Question 22 (12 marks)

2012 HSC - Business Studies
Band 5/6
Sample 2 Question 22

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**

Current Ratio = $\frac{\text{Current Assets}}{\text{current liabilities}}$.

$= \frac{35000}{14000}$

$= 2.5:1$

Current Assets
$= 8000 + 12000 + 15000$
$= 35000$

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

debt to equity = $\frac{\text{total liabilities}}{\text{total equity}}$.

~~Total liabilities =~~ $= \frac{34000}{34000}$

$= 1:1$.

Total liabilities
$= 14000 + 20000$
$= 34000$

Equity
$= 15000 + 19000 = 34000$.

Question 22 continues on page 11

Question 22 (continued)

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

It is important to control debt to equity ratio as it allows the business to see if it has enough money to pay short & long term debt as it falls due. Controlling this ratio will allow business to analyse if they need to implement financial management strategies towards their debt including the use of overdrafts or bank bill.

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

The finance & operations function of a business need to work together to ensure a smooth running business. The operations function needs the finance function to have budgets for that cost centre of the business. Finance budgets will be able to determine ~~thing such~~ whether things such as upgrading technology is financial achieveable and if it will improve profitability over the long term. Operations will also need to determine how much money they need for their ~~operal~~ ~~business~~ production through finance function.

End of Question 22