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**

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

For every $1 of c.liabilities, there is $2.50 of c.assets ~~$~~. Above ind. average ($2 to $1)

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

$\frac{14000 + 20000}{34000} = \frac{34000}{34000} = 1$

= $1 of equity, $1 of liabilities.

Thus, on par with industry average (1:1)

however, should reduce liabilities by increase sales/cash flow in order to ~~spend~~ invest elsewhere in bus.

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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

Potentially, if a business has too much debt, it creates the issue of bankruptcy ~~and~~ therefore, an end to the business. By controlling debt to equity, through raising revenue, selling debt, increasing owners equity. one will benefit as they will be able to repay ~~dt~~ creditors and reduce loans and ~~to~~ therefore invest equity into other aspects of business → gain competitive advantage, ~~[illegible]~~ increase market share, stabilise continuous monetary growth (vision)

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

Finance controls operations as it decides the budgets and ~~financial~~ operational/financial decisions on what machinery/tech to use, whether it will be high-end or low end products - therefore affecting product/service quality, and how much is required - affecting volume of work/goods/services required by looking at variation in demand ($$ how much is earnt in sales/revenue) Both work in a synergy to effectively create suitable practises for the business and all its function.

End of Question 22