**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**

CA = 35,000 $\frac{35\,000}{14\,000}$
CL = 14,000
= 2.5 : 1

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

Total Liabilities = 14 000 + 20000
= 34 000
Total equity = 15 000 + 19 000
= 34 000 34000 ÷ 34000
= 1 : 1

**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 imperative that a business controls its debt to equity ratio to ensure the financial integrity and stability. A poor debt to equity ratio would indicate that a business is highly geared, and has issues surrounding its solvency. The business would consequently be unable to fulfill long term debt payments, and jeopardise their ability to acquire funds through debt in the future.

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

The key business functions of finance and operations are specifically interdependent as a business' product is the main component of the company, and can only come into existance with assistance from the finance sector. The needs for a product are determined by operations, who also focus on reducing costs and expenses, then funds are allocated by the finance function to produce the goods and services and therefore meet the businesses strategic, tactical and operational goals.

**End of Question 22**