

- 4 AY Limited has provided the following performance data for the last two years of trading.

Ratio	Year 1	Year 2
	ended 31 March 2024	ended 31 March 2025
Return on capital employed (ROCE)	10.67%	10.05%
Gross margin	22%	23.5%
Profit margin	11.5%	11.0%
Rate of inventory turnover	9.46 times	11.45 times
Trade payables turnover	34 days	30 days
Trade receivables turnover	32 days	36 days
Liquid (acid test) ratio	1.42:1	0.95:1

All sales and purchases are on credit and are subject to a 30-day credit period.



REQUIRED

- (a) Complete the following table by indicating whether the ratio has improved or deteriorated at the end of year 2, and give **two** reasons which may have caused the change.

The Return on capital employed (ROCE) has been completed as an example.

Ratio	Improved or deteriorated	Possible reasons for the change
Return on capital employed (ROCE)	<i>Deteriorated</i>	<i>Introduction of additional capital or loans. Profit for the year has decreased.</i>
Gross margin		
Profit margin		
Rate of inventory turnover (times)		
Liquid (acid test) ratio		

[10]



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Question	Answer			Marks
4(a)	Ratio	Improved or Deteriorated	Possible reasons for the change	10
	Return on Capital Employed (ROCE)	<i>Deteriorated</i>	<i>Introduction of additional capital/loans</i> <i>Profit for the year decreased.</i>	
	Gross margin	Improved }	Sold goods at higher prices (1) Bought goods at cheaper prices (1) Improved rate of trade discount received (1) Max 2	
	Profit margin	Deteriorated } (1) both	Increased expenses (1) Other income decreased (1) Percentage of expenses to revenue increased (1) Decreased sales volume / revenue (1) Max 2	
	Rate of inventory turnover (times)	Improved }	Increased demand (1) Less goods purchased / lower closing inventory (1) Reduced selling prices leading to higher sales (1) Max 2	
	Liquid (acid test) ratio	Deteriorated } (1) both	Increased trade payables / current liabilities (1) Decreased trade receivables / bank / cash (1) Max 2	

Question	Answer			Marks
4(a)	Ratio	Improved or Deteriorated	Possible reasons for the change	
	Return on Capital Employed (ROCE)			
	Gross margin	Deteriorated	Sold goods at lower prices (1) Bought goods at higher prices (1) Lower rate of trade discount received (1) Max 2	
	Profit margin	Improved	Decreased expenses (1) Other income increased (1) Percentage of expenses to revenue decreased (1) Increased sales volume / revenue (1) Max 2	
	Rate of inventory turnover (times)	Deteriorated	Decreased demand (1) More goods purchased / higher closing inventory (1) Increased selling prices leading to lower sales (1) Max 2	
	Liquid (acid test) ratio	Improved	Decreased trade payables / current liabilities (1) Increased trade receivables / bank /cash (1) Max 2	
Please note that the 'Own Figure Rule' applies to this question.				

Question	Answer								Marks																																																
4(b)	<table><tr><td colspan="8">A Limited Provision for doubtful debts account</td></tr><tr><td>Date</td><td>Details</td><td>\$</td><td></td><td>Date</td><td>Details</td><td>\$</td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>2024 April 1</td><td>Balance b/d</td><td>6 920</td><td>(1)</td></tr><tr><td>2025 March 31</td><td>Balance c/d</td><td>11 970</td><td></td><td>2025 March 31</td><td>Income statement</td><td><u>5 050</u></td><td>(1)OF</td></tr><tr><td></td><td></td><td><u>11 970</u></td><td></td><td></td><td></td><td><u>11 970</u></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>2025 April 1</td><td>Balance b/d</td><td>11 970</td><td>(1)</td></tr></table>								A Limited Provision for doubtful debts account								Date	Details	\$		Date	Details	\$						2024 April 1	Balance b/d	6 920	(1)	2025 March 31	Balance c/d	11 970		2025 March 31	Income statement	<u>5 050</u>	(1)OF			<u>11 970</u>				<u>11 970</u>						2025 April 1	Balance b/d	11 970	(1)	3
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4(c)(i)	It is an estimate of the amount which a business will lose in a financial year because of irrecoverable debts. (1)								1																																																
4(c)(ii)	Prudence (1) OR Matching (1)								1																																																

Question	Answer	Marks
4(d)	In favour of delaying payment to trade payables (Max 3) Able to purchase the equipment at a cheaper price (1) No finance costs (1) No need to source other methods of finance (1) No security required (1) Against delaying payment to trade payables (Max 3) Damage supplier relations / not supply goods (1) Increased interest payments (1) Loss of any cash discounts (1) May not be sufficient cash available to pay for the equipment (1) Other sources of finance available (1) Accept other valid responses Recommendation (1)	5