IGCSE BUSINESS STUDIES • EXERCISE SHEET

5.5 Analysis of accounts

Name: ____________ Class: ________ Date: __________ **Total: 16 marks**

Objective

Build the skills to answer exam questions on the **analysis of accounts** 账目分析—**profitability** 盈利能力 ratios (gross profit margin, profit margin, **ROCE** 资本回报率) and **liquidity** 流动性 ratios (current ratio, acid test).

You must be able to:

- calculate profitability and liquidity ratios
- explain what each ratio shows
- analyse a business's performance and who uses the ratios

1 Worked examples

■ Key ratios

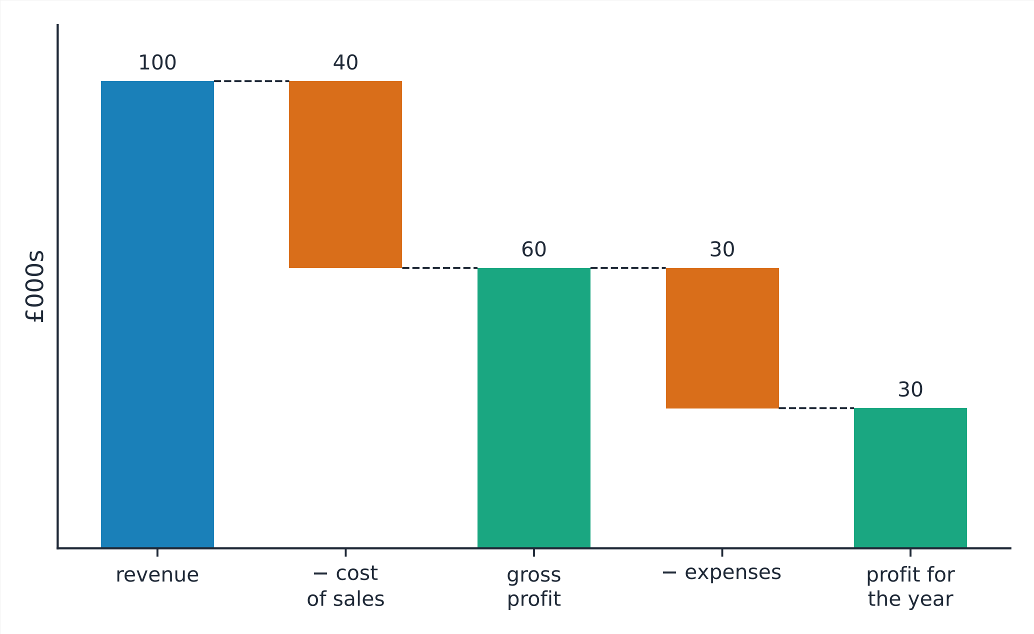
A ratio compares two figures from the accounts

Image: source

$$\text{gross profit margin} = \frac{\text{gross profit}}{\text{revenue}} \times 100\% \qquad \text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

- **Worked GP margin:** gross profit \$80,000, revenue \$200,000 → $\frac{80000}{200000} \times 100 =$ 40%.

- **ROCE** 资本回报率 = profit ÷ capital employed × 100 (how well the investment is used).
- **Current ratio** 流动比率: about 1.5–2 is healthy; **acid test** 速动比率 leaves out inventory.



Profitability ratios (gross/net margin, ROCE) are read straight off the income statement

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

2.1 State what the **gross profit margin** measures. [2]

2.2 A business has a profit of $30,000 and capital employed of $150,000. Calculate the ROCE. [2]

2.3 State what the **current ratio** measures. [2]

3 Exam-style questions

3.1 A business has current assets of $40,000 (including $10,000 inventory) and current liabilities of $20,000.

(a) Calculate the current ratio. [2]

(b) Calculate the acid test ratio. [2]

3.2 Explain two reasons why a business calculates profitability ratios. [6]

3.3 A business's profit margin has fallen this year. Do you think the owners should be worried? Justify your answer. [6]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **5.5 Analysis of accounts** past-paper sheet in the Library, or try these in **Practice mode**:

- 0450/12 M25 —Q3 (ratio analysis, case study)
- 0450/11 N24 —Q3 (profitability ratios)
- 0450/12 N24 —Q3 (liquidity ratios)

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the gross profit as a percentage of revenue —how much gross profit is made from each \$1 of sales (2 for a clear definition; 1 for a partial idea).

2.2 $\frac{30{,}000}{150{,}000} \times 100\% = 20\%$ (2; award 1 for a correct method with the wrong figure).

2.3 whether a business can pay its short-term debts from its current assets (2 for a clear definition; 1 for a partial idea).

3.1 (a) current ratio $= \frac{40{,}000}{20{,}000} = 2.0$ (2). (b) acid test $= \frac{40{,}000-10{,}000}{20{,}000} = 1.5$ (2; allow follow-through).

3.2 *[6]* For **each** of two reasons: K 1 + An up to 2 —e.g. *judge performance*: ratios show how much profit is made per \$1 of sales → owners see if the firm is doing well. *Compare*: comparing with last year or rivals → managers spot a fall and act. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **Worried (yes):** a falling profit margin means costs are rising faster than sales or prices have been cut → less profit for owners. **Not always:** a temporary fall may be due to a one-off cost or a deliberate price cut to win market share. **Judgement (Ev):** a falling margin is a warning sign, but the owners should find *why* before worrying —a lasting fall is serious, a one-off or strategic fall may not be.