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

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☐ profit margins rise

☐ sales rise

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 ÷ 300 × 100 = 30%.

4. **6**

   240 ÷ 40 = 6 times a year.

5. **4**

   24,000 ÷ 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.

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