

HSC Business Studies

Topic 2 – Financial Planning and Management

UNIT 2.4 – USING FINANCIAL INFORMATION (Pages 120 – 135)

Unit Test

- (1) List Three Users Of Accounting Information (3 Marks).
- (2) Define the Accounting Framework (1 mark).
- (3) Explain how managers can use the comparative ratio analysis to make financial ratios more meaningful (2 marks).
- (4) Explain three limitations of financial reports.
- (5)
 - (a) Write down the liquidity ratio.
 - (b) Write down the solvency ratio.
 - (c) Write down the three profitability ratios.
 - (d) Write down two efficiency ratios.

Answers to these questions include...

(1) List Three Users Of Accounting Information (3 Marks).

- Existing Employees
- Existing Shareholders
- Existing Creditors

(2) Define the Accounting Framework (1 mark).

- The **accounting framework** refers to the standards and principals used to prepare and present financial reports.

(3) Explain how managers can use the comparative ratio analysis to make financial ratios more meaningful (2 marks).

They can be compared with:

- The performance of a similar business in the same industry
- The same business over a period of time
- With industry standards

(4) Explain three limitations of financial reports.

- Accounting methods may differ
 - Ø Business cannot compare performance
- Historical Cost
 - Ø Assets may not be valued properly
- Reporting of Intangible assets.

(5)

b. Write down the liquidity ratio.

- $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

c. Write down the solvency ratio.

- $\text{Gearing Ratio} = \text{Total Liabilities} / \text{Shareholder's Equity}$

d. Write down the three profitability ratios.

- $\text{Gross Profit Ratio} = \text{GP} / \text{sales} \times 100$
- $\text{Net Profit Ratio} = \text{NP} / \text{sales} \times 100$
- $\text{Return on Equity} = \text{NP} / \text{Owners Equity} \times 100$

e. Write down two efficiency ratios.

- $\text{Total Operating Expenses Ratio} = \text{Operating expense} / \text{Net Sales} \times 100$
- $\text{Accounts Receivable Turnover Ratio} = \text{Accounts Receivable} / \text{Average Sales per day}$