

A-Level Business

Name: _____ Score: _____

1. Revenue is 250 and cost of sales is 160. What is the gross profit?

2. Depreciation spreads the cost of a:
 - ☐ non-current asset over its useful life
 - ☐ loan over its term
 - ☐ wage over a year
 - ☐ current asset over one month
3. Gross profit is 90 and revenue is 300. What is the gross profit margin (%)?

4. Cost of sales is 240 and average inventory is 40. What is the inventory turnover (times)?

5. An investment costs 24,000 and returns net cash of 6,000 a year. What is the payback period (years)?

6. To interpret a ratio, it is most useful to compare it with:
 - ☐ past years, competitors and targets
 - ☐ the CEO's salary
 - ☐ nothing – the number stands alone
 - ☐ the weather
7. Gross profit is 90 and expenses are 55. What is the operating profit?

8. Depreciation is a cash outflow in each year of the asset's life.
 - ☐ True ☐ False
9. A profitable business can still have poor liquidity if its cash is tied up in stock and debtors.
 - ☐ True ☐ False
10. A highly geared business is most at risk when:
 - ☐ inventory turnover rises

- ☐ interest rates rise
- ☐ profit margins rise
- ☐ sales rise

A-Level Business

1. **90**

Gross profit = $250 - 160 = 90$.

2. **non-current asset over its useful life**

Depreciation applies to long-lived non-current assets.

3. **30**

$90 \div 300 \times 100 = 30\%$.

4. **6**

$240 \div 40 = 6$ times a year.

5. **4**

$24,000 \div 6,000 = 4$ years.

6. **past years, competitors and targets**

Ratios mean little without comparison.

7. **35**

Operating profit = $90 - 55 = 35$.

8. **False**

False. The cash left the business when the asset was bought. Depreciation spreads that cost as a non-cash charge that reduces profit but not cash.

9. **True**

Profit and cash are different – check liquidity separately.

10. **interest rates rise**

High gearing means large interest payments – dangerous if rates rise.