

Question 22 (12 marks)

2012 HSC - Business Studies  
Band 4/5  
Sample 2 Question 22

Balance Sheet for Chalker Pty Ltd as at year ending 30 June 2012		
<i>Current Assets</i>	\$	\$
Cash	8 000	
Receivables	12 000	
Inventories	15 000	35 000
<i>Non-Current Assets</i>		
Property, Plant and Equipment		33 000
<b>Total Assets</b>		<b>68 000</b>
<i>Current Liabilities</i>		
Creditors		14 000
<i>Non-Current Liabilities</i>		
Loan		20 000
<i>Owners Equity</i>		
Capital	15 000	
Retained Net Profit	19 000	34 000
<b>Total Liabilities and Owners Equity</b>		<b>68 000</b>

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

$$35000 \div 14000$$

$$= 2.5$$

There are \$2.5 of current assets to pay for \$1 of current liabilities.

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

$$34000 \div 34000$$

$$= 1 \times 100$$

$$= 100\%$$

Business is less than 150% debt: equity.

therefore business is safe and lowly geared.

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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?

Businesses controlling its debt can raise large funds if support by equity finance. However, it is important as having much debt can cause bankruptcy through uncontrol interest rates. Likewise, too much equity can result in a takeover of another business who sees this as an opportunity to invest. The level of debt attracts investors which can benefit the business.

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

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Finance and operation are crucial business functions that work interdependently for the survival of a business. Finance through debt and equity are sources for the business to get its supplies and material to complete its operation. Example, a clothing that cannot sell its products, would not produce income, as a result there is no profit to buy its resources and consequence without income, the business can't fulfil its operations such as making products from manufacturing industries.

End of Question 22