

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- how easily a firm can pay its short-term debts from its current assets (2 for a clear idea; 1 for a partial idea)

2.2

- $\frac{50,000}{250,000} \times 100\% = 20\%$ (2; award 1 for a correct method with the wrong figure)

2.3

- any one of: uses past data; ignores non-money factors (brand, staff); needs a similar firm/industry to compare fairly (2 for a developed point; 1 for a basic one)

3.1

- [3] **AO1** 1 — give a reason (to see profit kept per sale; to compare with last year or rivals). **AO2** up to 2 — develop it, e.g. comparing the gross margin with last year shows whether costs of sales are rising
- managers can act to control them
- protecting profit (2 developed / 1 limited)

3.2

(a)

- current ratio = $\frac{80,000}{40,000} = 2.0$ (2)

(b)

- acid-test = $\frac{80,000 - 30,000}{40,000} = 1.25$ (2; allow follow-through)

(c)

- [4] **AO2** 1–2 + **AO3** up to 2 — the current ratio of 2.0 looks safe, but removing inventory gives 1.25, still above 1, so the firm can meet short-term debts even without selling stock
- liquidity is adequate but not excessive

3.3

- [12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Useful:** ratios turn raw figures into comparable measures of profitability, liquidity and gearing, and reveal trends over time. **Limited:** they use past data, ignore non-money factors, can be distorted by accounting choices, and need similar firms to compare fairly. **Judgement:** ratios are valuable when compared over time and against similar firms, but they must be read with non-financial information — their usefulness depends on the quality of the comparison