

REVIEW QUESTIONS

1. Who can use financial analysis techniques to assess the financial situation of a business?

(Question type: Multiple choice)

- The managers of the business
- Potential investors, but only after signing a non-disclosure agreement
- Potential investors, without signing a non-disclosure agreement
- Managers and auditors
- Anyone with access to the financial statements issued by the business

2. Which of the following aspects is financial analysis normally used to investigate?

(Question type: Multiple response)

- Financial budgets
- Competitive performance
- Stability
- Strategy
- Solvency
- Accountability
- Performance

3. Which of the following best characterizes the property of liquidity?

(Question type: Multiple choice)

- The value of an asset
- The importance of an asset to meet financial obligations
- The ease with which an asset can be converted into cash
- The extent of financial commitments of a business
- The financial reserves of an organization

4. Match the below financial ratios to the appropriate descriptions.

(Question type: Matrix)

	Gross profit to sales ratio	Current Ratio	Return on capital employed	Expenses to sales ratio
Expresses how well resources are utilized	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Measures how well the costs are controlled	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Expresses gross profit as a percentage of revenue	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Measures the level of liquid assets in the business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

5. You are analyzing a business that produces car seats. You are concerned that the design of the product sold by the company is outdated. You have been provided the following information about the latest accounting period:
- The business has sold car seats worth \$750,000
 - It has incurred input costs of \$50,000
 - It has three warehouses with a total area of 500,000 square feet
 - It has made a gross profit of \$290,000
 - The accounts show an opening stock of \$14,000
 - The accounts show a closing stock of \$22,000

(Question type: Calculation)

Calculate the financial metric that shows how frequently inventory is being sold and purchased over a given time period (ignoring irrelevant data).

6. You are investigating a company that shows the following balance sheet excerpt:

Balance sheet entry	Value
<i>Fixed assets</i>	
Equipment at cost	\$10,000
Less depreciation to date	\$8,000
<i>Current assets</i>	
Inventory	\$64,000
Debtors	\$60,000
Cash in bank	\$7,000
<i>Current liabilities</i>	
Creditors	\$10,000

(Question type: Calculation)

Calculate the acid test.

7. Complete the following figure showing a break even chart by inserting the correct labels.

(Question type: Labeling)

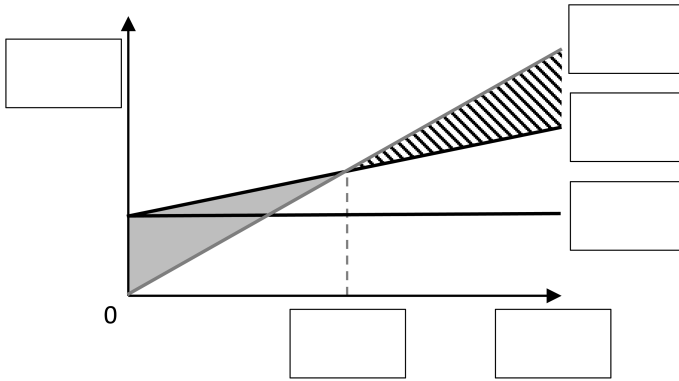


FIGURE 14.2 Identify the appropriate labels

8. A financial analysis is performed on a business. So far, the analysis has shown that the total revenue and total cost functions are linear. The information is available for the most recent accounting period:

- Sales revenue of \$2,500,000
- Total variable costs of \$750,000 and fixed costs of \$125,000
- The product has been sold at a price of \$500

(Question type: Calculation)

Calculate the contribution of each unit sold.

9. You have been hired as an engineering consultant by a printing business that manufactures note pads. The business provided the following financial information for the most recent accounting period:

- Sales of \$300,000
- Total variable costs of \$40,000 and fixed costs of \$125,000
- The product has been sold at an average price of \$0.60
- The business reports that the total revenue and total cost functions are linear

You are proposing a technical improvement that will allow the business to halve its total variable costs.

(Question type: Calculation)

Compute the margin of safety after the improvement.

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10. Which of the following statements about linear cost-volume-profit models as presented in this chapter are true or false?

(Question type: Dichotomous)

True False

- | | | |
|-----------------------|-----------------------|--------------------------------------------------------------------------|
| <input type="radio"/> | <input type="radio"/> | Models of this kind do not reflect stepped fixed costs |
| <input type="radio"/> | <input type="radio"/> | Models of this kind are generally not applicable |
| <input type="radio"/> | <input type="radio"/> | Due to their specific nature, they are not applicable outside of finance |
| <input type="radio"/> | <input type="radio"/> | It is difficult to apply such models to multi-product businesses |
| <input type="radio"/> | <input type="radio"/> | Models of this kind bring together cost and revenue functions |
| <input type="radio"/> | <input type="radio"/> | A linear total revenue function implies a downward-sloping demand curve |

REFERENCES AND FURTHER READING

- Atrill, P. and McLaney, E., 2018. *Management accounting for decision makers*. 9th ed. London: Pearson Education.
- Zutter, C.J. and Smart, S.B., 2019. *Principles of managerial finance*. 15th ed. London: Pearson Higher Education.