**Question 6**

The following figures have been extracted from the ledger of Brian Boyle Bicycles:

Sales Revenue £120,000

Opening Inventory £6,500

Purchases £101,000

Closing Inventory £5,500

Gross Profit £18,000

Profit for the Year £3,000

Current Assets £47,500

Current Liabilities £24,000

1. You are required to **calculate** the following ratios for Brian Boyle’s business:
2. Profit for the Year ratio
3. Rate of Inventory Turnover
4. Acid Test
5. Expenses Ratio **9**

**(b)** The Profit for the Year ratio industry average for a firm of a similar size is 10%. **State** one measure Brian Boyle could take to get closer to that average. **1**

**Total marks (10)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Mark** | **Additional guidance** |
| **6 (a)** | 1) Profit for the Year % = £3,000 x 100 = 2·5% **(1)**  £120,000  2) Rate of Inventory £102,000 = 17 times **(1)**  Turnover = £6,000  Cost of Sales = £120,000 - £18,000 = £102,000 **(1)**  Average Inventory = £6,500 + £5,500 **(1)** = £6,000 **(1)**  2  3) Acid Test = £42,000\* : £24,000 = 1.75:1 **(1)**  \* £47,500 - £5,500 **(1)**  4) Expenses Ratio = £15,000\* x 100 = 12·5% **(1)**  £120,000  \* £18,000 - £3,000 **(1)**  In addition:  **1 mark** for correct labelling of ALL ratios (%, times and :1) | **9** | Watch for consequentiality throughout. |
| **6 (b)** | He could:   * increase selling price * reduce cost of sales * reduce expenses * find a cheaper supplier | **1** | Watch for consequentiality.  Any one for **1 mark**.  Accept any other relevant answer. DO NOT accept higher/more sales. |