



BTEC Level 3 Business

Unit 3: Finance

Student Book

Learning Aim : F



Name: _____

Learning Outcome F - Complete statements of comprehensive income and financial position and evaluate a business's performance.

Activity 1 – What is it & Key Words.

As we go through a statement of comprehensive income you need to explain what it is, and the key words associated with it.

Use the table in your student workbook to explain the key words. Add any extra ones you may come across.

Explain what a statement of comprehensive income is and why it is used.

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Key word	Explanation
Sales revenue	
Cost of goods sold	
Inventory	
Gross profit	
Expenses	
Depreciation	
Net profit	

Activity 2 – Annotating & Explaining Gross Profit

As we go through the top half of a statement of comprehensive income. Annotate the example below (as I am on the board) and answer the questions provided.

Sales is calculated by:

Explain cost of goods sold.

How is cost of goods sold calculated?

What is gross profit & how is it calculated?

Statement of Comprehensive Income year end April 2020

	£	£
Sales		100,000
Less cost of goods sold		
Opening inventory	12,000	
Purchases	18,000	
Closing inventory	5,000	
		25,000
Gross profit		75,000

Explain what the first half of the statement of comprehensive income shows about the business's financial performance.

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Activity 3 – Full Statement of Comprehensive Income

Answer the questions and then fill in the statement of comprehensive income using the information provided.

Provide examples of 3 different expenses.

Explain what an expense is.

Describe revenue income.

How do you calculate Net profit and what does it mean?

Information for Statement of comprehensive income

- Jessica runs her own T-shirt design business. She sold 2000 t-shirts at a price of £40 from April 2019 to April 2020.
- She started that year with stock worth £6,000 and purchased another £10,000 of stock.
- She ended the year with £3,000 in stock.
- She stores her stock in a small storage facility costing £3,000 annually.
- She spends £100 a month on Instagram advertising.
- Her postage costs are £400 a month.
- She has depreciation of her equipment of £800 for the year (*we will cover depreciation in detail later*)
- She has no revenue income.

Statement of Comprehensive Income year end April 2020		
	£	£
Sales		
Less cost of goods sold		
Opening inventory		
Purchases		
Closing inventory		
Gross profit		
Less Expenses		
Depreciation		
Total expenses		
Revenue Income		
Net profit		

Assess the statement of financial position by commenting on key points and figures that have been produced.

Activity 4 – Calculating Depreciation

Watch the video on how to calculate straight line and reducing balance depreciation. Then answer the following questions.

[Video Link: Depreciation](#)

Describe the term depreciation.

What two methods are used to calculate depreciation?

Explain why depreciation is important for a business to monitor.

What is the calculation for straight line depreciation?

Historic value is...

Expected life is...

Write down the calculation for the reducing balance method and explain what happens with the value of the van at the end of year one.

Now you have finished the video apply your knowledge to the following questions on both the straight-line method and reducing balance method.

Questions on Straight Line Depreciation

A business buys a company car for the managing director that costs £50,000. Its residual value is £22,000 after 4 years.

How much does the car depreciate by each year?

A graphic design company buys a brand-new computer for £2,500. Its residual value after 2 years is £1200.

How much does the computer depreciate by each year?

The same business buys 4 new machines at a total cost of £80,000. The residual value of those machines after 5 years is £40,000.

How much does each individual machine depreciate by each year?

A new delivery business buys a fleet of 4 vans at a total cost of £120,000. Each van depreciates by £6,000 per year for a total of 3 years.

What is the **residual value** of all 4 vans at the end of 3 years?

Questions on Reducing Balance Depreciation

A piece of office equipment is bought for £10,000. It depreciates at a rate of 20% for 6 years. Calculate the piece of office equipment's residual value at the end of 6 years.

Year	Value at start of year (£)	Depreciation (£)	Value at end of year (£)
1			
2			
3			
4			
5			
6			

A college has just purchased a brand-new printer for £6,000. The printer will depreciate by 15% for 3 years before it is replaced. Calculate the total amount of depreciation after 3 years.

Year	Value at start of year (£)	Depreciation (£)	Value at end of year (£)
1			
2			
3			

A factory buys a large piece of manufacturing machinery for its warehouse. The machinery cost £125,000. It will depreciate by 22% for 8 years. What will the value of the machinery be at the start of year 6?

