2012 HSC - Business Studies Band 4/5 Sample 3 Question 22

Question 22 (12 marks)

Balance Sheet for Cha as at year ending 30		
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
		<u></u>

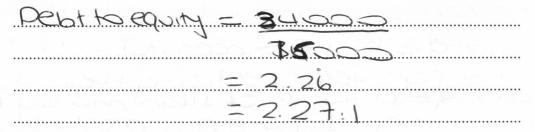
(a) Calculate the current ratio (current assets ÷ current liabilities) of this business. Show all working.

2

2

Current ratio = 35000
14000
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(b) Calculate the debt to equity ratio (total liabilities ÷ total equity) of this business. Show all working.



Question 22 continues on page 11

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Question 22 (continued)

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

It is important for businesses boothol Her D b E ratio so that they do not exceed their debts which can lead to liquidity and possibly bankrupty. By using more of their equily, they are guaranteed a higher return than alebt as they have b repay interests. Therefore, it is cruacily boothol bow debt and equity are used.

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

France questinds be peration processes to obtain now materials (energy à un etc) and convert times 1001 Outputs HS these are costly, operations need b communicate with finance they needs through budgets and Hements Herce 1 STV DACL Incl ence between the This can be seen in busin sses stitutions shores 190019 who need productions of surfivear accessories.

End of Question 22