2 W Limited provided the following extracts from the financial statements at 31 August 2024.

Statement of profit or loss for the year ended 31 August 2024

	$
Sales revenue	720 000
Opening inventory	76 000
Operating expenses	165 000
Finance costs	20 000
Taxation	16 000

Statement of financial position at 31 August 2024

	$
Trade receivables	66 000
Share capital	550 000
Retained earnings	95 000
8% debentures (2026)	45 000
Current liabilities	37 000

The following information is also available:

- cash sales were 15% of total sales
- the gross profit margin was 35%
- the rate of inventory turnover (times) was 6.4 times.

(a) Calculate the trade receivables turnover (days) for the year ended 31 August 2024 showing the formula used.

Formula	Calculation

[2]

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(b) Explain the difference between gross profit margin and mark-up.

.....

.....

.....

..... [2]

(c) **(i)** State the formula for the rate of inventory turnover (times).

.....

..... [1]

(ii) Calculate the value of the closing inventory at 31 August 2024.

.....

.....

.....

.....

..... [3]

(d) Calculate, to **two** decimal places, the return on capital employed for the year ended 31 August 2024 showing the formula used.

Formula	Calculation

[4]

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Additional information

The directors of W Limited use accounting ratios to compare the company's progress with other businesses. They are aware that such comparison should only be made with companies in similar business sectors but are also aware that such comparison has limitations.

(e) State **three other** limitations of accounting ratios.

1 .....

.....

.....

2.....

.....

.....

3.....

.....

.....

[3]

[Total: 15]

Question	Answer	Marks
1(c)	**Advise Ahmed whether he should go ahead with either of these options. Justify your advice by discussing <u>both</u> financial and non- financial factors.** **Option 1 (Bank loan)** • Interest payments would reduce profits for the next ten years. **(1)** • Would the bank agree to providing further loan capital? **(1)** • Would the new premises result in the necessary increase in turnover? **(1)** • Would the bank require security? **(1)** **Option 2 (Partnership)** • Will provide necessary capital to avoid long-term liability. **(1)** • Would have to forgo half of future profits. **(1)** • Will Ahmed's brother add any additional skills/knowledge to the business? **(1)** • Will the partnership cause friction between the brothers? **(1)** **Max 6 for comments** **Decision supported with a comment (1)** **Accept other valid responses**	**7**

Question	Answer	Marks
2(a)	**Calculate the trade receivables turnover (days) for the year ended 31 August 2024 showing the formula used.** Formula: $\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$ **(1)** Calculation: $\frac{\$66\,000}{\$612\,000} \times 365 = 40$ days **(1)**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Explain the difference between gross profit margin and mark-up.

Gross profit margin expresses gross profit relative to revenue (1) whereas mark-up expresses gross profit relative to cost of sales (1)

Accept other valid responses.</td><td>2</td></tr>
<tr><td>2(c)(i)</td><td>State the formula for the rate of inventory turnover (times).

$\frac{\text{Cost of sales}}{\text{Average inventory}}$ (1)</td><td>1</td></tr>
<tr><td>2(c)(ii)</td><td>Calculate the value of the closing inventory at 31 August 2024.

$70 250 (3) W

Working
Cost of sales = $720 000 × 65% = $468 000 (1)
Average inventory = $468 000 / 6.4 = $73 125 (1)
Closing inventory = $76 000 – (($76 000 – 73 125) × 2) = $70 250 (1)</td><td>3</td></tr>
<tr><td>2(d)</td><td>Calculate, to <u>two</u> decimal places, the return on capital employed for the year ended 31 August 2024 showing the formula used.

<table>
<tr><th>Formula</th><th>Calculation</th></tr>
<tr><td>$\frac{\text{Profit from operations}}{\text{Capital employed}} \times 100$ (1)</td><td>$252 000 – $165 000
= $87 000 (1)
$550 000 + $95 000 + $45 000
= $690 000 (1)
($87 000 / $690 000) × 100
= 12.61% (1)</td></tr>
</table>
</td><td>4</td></tr>
</table>

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Question	Answer	Marks
2(e)	**State <u>three other</u> limitations of accounting ratios.** • Takes no account of non-financial issues. **(1)** • Ignores the effects of inflation. **(1)** • Ignores the time value of money **(1)** • Focuses on historical data. **(1)** • Takes no account of different accounting policies. **(1)** • Highlights differences, but not the causes of differences **(1)** **Max 3 marks** **Accept other valid responses.**	**3**

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