Year	Value at start of year (£)	Depreciation (£)	Value at end of year (£)
1			
2			
3			

4			
5			
6			

Activity 5 – Analysing a Statement of Comprehensive Income

Business X 2019 & 2020 Statement of Comprehensive Income

Statement of Comprehensive Income year end April 2019		
	£	£
Sales		100,000
Less cost of goods sold		
Opening inventory	12,000	
Purchases	18,000	
Closing inventory	5,000	
		25,000
Gross profit		75,000
Less Expenses		
Rent		12,000
Salaries		20,000
Advertising		3,000
Business rates		5,000
Distribution		12,000
Depreciation		8,000
Total expenses		60,000
Revenue Income		0
Net profit		15,000

Statement of Comprehensive Income year end April 2020		
	£	£
Sales		125,000
Less cost of goods sold		
Opening inventory	5,000	
Purchases	36,000	
Closing inventory	8,000	
		33,000
Gross profit		92,000
Less Expenses		
Rent		13,000
Salaries		30,000
Advertising		4,000
Business rates		5,000
Distribution		16,000
Depreciation		5,000
Total expenses		73,000
Revenue Income		0
Net profit		19,000

Compare the gross profit & net profit for 2019.

Compare the gross profit and net profit from 2020.

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Compare the net profit from 2019 to 2020.

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Evaluate the business profitability as a whole using key points and data from each year's statement of comprehensive income.

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Recommend what action the business could take to improve its profitability.

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Business Y 2019 & 2020 Statement of Comprehensive Income

Statement of Comprehensive Income year end April 2019		
	£	£
Sales		90,000
Less cost of goods sold		
Opening inventory	0	
Purchases	30,000	
Closing inventory	2,000	
		28,000
Gross profit		62,000
Less Expenses		
Rent		8,000
Salaries		12,000
Advertising		7,000
Business rates		3,000
Distribution		8,000
Depreciation		3,000
Total expenses		41,000
Revenue Income		0
Net profit		21,000

Statement of Comprehensive Income year end April 2020		
	£	£
Sales		150,000
Less cost of goods sold		
Opening inventory	2,000	
Purchases	50,000	
Closing inventory	12,000	
		40,000
Gross profit		110,000
Less Expenses		
Rent		8,000
Salaries		20,000
Advertising		10,000
Business rates		4,000
Distribution		11,000
Depreciation		5,000
Total expenses		58,000
Revenue Income		2,000
Net profit		54,000

Compare the gross profit & net profit for 2019.

Compare the gross profit and net profit from 2020.

Compare the net profit from 2019 to 2020.

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Evaluate the business's profitability as a whole using key points and data from each year's statement of comprehensive income.

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Recommend what action the business could take to improve its profitability.

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Compare the two businesses profitability performance and provide clear examples of which one is performing better.

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Outcome F2 – Statement of Financial Position

Activity 6 – Statement of Financial Position Explained.

While I go through the statement of financial position and the various sections. Take notes and annotate the various key points about the statement.

Explain what a statement of financial position is and its purpose.

Statement of Financial Position 2020.

	Cost £	Depreciation £	Carrying Amount £
Non – current assets			
Premises	150,000	10,000	140,000
Vehicles	20,000	5,000	15,000
Equipment	18,000	4,000	14,000
Current Assets			
Inventory			23,000
Trade receivables			12,000
Cash at bank			6,000
Cash in hand			3,000
			44,000
Less current liabilities			
Trade payables			13,000
Overdraft			2,000
			15,000
Working capital			29,000
Non – current liabilities			
Bank loan			65,000
Net assets			133,000
Financed by			
Capital			85,000
Retained profit			48,000
Capital employed			133,000

Non-current assets:

Current assets:

Current liabilities:

Non-Current liabilities:

Net assets:

Capital employed:

Explain a tangible asset and provide examples.

Explain an intangible asset with examples.

A statement of financial position can be used to analyse:

1.

2.

3.

Activity 7 – Interpreting & Analysing a Statement of Financial Position

First answer the questions regarding a statement of financial position and then complete both of the financial statements for 2019 and 2020 by filling in the missing amounts in the grey boxes.

Finish the activity by justifying which year the business was in the best financial position.

Explain what a Non-current asset is.

Explain how current assets are different to non-current assets.

Describe trade receivables.

Describe trade payables.

How do you calculate working capital?

Explain what capital employed is.

