

THE UNIVERSITY OF THE SOUTH PACIFIC
SCHOOL OF DISTANCE EDUCATION
BACHELOR OF BUSINESS ADMINISTRATION
DEGREE PROGRAM
FINANCIAL ACCOUNTING
SEMESTER 1
2023

QUESTION: The following information relates to the operations of a company for the year ended 31 December 2023. The company's financial statements for the year are as follows:

Income Statement
Revenue 1,000,000
Cost of Sales (600,000)
Gross Profit 400,000
Less: Selling Expenses (50,000)
Less: Administrative Expenses (80,000)
Less: Depreciation (20,000)
Less: Interest (10,000)
Less: Income Tax (20,000)
Net Profit 120,000

Balance Sheet
Assets
Cash 50,000
Accounts Receivable 150,000
Inventory 100,000
Plant and Equipment 200,000
Accumulated Depreciation (50,000)
Total Assets 450,000
Liabilities and Equity
Accounts Payable 80,000
Bank Loan 100,000
Share Capital 150,000
Retained Earnings 120,000
Total Liabilities and Equity 450,000

REQUIRED: Calculate the following ratios for the year ended 31 December 2023:

(a) Gross Profit Ratio
(b) Operating Profit Ratio
(c) Return on Investment Ratio
(d) Current Ratio
(e) Debt to Equity Ratio

ANSWERS:
(a) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Revenue}} \times 100 = \frac{400,000}{1,000,000} \times 100 = 40\%$
(b) Operating Profit Ratio = $\frac{\text{Operating Profit}}{\text{Revenue}} \times 100 = \frac{290,000}{1,000,000} \times 100 = 29\%$
(c) Return on Investment Ratio = $\frac{\text{Net Profit}}{\text{Average Investment}} \times 100 = \frac{120,000}{450,000} \times 100 = 26.7\%$
(d) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{300,000}{80,000} = 3.75$
(e) Debt to Equity Ratio = $\frac{\text{Debt}}{\text{Equity}} = \frac{100,000}{150,000} = 0.67$

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