

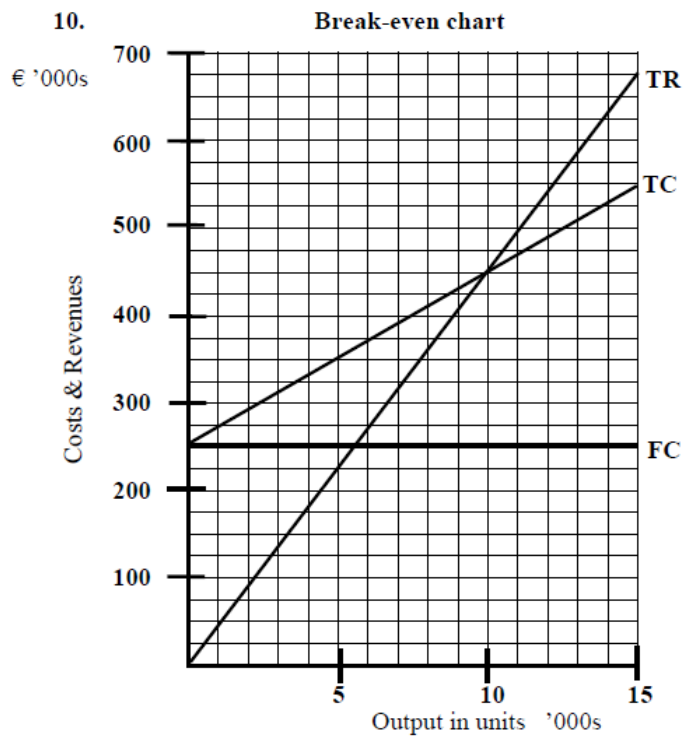


Business Accounts & Ratio Analysis

Business Past Exam Questions

Higher Level

Section 1 - Question 10



Answer the following questions in the Answer Box below.

- (i) **Break-even point (BEP)** in units and in euros
- (ii) The **Profit** at Forecast Sales (15,000 units) in euros.

Answer Box

BEP in units and in euros	Units: _____ € _____
Profit at Forecast Sales in euros	€ _____

- (iii) Explain the term Margin of Safety.

Section - Question 5

Bianua Ltd, a medium size company, operating in the agrifood sector, supplies quality prepared food products in Ireland and in the UK market.

- (A) Draft a business letter from EXON Insurance PLC to Bianua Ltd, using today's date, identifying the possible business risks and the appropriate types of insurance for Bianua Ltd. Use fictitious names and addresses. (20 marks)
- (B) The average performance of companies in the same industry as Bianua Ltd for 2011 is detailed in the table as follows:

Industry Average Results 2011	
ROI	11%
Current Ratio	2:1
Acid Test Ratio	1.2 :1
Debt/Equity Ratio	0.3:1

The following figures are taken from the final accounts of Bianua Ltd for 2011.

Bianua Ltd figures for 2011	€
Net Profit	50,000
Sales	975,000
Current Assets (including closing stock)	155,000
Long Term Loan	300,000
Ordinary Share Capital	500,000
Current Liabilities	85,000
Retained Earnings	100,000
Closing Stock	80,000

- (i) Calculate the following for 2011 for Bianua Ltd:
- Return On Investment (ROI)
 - Current Ratio
 - Acid Test Ratio
 - Debt/Equity Ratio. (20 marks)
- (ii) Analyse the *profitability and liquidity* of Bianua Ltd for 2011, with reference to the industry average results shown in the box above, **and** make recommendations for Bianua Ltd. (20 marks)

(60 marks)

2011

Section 1 - Question 2

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2. (a) Explain the term 'Return on Investment' (ROI).
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- (b) Using the figures below calculate the ROI for 'Natural Options Ltd.'. (Show your workings.)

Net Profit	€ 57,000
Ordinary Share Capital	€ 140,000
Reserves	€ 56,000
Long Term Loan	€ 24,000

Workings:

Answer

2009

Section 3 - Question 5

- (C) (i) Using the figures given below calculate the Debt/Equity ratio of SES Ltd for the years 2006 and 2007. (Show your workings)

	2006	2007
Long Term Loans	300,000	364,000
Ordinary Share Capital	450,000	450,000
Retained Earnings	50,000	70,000

- (ii) Comment on the significance of the trend in the Debt/Equity ratio over the two years for the existing shareholders. (20 marks)

Section 3 - Question 6 C

- (C) “Cash Flow is the lifeblood of any business and its management is critical to business survival.”

In September 2008, Buttercup Garden Centre prepared the following Cash Flow Forecast.

Cash Flow Forecast of Buttercup Garden Centre – October to December 2008				
	October	November	December	Total
	€	€	€	
Receipts				
Cash Sales	12,500	9,500	10,000	32,000
Credit Sales	2,000	1,500	3,500	7,000
Total Receipts	<u>14,500</u>	<u>11,000</u>	<u>13,500</u>	<u>39,000</u>
Payments				
Cash Purchases	1,000	2,500	4,000	7,500
Credit Purchases	5,000	2,000	1,000	8,000
Wages	6,000	6,000	7,500	19,500
Equipment	12,000	-	-	12,000
Total Payments	<u>24,000</u>	<u>10,500</u>	<u>12,500</u>	<u>47,000</u>
Net Cash	(9,500)	500	1,000	(8,000)
Opening Cash	3,000	(6,500)	(6,000)	3000
Closing Cash	(6,500)	(6,000)	(5,000)	(5,000)

- (i) Explain the benefits to Buttercup Garden Centre of preparing a Cash Flow Forecast.
 (ii) Based on the information provided above, outline how Buttercup Garden Centre could improve the Cash Flow position of its business.

(20 marks)

2007

Section 3 - Question 5

(B) Balden Ltd prepared the following cash flow forecast:

2007	July €	August €	September €	Total €
Receipts	70,000	55,000	80,000	205,000
Payments	80,000	45,000	55,000	180,000
Net Cash	(10,000)	10,000	25,000	25,000
Opening Cash	3,000	(7,000)	3,000	3,000
Closing Cash	(7,000)	3,000	28,000	28,000

(i) Why would this cash flow forecast be prepared by Balden Ltd?

(ii) How might management deal with the financial issue highlighted in this forecast?

(20 marks)

(C) Liquidity ratios are used to assist in managing a business. Name **two** of these ratios and describe their respective benefits.

(20 marks)

2006

Section 1 - Question 7

7. The following figures relate to a company for the past two years.

	2005	2004
	€	€
Authorised Share Capital	500,000	500,000
Ordinary Share Capital	420,000	320,000
Long-term loans	140,000	270,000
Retained Earnings	30,000	40,000

Workings

Calculate the Debt/Equity ratio for 2004 and 2005:

2004 _____ 2005 _____

Indicate, by means of a tick (✓), whether the trend is improving or disimproving and give **one** possible reason for this:

Improving		Disimproving	
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Reason: _____

Section 3 - Question 5 B

- (B) Financial information published in financial statements such as Profit and Loss Accounts and Balance Sheets is useful for decision making. Consider the following figures and answer the questions that follow:

	2005	2004
	€	€
Sales	500,000	400,000
Expenses	50,000	40,000
Net Profit	70,000	60,000
Capital Employed	650,000	600,000

- (i) For 2004 and 2005, calculate the Gross Profit Margin, the Net Profit Margin and the Return on Investment.
- (ii) Analyse these profitability trends and discuss how shareholders might use them in making decisions.

(40 marks)