3.6 Analysing financial statements: ratio analysis: Test Pack

Total Marks

AQA 8132 · Calculator allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show your working for every calculation: method marks are available even if your final answer is wrong. Foxglove Fitness Studio, used throughout this pack, is a fictional business.

1 State the formula used to calculate gross profit margin.

(Total for Question 1 is 1 mark)

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2 State the formula used to calculate net profit margin.

(Total for Question 2 is 1 mark)

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3 Which ratio shows the percentage of revenue remaining after deducting the cost of sales?

- [ ] A) Net profit margin
- [ ] B) Gross profit margin
- [ ] C) Current ratio
- [ ] D) Working capital

(Total for Question 3 is 1 mark)

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4 Which of the following is a NON-financial way to assess how successful a business has been over a given year?

- [ ] A) Gross profit margin
- [ ] B) Net profit margin
- [ ] C) Customer satisfaction/reviews
- [ ] D) Current ratio

(Total for Question 4 is 1 mark)

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5 Which ratio shows a business's ability to pay its short-term (current) liabilities using its short-term (current) assets?

- ☐ A) Gross profit margin
- ☐ B) Net profit margin
- ☐ C) Current ratio
- ☐ D) Net profit

(Total for Question 5 is 1 mark)

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6 State two possible actions Foxglove Fitness Studio could take to improve its current ratio (liquidity).

(Total for Question 6 is 2 marks)

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7 State two limitations of using ratio analysis alone to judge a business's performance.

(Total for Question 7 is 2 marks)

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Mark scheme · 3.6 Analysing financial statements: ratio analysis: Test Pack

Question 1

gross profit margin = (gross profit / revenue) x 100, oe **B1**

Answer: Gross profit margin = (gross profit / revenue) x 100.

Question 2

net profit margin = (net profit / revenue) x 100, oe **B1**

Answer: Net profit margin = (net profit / revenue) x 100.

Question 3

B cao **B1**

Answer: B

Question 4

C cao **B1**

Answer: C

Question 5

C cao **B1**

Answer: C

Question 6

delay/reduce short-term borrowing, or negotiate longer payment terms with suppliers, to reduce current liabilities **B1**

hold more cash, or collect money from customers faster, to increase current assets **B1**

Answer: Any two, e.g. negotiate longer supplier terms (lower current liabilities); collect customer payments faster (raise current assets).

Question 7

ratios only use financial information and ignore non-financial factors, e.g. customer satisfaction or staff morale **B1**

ratios do not explain WHY a figure has changed, and comparing different-sized or different-sector businesses using the same ratio can be misleading **B1**

Answer: Any two, e.g. ignores non-financial factors; does not explain why a figure changed/can mislead when comparing different businesses.

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