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**

$$\frac{\text{current assets}}{\text{current liabilities}} = \frac{35\,000}{14\,000}$$

$= 2.5$

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

$$\frac{\text{total liabilities}}{\text{total equity}} = \frac{34\,000}{34\,000}$$

$= 1$

TL = 14 000 +
20 000
34 000

T.E. = 15 000
19 000
34 000.

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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? **4**

It is important for a business to control its debt to equity ratio because this helps the business' production and selling as it controls the amount of debt to the business is carrying. The debt to equity ratio is a basis to the business if they want to survive, the debt calculated should be less than the equity - which means the business *

* is good and staying strong and has good profits. However if the debt is higher than the equity than the business is highly solvent and the business will not survive.

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

The interdependence of finance in a business helps control the inputs and outputs the products and the money that the business owns and owes. The interdependence of operations in a business ~~helps~~ shows the business the inventory and stock as well as the transformed and transforming products. The financial side specifies the spreadsheets; balance sheet, ~~bre~~ cash flow statement. These are vital to a business to allow for change and to stay on top of debt. The operations side allows ⊗

End of Question 22

⊗ The business to do this as it functions with all other sections of a business' management. Thus the interdependence of both the financial and operations in a business allow the business to ~~do~~ this. For example: Qantas' allow all the interdependence work as one in order to ~~leave~~