

- 5 Nala is a retailer who sells toys and games. All sales are on a cash basis and all purchases are on credit.

She has provided the following information.

	\$
At 31 August 2023:	
Inventory	6 265
Cash at bank	992
Trade payables	4 880
Capital	125 000

For the year to 31 August 2023:

Revenue	98 420
Purchases	78 130
Expenses	11 325

Inventory at 1 September 2022 was valued at \$6175.

### REQUIRED

- (a) Complete the following table.

Ratio	Working	Answer (to 2 decimal places )
Gross margin		
Profit margin		
Return on capital employed (ROCE)		
Rate of inventory turnover (times)		
Liquid (acid test) ratio		

[11]

Nala increased her advertising expenses over the year to 31 August 2023 and sells at a lower price than her nearest competitor. This has resulted in Nala selling her inventory faster than her nearest competitor. Nala and her nearest competitor buy inventory at the same prices. Nala is pleased with her results.

**REQUIRED**

(b) Explain why Nala should **not** be entirely pleased with her results.

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..... [3]

Nala is planning to expand her business and to take out a bank loan to finance the expansion. The loan would be repayable after five years.

**REQUIRED**

(c) Advise Nala whether she should obtain a bank loan to expand the business. Justify your answer by providing **two** points for and **two** points against obtaining the bank loan to expand the business.

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(d) State why Nala's bank manager would be interested in her financial statements if she requests the loan.

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..... [1]

[Total: 20]

Question	Answer	Marks
5(a)	<p>Gross margin  <math display="block">= \frac{98\,420 - (6\,175 + 78\,130 - 6\,265)}{98\,420} = \frac{20\,380}{98\,420} \text{ (1)} \times 100 = 20.71\% \text{ (1)OF}</math></p> <p>Profit margin  <math display="block">= \frac{(20\,380 - 11\,325)}{98\,420} = \frac{9\,055}{98\,420} \text{ (1)OF} \times 100 = 9.20\% \text{ (1)OF}</math></p> <p>Return on capital employed  <math display="block">= \frac{9\,055 \text{ OF}}{125\,000 \text{ (1)}} \times 100 = 7.24\% \text{ (1)OF}</math></p> <p>Rate of inventory turnover  <math display="block">= \frac{(6\,175 + 78\,130 - 6\,265) \text{ (1)}}{(6\,175 + 6\,265) / 2 \text{ (1)}} = \frac{78\,040}{6\,220} = 12.55 \text{ times (1)OF}</math></p> <p>Liquid ratio  <math display="block">= 992 / 4\,880 \text{ (1)} = 0.20:1 \text{ (1)OF}</math></p>	11
5(b)	<p>The gross profit margin will be lower than her competitor's <b>(1)</b>  Reduction in gross profit margin may result in a lower gross profit <b>OR</b> increase in sales may result in a higher gross profit <b>(1)</b></p> <p>The profit for the year or profit margin will reduce because of the increase in (advertising) expenses <b>OR</b> the profit for the year may increase because of the increase in gross profit / increase in sales from extra advertising <b>(1)</b></p> <p>Selling her inventory faster does not mean her sales will be more than her competitor <b>(1)</b>  Needs to sell more inventory to significantly increase profit <b>(1)</b></p> <p><b>Accept other valid points</b>  <b>Max (3)</b></p>	3

Question	Answer	Marks
5(c)	<p><b>For obtaining a bank loan</b>            If business expands profit may increase (1)            Once the loan is paid off, there will be no further liability to the bank (1)            5 years before loan is due allows time for repayment (1)  <b>Accept other valid points</b>  <b>Max (2)</b></p> <p><b>Against obtaining a bank loan</b>            Interest will have to be paid on the loan (1)            Loan interest will reduce profit for the year (1)            The bank may require security (1)            Assets may be at risk if unable to repay loan (1)            The loan will have to be repaid (1)            Bank may not be prepared to offer a loan (1)  <b>Accept other valid points</b>  <b>Max (2)</b></p> <p><b>Recommendation (1)</b></p>	<b>5</b>
5(d)	Assess whether loan can be repaid (1) Assess whether loan interest can be paid (1) Assess security available for the loan (1)	<b>1</b>