Question 22 (12 marks)

Balance Sheet for Chalker Pty Ltd
as at year ending 30 June 2012

	$	$
Current Assets		
Cash	8 000	
Receivables	12 000	
Inventories	15 000	35 000
Non-Current Assets		
Property, Plant and Equipment		33 000
Total Assets		**68 000**
Current Liabilities		
Creditors		14 000
Non-Current Liabilities		
Loan		20 000
Owners Equity		
Capital	15 000	
Retained Net Profit	19 000	34 000
Total Liabilities and Owners Equity		**68 000**

(a) Calculate the current ratio (current assets ÷ current liabilities) of this business. Show all working. **2**

(35000÷14000)×100
= 250:1

(b) Calculate the debt to equity ratio (total liabilities ÷ total equity) of this business. Show all working. **2**

(20000÷34000) ×100
= 58.8 : 1

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Question 22 (continued)

(c) Why is it important for a business to control its debt to equity ratio? **4**

If debt is not controlled correctly, it will result in the business closing due to financial loss or the business constaintly running at a loss. The lower the debt to every dollar of equity the more efficent the company will run.

(d) Explain the interdependence of finance and operations in a business. Support your answer with relevant examples. **4**

Finance is effected by operations as the cost assosiated with the production ~~of~~ costs, many and therefore affects finance. The costs of operating needs to be considered when seeling the product as theses costs need to be covered. The costs to produce a can of coke needs to be covered when marketing the product. Thus interdependonce of finance and operations.

End of Question 22