

Review Questions to Appendix

Questions A10.1–A10.10 use the following information:

KY Ltd

Profit and Loss Account for year ended 31 December 19X4

	£	£
Sales		5 781 250
Cost of sales		
Opening stock	250 000	
Purchases	5 975 000	
	<u>6 225 000</u>	
Closing stock	1 600 000	4 625 000
GROSS PROFIT		<u>1 156 250</u>
Expenses		596 250
NET PROFIT before tax		<u>560 000</u>
Tax		200 000
NET PROFIT after tax		<u>£360 000</u>

KY Ltd

Balance Sheet as at 31 December 19X4

	£	£
Fixed assets		2 000 000
Current assets		
Stock	1 600 000	
Debtors	1 445 313	
Other	1 754 687	
	<u>4 800 000</u>	
Less: Current liabilities	3 200 000	
		<u>1 600 000</u>
NET ASSETS		<u>£3 600 000</u>
<i>Represented by:</i>		
Ordinary shares of £1		1 000 000
Retained profits		
Opening	2 240 000	
19X4	360 000	
		<u>2 600 000</u>
		<u>£3 600 000</u>

A10.1 Which of the following is correct?

The current ratio of KY is:

- A 0.5.
- B 1.125.
- C 1.5.
- D 2.0.

A10.2 Which of the following is correct?

The quick ratio of KY Ltd is:

- A 0.45.
- B 0.55.
- C 1.0.
- D 1.5.

A10.3 Which of the following is correct?

The profit margin of KY Ltd is:

- A 6.2%.
- B 13.8%.
- C 20.0%.
- D 38.7%.

A10.4 Which of the following is correct?

The return on total assets for KY is:

- A 18.0%.
- B 8.2%.
- C 7.5%.
- D 5.3%.

A10.5 Which of the following is correct?

The return on owner's equity for KY is:

- A 9.7%.
- B 10.0%.
- C 20.0%.
- D 80.0%.

A10.6 Which of the following is correct?

The debt ratio for KY is:

- A 88.9%.
- B 66.7%.
- C 55.3%.
- D 47.1%.

A10.7 Which of the following is correct?

The fixed to current asset ratio for KY is:

- A 41.7%.
- B 55.5%.
- C 80.0%.
- D 88.9%.

- A10.8** Which of the following is correct?
The inventory turnover for KY is:
- A 28.9 times.
 - B 23.1 times.
 - C 9.7 times.
 - D 3.6 times.
- A10.9** Which of the following is correct?
Assuming a 350 working-day year the average collection period of KY is:
- A 0.25 days.
 - B 87 days.
 - C 97 days.
 - D 114 days.
- A10.10** Which of the following is correct?
The fixed asset turnover for KY is:
- A 1.2 times.
 - B 1.8 times.
 - C 2.9 times.
 - D 16.1 times.
- A10.11** Using figures relating to the year ended 31 December 19X3 (not given here), the current ratio of KY is calculated to be 1.3. The average ratio for the same period for companies in the same industrial sector as KY was 1.6. Three views of this information can be postulated:
- I KY is in a marginally healthier liquid position than the average of all the other companies in the same industrial sector.
 - II KY is in a marginally worse liquid position than the average of all the other companies in the same industrial sector.
 - III KY is unable to pay its bills since current ratio is smaller than 2.
- Which of these statements, if any, are true?
- A I only.
 - B II only.
 - C III only.
 - D Not I or II or III.
- A10.12** The profit margin for 19X3 for KY was 6.8%. The average figure for other companies in the same industrial sector for the same period of time was 7.0%. The management of KY has the following options as courses of action:
- I Examine pricing structure and compare with competitors.
 - II Examine costs and overheads.
 - III Look for a new product.

Which courses of action could KY's management be *reasonably* expected to pursue?

- A I and II only.
- B II and III only.
- C I and III only.
- D Not I or II or III.

A10.13 The inventory turnover for KY for 19X3 was 4.8 times. The industrial average was 5.6 times. Three views of these facts can be postulated:

- I KY is possibly over-gearred and may find it difficult to borrow additional funds.
- II KY has too much money tied up in stock.
- III KY should improve their credit control procedures.

What conclusions could the management of KY be *reasonably* expected to draw from this?

- A I only.
- B II only.
- C III only.
- D Not I or II or III.