Statement of Financial Position April 2019

	Cost	Depreciation (£)	Carrying Amount (£)
Non – current assets			
Premises	200,000		180,000
Vehicles	20,000	5,000	15,000
Equipment	35,000	8,000	
Current Assets			
Inventory			30,000
Trade receivables			
Cash at bank			6,000
Cash in hand			3,000
			50,000
Less current liabilities			
Trade payables			8,000
Overdraft			4,000
Working capital			
Non – current liabilities			
Bank loan			85,000
Net assets			
Financed by			
Capital			
Retained profit			75,000
Capital employed			175,000

Statement of Financial Position April 2020

	Cost (£)	Depreciation (£)	Carrying Amount (£)
Non – current assets			
Premises		18,000	162,000
Vehicles		5,000	12,000
Equipment		9,000	40,000
Current Assets			
Inventory			10,000
Trade receivables			20,000
Cash at bank			20,000
Cash in hand			2,000
Less current liabilities			
Trade payables			4,000
Overdraft			
			7,000
Working capital			45,000
Non – current liabilities			
Bank loan			100,000
Net assets			
Financed by			
Capital			49,000
Retained profit			110,000
Capital employed			

Justify which year the business was in the best financial position. Ensure you comment on both statements and make clear comparisons to both throughout your answer.

Activity 8 - Exam Question

Max has produced an outline statement of financial position for the year up to 31 December 2016 but it is incomplete. He has listed his assets and liabilities, which are shown in **Figure 2**. He has advised you to depreciate the non-current assets by 10% using the straight line method.

(b) **Complete** the statement of financial position for Max.

(8)

To the Max

Statement of Financial Position as at

Non-current Assets	£ Cost	£ Depreciation	£ Carrying amount
Van	10 800		
Equipment	4 000		
Current Assets			
Inventory		712	
Trade receivables		1 400	
Cash and cash equivalents			
		11 872	
Current Liabilities			
Trade payables		472	
		472	
Net Current Assets			
Long-term Liabilities			
Bank loan			8 000
Net Assets			
Financed by			
Opening capital			10 000
Profit for the year			12 720
Less drawings			6 000
Capital Employed			

Outcome F3 – Measuring Profitability

Activity 9 – Quick Practice Questions on Gross & Net Profit

Statement of Comprehensive Income year end April 2020		
	£	£
Sales		217,000
Less cost of goods sold		
Opening inventory	13,500	
Purchases	58,000	
Closing inventory	27,250	
		44,250
Gross profit		172,750
Less Expenses		
Rent		10,000
Salaries		22,000
Advertising		4,000
Business rates		5,000
Distribution		32,000
Depreciation		12,000
Total expenses		85,000
Revenue Income		0
Net profit		87,750

Calculate the gross profit margin using the information above.

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Explain whether the business is performing well in terms of its gross profit margin.

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Calculate the net profit margin using the information above.

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Explain whether the business is performing well in terms of its net profit margin.

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Activity 10 - Gross & Net Profit Margin

Watch the video named '**Gross Profit vs Net Profit | Differences, Calculations and Interpretation Explained**' and answer the questions below.

[Video Link: Gross & Net Profit Margin](#)

Explain what gross profit is, how it is calculated and why it is important for a business.

Explain what net profit is, how it is calculated and why it is important for a business.

Compare the difference between net/gross profit vs net/gross profit margins. Is one more important than the other? Justify your answer.

Explain how a business could increase their gross profit margin %.

Explain how a business could increase their net profit figure.

A business has a gross profit margin of 45%, what does that mean?

True or false? Net profit will always be higher than gross profit. Explain the reasons for your answer.

What is the net profit also known as?

Income Statements

Basic Income Statement Example		
Year Ended 31 st December	2020	2019
	£	£
Revenue	300,000	285,000
Cost of Sales	(90,000)	(85,000)
Gross Profit	210,000	200,000
Total Business Expenses	(35,000)	(30,000)
Net Profit	175,000	£170,000

Complete the income statement to calculate the Gross Profit and Net Profit for AJ's Hats for years 2019 and 2020 using the following information:

	2020	2019
Year Ended 31 st December	£	£
Selling price per hat	25	20
Number of hats sold	10,000	11,000
Cost of direct material	5	4
Cost of direct labour	8	7
Monthly rent	1200	1200
Other monthly overhead expenses	4000	3500

Basic Income Statement		
Year Ended 31 st December	2020	2019
	£	£
Revenue		
Cost of Sales		
Gross Profit		
Total Business Expenses		
Net Profit		

You are now required to calculate the gross profit margin and net profit margin for the business for both 2019 and 2020.

