2.4 Ratio Analysis: Liquidity, Efficiency and Gearing Ratios: 10-minute Pack

AQA 7132 · Calculators not allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show your working for every calculation. The fictional business GreenTech Components and its financial extracts are used throughout this pack.

1 State the formula for the acid test (quick) ratio used to assess immediate liquidity for GreenTech Components.

(Total for Question 1 is 1 mark)

2 State the formula for receivable days (trade receivables days) used to assess collection efficiency at GreenTech Components.

(Total for Question 2 is 1 mark)

3 State the formula for the gearing ratio, expressed as a percentage, for GreenTech Components.

(Total for Question 3 is 1 mark)

4 Calculate the asset turnover for GreenTech Components using revenue £400,000 and total assets £420,000. Show your working and give the answer to two decimal places.

(Total for Question 4 is 2 marks)

5 Explain briefly what an asset turnover of about 0.95 times suggests about GreenTech Components' use of its asset base to generate revenue.

(Total for Question 5 is 3 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 2.4 Ratio Analysis: Liquidity, Efficiency and Gearing Ratios: 10-minute Pack

Question 1

acid test = (current assets - inventory) / current liabilities cao **B1**

Answer: (Current assets - inventory) / Current liabilities

Question 2

receivable days = (trade receivables / revenue) x 365 days cao **B1**

Answer: (Trade receivables / Revenue) x 365

Question 3

gearing = (non-current liabilities / (non-current liabilities + equity)) x 100 cao **B1**

Answer: (Non-current liabilities / (Non-current liabilities + Equity)) x 100

Question 4

formula and substitution seen: 400,000 / 420,000 **M1**

0.95 times cao **A1**

Answer: 0.95 times

Question 5

identifies that 0.95 times means revenue is slightly less than total assets per year **B1**

develops point that asset use is moderate, not highly efficient **B1**

links to implication, e.g. could indicate significant investment in assets that are not fully utilised **B1**

Answer: An asset turnover of about 0.95 means the company generates slightly less revenue than the value of its assets each year, indicating moderate efficiency. This suggests assets are not being used to their fullest potential and there may be scope to improve utilisation or divest underused assets.

© Revision Library | revisionlibrary.co.uk