Distinguish between *debt capital* and *equity capital* as sources of finance for the expansion of Kilronan Ltd.

(15 marks)

(B) From the figures given below for **2009** **calculate** the following for CES Ltd.:

- (i) Net profit margin; (iii) Acid Test ratio;  
(ii) Current ratio; (iv) Debt Equity ratio.

Information for 2009	
Sales	€135,000
Net profit	€33,750
Current Assets ( including closing stock)	€84,500
Current Liabilities	€65,000
Closing Stock	€39,000
Ordinary Share Capital	€300,000
Long Term Debt	€192,000
Retained Earnings	€20,000

RESULTS 2008	
Net profit margin	32%
Current ratio	2:1
Acid test ratio	1.1:1
Debt Equity Ratio	0.4:1

(20 marks)

(C) Analyse the significance of the trends over the two years (2008/2009) for the following stakeholders:

- (i) Investors/shareholders;  
(ii) Suppliers;  
(iii) Employees.

**NOTE:** Results for **2008** are already calculated above.

(20 marks)

**(60 marks)**

(C) (i) Using the figures given below calculate the Debt/Equity ratio of SES Ltd for the years 2006 **and** 2007. (Show your workings)

	2006	2007
Long Term Loans	300,000	364,000
Ordinary Share Capital	450,000	450,000
Retained Earnings	50,000	70,000

- (ii) Comment on the significance of the trend in the Debt/Equity ratio over the two years for the existing shareholders.

(20 marks)

**(60 marks)**

- (B)** Financial information published in financial statements such as Profit and Loss Accounts and Balance Sheets is useful for decision making. Consider the following figures and answer the questions that follow:

	<b>2005</b>	<b>2004</b>
	€	€
Sales	500,000	400,000
Expenses	50,000	40,000
Net Profit	70,000	60,000
Capital Employed	650,000	600,000

- (i) For 2004 and 2005, calculate the Gross Profit Margin, the Net Profit Margin and the Return on Investment.
- (ii) Analyse these profitability trends and discuss how shareholders might use them in making decisions.

(40 marks)

- (A)** Illustrate the benefit for the good financial management of a business of the:

- (i) Profit and Loss account  
and

- (ii) The Balance Sheet.

(20 marks)

- (B)** (i) Using two ratios in each case, analyse the profitability and liquidity trends in Calty Construction Co. Ltd., from the following figures for 2002 and 2003.

- (ii) Suggest how the trends might be improved.

	<u>2002</u>	<u>2003</u>
<i>Current Assets</i>	15,900	16,800
<i>Net Profit</i>	15,100	12,285
<i>Equity Share Capital</i>	100,000	105,000
<i>Current Liabilities</i>	8,100	7,400
<i>Closing Stock</i>	9,100	12,400
<i>Gross Profit</i>	45,150	40,950
<i>Retained Earnings</i>	20,000	21,000
<i>Sales</i>	169,500	157,500

(40 marks)

### Question 6

(A) Discuss the importance of the following financial statements to the management of a business enterprise.

- (i) The Profit and Loss Account.
- (ii) The Balance Sheet.

(30 marks)

(B) From the figures given below.

- (i) Calculate for 1999 and 2000 the Acid Test Ratios and the Debt Equity Ratios.
- (ii) Analyse any trends you notice from your calculations.

	<u>1999</u>	<u>2000</u>
Current Assets	IR£ 90,500	IR£ 75,400
Current Liabilities	IR£ 65,100	IR£ 44,600
Closing Stock	IR£ 47,300	IR£ 51,200
Equity Share Capital	IR£ 240,000	IR£ 240,000
Long Term Debt	IR£ 150,000	IR£ 220,000
Retained Earnings (Reserves)	IR£ 60,000	IR£ 62,000

(30 marks)

**(60 marks)**

