Solutions

Marking: **K** knowledge, **App** use of the case or data, **An** analysis (a chain of reasons: cause, then effect), **Ev** evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer; **B1** is an independent mark.

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

2.1

gross margin $\dfrac{48{,}000}{80{,}000} \times 100\% = \mathbf{60.0}\%$

net margin $\dfrac{13{,}040}{80{,}000} \times 100\% = \mathbf{16.3}\%$

2.2

current ratio $\dfrac{17{,}200}{8{,}010} = \mathbf{2.15}$

acid test $\dfrac{17{,}200 - 3{,}600}{8{,}010} = \mathbf{1.70}$

2.3

(a) $\dfrac{9{,}000}{146{,}000} \times 365 = \mathbf{22.5}$ days, about 23

(b) $\dfrac{4{,}800}{58{,}400} \times 365 = \mathbf{30}$ days

2.4

$\dfrac{30{,}000}{30{,}000 + 45{,}000} \times 100\% = \mathbf{40.0}\%$

3.1

gross margin $\dfrac{252{,}000 - 108{,}360}{252{,}000} = \mathbf{57.0}\%$

ROCE $\dfrac{33{,}000}{45{,}000} = \mathbf{73.3}\%$

current ratio $\dfrac{26{,}000}{21{,}000} = \mathbf{1.24}$

acid test $\dfrac{16{,}500}{21{,}000} = \mathbf{0.79}$

receivable days $\dfrac{15{,}200}{252{,}000} \times 365 = \mathbf{22}$ days

gearing $\dfrac{15{,}000}{45{,}000} = \mathbf{33.3}\%$

3.2

5–6: margin fell because wholesale prices to cafés are lower than shop prices (App)(An); receivable days doubled because cafés pay on 30-day credit, which ties up cash (An); the acid test below 1 means the company now relies on inventory sales or new cash to pay its bills (An); ROCE fell, but partly because equity grew, so it is not all bad (Ev); judgement: growth through wholesale is profitable but strains liquidity, so credit control matters (Ev). **3–4**: changes explained without links to wholesale, or no judgement. **1–2**: changes described only.

3.3

(a) gearing $\dfrac{35{,}000}{30{,}000 + 35{,}000} = \mathbf{53.8}\%$; interest $0.06 \times 35{,}000 =$ £2,100; cover $\dfrac{33{,}000}{2{,}100} =$ **15.7** times

(b) the figures are from one year-end and may not be typical (a bakery's busy season); profit is not cash: the acid test is 0.79 and receivables doubled, so interest is paid from cash, not profit

(c) e.g. lend, because interest is covered over 15 times, but with conditions: a limit on dividends and a target for receivable days (App), since liquidity is the weak point (Ev)

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