

Level 4 Certificate in Management Consulting 10331

UNIT 2 Analysing financial statements and reports

Friday 16 June 2017 - Morning

Time allowed: 1 hour 30 minutes



You must have:

(eg Resource Booklet)

You may use:

- Geometrical Instruments
- Tracing Paper

A calculator is **NOT** permitted

First name										
Last name										
Centre number						Candidate number				

INSTRUCTIONS

Use black ink.

Complete the boxes above with your name, centre number and candidate number.

Answer **all** the questions.

Write your answer to each question in the space provided.

If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

Do **not** write in the bar codes.

INFORMATION

- The total mark for this paper is 60.
- The marks for each question are shown in brackets [].
- Quality of written communication will be assessed in this paper.
- This document consists of **12** pages.

1 The financial year of Waves Ltd ends on 31 December. The following information is extracted from the financial statements for 2016.

	£
Sales revenue	886 000
Cost of sales	526 000
Operating expenses	247 000
Interest expense	15 000
Equity	600 000
Long-term loan	150 000

(a) Calculate each of the following ratios for 2016.

Give your answers, where appropriate, correct to two decimal places.

(i) Gross profit margin.

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..... [1]

(ii) Net profit margin.

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..... [1]

(iii) Mark-up.

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..... [1]

(iv) Operating expenses as a percentage to revenue.

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(v) Return on capital employed.

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..... [1]

(vi) Return on equity.

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..... [1]

(vii) Interest cover.

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..... [1]

(viii) Gearing ratio.

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..... [1]

(b) Leon is a risk-averse investor. He is considering either:

- becoming a shareholder in Waves Ltd

OR

- lending money to Waves Ltd at an interest rate of 10% per annum.

Using the extract from the financial statements and your calculations in part (a), advise Leon whether he should become a shareholder in Waves Ltd or lend to Waves Ltd.

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[8]

- 2 The financial year of Thornley Ltd ends on 31 December. The following information relates to 2016 and 2015.

	2016	2015
	£	£
Sales revenue	754 000	668 000
Cost of sales	465 000	397 000
Stock (Inventory)	108 000	72 000
Trade debtors	115 000	83 000
Trade creditors	92 500	62 800
Cash at bank		3 000
Bank overdraft	28 000	

Stock (Inventory) at 1 January 2015 was £68 000. All sales and purchases were on credit.

- (a) Calculate each of the following ratios for 2016 and 2015.

Give your answers, where appropriate, correct to two decimal places.

- (i) Current ratio.

2016.....

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2015.....

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[2]

(ii) Quick (acid) ratio.

2016.....

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2015.....

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[2]

(iii) Stock (Inventory) turnover (in number of days).

2016.....

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2015.....

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[2]

(iv) Debtor turnover (in number of days).

2016.....

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2015.....

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[2]

(v) Creditor turnover (in number of days).

2016.....

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2015.....

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[4]

(b) Thornley Ltd's debtor turnover ratio (in number of days) exceeds the credit period allowed to its customers.

Explain **two** ways the debtor turnover ratio could be improved.

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(c) Explain why the customers of a business might be interested in its financial statements.

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[3]

- 3 State and explain the **three** components of a statement of cash flows. For each component give an example of an item that would be included.

Component 1.....

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Component 2.....

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Component 3.....

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4 Explain **two** advantages and **two** disadvantages of retaining profits within a business.

Advantage 1.....
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Advantage 2.....
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Disadvantage 1.....
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Disadvantage 2.....
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[8]

END OF QUESTION PAPER

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