



Subject: Year 13 Accounting

Worksheet 7

Name: _____

Strand 5	Analysis and Interpretation of Financial Statements
Sub strand 5.1	Analysing Company Accounting Reports
Content Learning Outcome	Analyse and interpret the financial reports of a company to assess its performance and position

Measures of Financial Stability

These ratios measure the financial stability of the business and its ability to meet its short term and long term debts. (Refer to pages (139-140) for notes and formulas and pages (144-146)) for examples.

Given below is the Balance Sheet of Happy life Co. Ltd for the year ending 30th June, 2019..

	30 June 2019	
	\$	\$
Current Assets		
Accounts Receivable	70 000	
Inventories	86 000	
Prepaid Expenses	2 000	158 000
Fixed Assets		
Delivery Van (at cost)	20 000	
Land	100 000	120 000
		\$278 000
Current Liabilities		
Bank overdraft (limit \$25 000)	30 000	
Accounts Payable	25 000	
Provision for dividend	15 000	
Provision for taxation	8 000	78 000
Deferred Liabilities		
Debenture		20 000
Shareholders Fund		
Paid up capital	140 000	
General reserve	20 000	
Profit and Loss Appropriation	20 000	180 000
		\$278000

Additional Information:

30 June 2019:

Net Profit: \$ 46 800
Sales – Cash: \$ 60 000
Credit: \$260 000
Gross Profit: \$200 000

30th June 2018:

Closing inventory \$ 70 000
Accounts Receivable \$ 60 000
Shareholders Fund \$140 000

The company normally allows 30 days credit facility to debtors.

The business operates for 300 days in a year

Required:

1. Calculate the following ratio and percentages for 2019 to two decimal places.

State the formula and show all working.

- a. Working Capital ratio
- b. Quick Asset Ratio
- C. Debt to Equity Ratio
- d. Debt Ratio
- e. Shareholders Equity Percentage

(10 marks)

2. Briefly explain the purpose of calculating the following ratios:

- a. Earning capacity
- b. Financial Stability

(2 marks)

Ratios	Formula	Working	Answer
a. Working Capital Ratio			
b. Quick Asset Ratio			
c. Debt to Equity Ratio			
d. Debt Ratio			
e. Shareholder's Equity Percentage			

2. a. Earning capacity

(1mark)

b. Financial Stability

(1mark)