BTEC NATIONAL BUSINESS UNIT 3 BUSINESS FINANCE

tutor2u

START

1 a) **Calculate** the gross profit for the first year.

b) **Calculate** the net profit for the first year.

2 a) **Calculate** the GP margin for the first year.

b) **Calculate** the NP margin for the first year.

c) **Outline** what the NP margin shows.

3 a) **Explain** why non-current assets are depreciated.

b) **State** two methods of calculating depreciation.

4 The 'other expenses' figure excludes depreciation for the coffee machine and van leasing costs. **Recalculate** the net profit, after adjusting for straight line depreciation of the coffee machine and the van lease.

BUSINESS PROFILE

A high quality coffee shop, trading for one year.

Data Drop		
Sales = £90,000	Cost of Goods Sold = £45,000	Other expenses = £28,000
Coffee machine cost = £8,000	Expected life = 10 years	Residual value = £2,000
Van leasing cost = £200 a month	Current Assets = £4,000	Current Liabilities = £3,000

5 **Calculate** the net book value of the coffee machine at the end of Year 1 using the data drop & your calculations in Q4.

6 **Classify** the items below as either current assets or current liabilities: trade receivables, trade payables, accruals, inventories, cash, bank overdraft, prepayments.

7 a) **Calculate** net current assets using the data drop.

b) **State** an alternative name for net current assets.

8 a) **Calculate** the current ratio using the data drop.

b) **Explain** whether this ratio is satisfactory or not. Give a reason for your answer.

9 a) **Explain** how the purchase of more inventories, using cash, would affect the current ratio.

b) **Explain** how the purchase of more inventories, using cash, would affect the liquid capital ratio.

10 a) **Define the term accrual using a suitable example.**

b) **Define the term prepayment using a suitable example.**

11 a) **Explain how accruals are dealt with in the statement of comprehensive income.**

b) **Explain how accruals are dealt with in the statement of financial position.**

12 The main supplier has offered early payment discounting. **Explain** one advantage and one disadvantage of this offer.

13 At the end of Year 1, the coffee machine breaks down. It is irreparable and needs to be replaced. A £15,000 loan is needed to purchase a new one. **Explain** how the receipt of the loan will be dealt with in the accounts.

14 A nearby competitor is closing down, and has offered a large stock of inventories at a very low price. **Outline** the pros and cons of accepting this offer.

BUSINESS FINANCE SUGGESTED ANSWERS

1 a) *Sales – COGS = GP*
£90,000 - £45,000 = £45,000

b) *GP – other expenses = NP*
£45,000 - £28,000 = £17,000

2 a) *GP/sales x 100 = GP margin*
£45,000/£90,000 x 100 = 50%

b) *NP/sales x 100 = NP margin*
£17,000/£90,000 x 100 = 18.89%

c) *For every £1 of sales made, 18.89p is NP.*

3 a) *To reflect a true and fair value in the accounts, uphold the concept of prudence – never anticipate a profit, always anticipate a loss.*

b) *Straight line method.*
Reducing balance method.

4 *Coffee machine depreciation = (£8,000-£2,000)/10 years = £600 per year.*

Van leasing = £200 per month x 12 months = £2,400 per year.

Adjusted other expenses = £28,000 + £600 + £2,400 = £31,000

GP – other expenses = NP £45,000 - £31,000 = £14,000

5 *Cost – depreciation = NBV*
£8,000 - £600 = £7,400

6 *Classify the items below as either CA or CL:*

CA = inventories, trade receivables, prepayments, cash.

CL = trade payables, accruals, bank overdraft.

7 a) *CA – CL = net current assets*
£4,000 - £3,000 = £1,000

b) *Working capital.*

8 a) *£4,000/£3,000 = 1.33 : 1*

b) *No. It is below the recommended ratio of 1.5-2 :1. However, depends on inventory turnover rate and nature of inventory. Supermarkets have low current ratios but as stock rotates quickly, cash flows in regularly.*

9 a) *It wouldn't change as the total value of CA will be the same.*

b) *It would decrease as more inventories are deducted from CA, which may lead to liquidity problems.*

10 a) *Amount due, but not yet paid, e.g. outstanding bill.*

b) *Amount paid, but not yet owing, e.g. phone line rental paid in advance.*

11 a) *Added to relevant expense.*

b) *Increase the value of CL by creating ' accruals' in CL section.*

12 *Adv – lower unit price, increases profit margin and contribution per unit, reduces BEP.*

Disadv – loss of credit may impact on cash flow as ability to delay payment is lost.

13 *Add loan amount to non-current liability, cash into current assets. Once asset purchased, repayments and depreciation will be expenses, outflows from cash, non-current asset will depreciate annually.*

14 *Pros – lower unit price, increases profit margin and contribution per unit, reduces BEP*

Cons – ties up cash, liquidity problems, liquid capital ratio↓, already place minimum monthly orders with existing supplier to get credit terms, inventories perishable,↑waste if unsold.

TIME TO REVIEW YOUR LEARNING......

List three content points that you are confident with and three that require some attention.

Confident with	Requires attention
1	1
2	2
3	3