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**

$\frac{35000}{14000} = 2.5:1$

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

14000 + 20000 = 34000 TL

$\frac{34000}{34000}$ = a debt to equity ratio of 1:1

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Question 22 (continued)

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

It is important that a busness has a ~~bad~~ good debt to equity ratio so that they are solvent which will lead to ~~a~~ more spending power and profitabl business.

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

The interdependence of finance and operations can be see through the purchasing of raw materials eg wood in a furniture business.

End of Question 22