	2020	2019
Gross Profit Margin		
Net Profit Margin		

Analyse the key factors which have caused change in both the gross profit margin and net profit margin. Recommend what the business should do to improve their margins in 2021.

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Activity 11 – Quick Practice Questions on Mark-up and ROCE

Statement of Comprehensive Income year end April 2020		
	£	£
Sales		217,000
Less cost of goods sold		
Opening inventory	13,500	
Purchases	58,000	
Closing inventory	27,250	
		44,250
Gross profit		172,750
Less Expenses		
Rent		10,000
Salaries		22,000
Advertising		4,000
Business rates		5,000
Distribution		32,000
Depreciation		12,000
Total expenses		85,000
Revenue Income		0
Net profit		87,750

Calculate the mark-up in this statement of comprehensive income.

Explain whether the mark-up is good or bad.

Calculate the return on capital employed.

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Explain whether the business is performing well in this area.

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Activity 12 – Calculate, Interpret and Analyse Profitability Ratios

You are working as a financial advisor for **DC Socks LTD** and they have provided you with a statement of comprehensive income for 2019 & 2020.

They have also provided you with the amount of capital they employed.

Capital employed 2019 - £114,500

Capital employed 2020 - £66,000.

They would like you to perform some profitability ratios and the use them to analyse the profitability of the business.

Statement of Comprehensive Income year end April 2019		
	£	£
Sales		228,000
Less cost of goods sold		
Opening inventory	48,000	
Purchases	55,000	
Closing inventory	12,000	
		91,000
Gross profit		137,000
Less Expenses		
Rent		18,000
Salaries		30,000
Advertising		10,000
Business rates		6,000
Distribution		20,000
Telephone & Broadband		1,200
Depreciation		17,000
Total expenses		102,200
Revenue Income		0
Net profit		34,800

Statement of Comprehensive Income year end April 2020		
	£	£
Sales		256,000
Less cost of goods sold		
Opening inventory	12,000	
Purchases	130,000	
Closing inventory	32,000	
		110,000
Gross profit		146,000
Less Expenses		
Rent		20,000
Salaries		40,000
Advertising		12,000
Business rates		6,000
Distribution		20,000
Telephone & Broadband		1,200
Depreciation		14,000
Total expenses		113,200
Revenue Income		0
Net profit		32,800

Ratio	Ratio Formula	2019	2020	Good or bad?	Is there a significant change?
Gross profit margin					
Net profit margin					
Mark-up					
ROCE					

Compare what the gross profit margin and net profit margin suggest about the business financially for 2019.

Compare the gross & net profit margin from 2019 to 2020. Discuss what this suggests about the business financially.

Outcome F3 – Measuring Liquidity

Activity 13 – Quick Practice Questions on Current Ratio and Liquid Capital Ratio

	Cost £	Depreciation £	Carrying Amount £
Non – current assets			
Premises	210,000	20,000	190,000
Vehicles	40,000	10,000	30,000
Equipment	18,000	4,000	14,000
Current Assets			
Inventory			52,000
Trade receivables			22,000
Cash at bank			16,000
Cash in hand			8,000
			98,000
Less current liabilities			
Trade payables			23,000
Overdraft			6,000
			29,000
Working capital			69,000
Non – current liabilities			
Bank loan			105,000
Net assets			198,000
Financed by			
Capital			150,000
Retained profit			48,000
Capital employed			198,000

Calculate the current ratio.

Explain whether the business is performing well in this area.

Calculate the liquid capital ratio.

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Compare the current ratio with the liquid capital ratio and suggest what it means for the business.

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Activity 14 – Liquidity Video

Watch the video on liquidity ratios and complete the tasks below to apply your knowledge.

[Video: Liquidity Ratios](#)

Explain why businesses use liquidity ratios.

What three bits of information are needed from a statement of financial position in order to calculate the current and liquid capital ratio?

Write down the formula for the current ratio.

Explain why the current ratio is useful to a business.

Write down the formula for the liquid capital ratio and explain why a business may want to exclude inventory from the calculation.

Evaluate the usefulness of both ratios in analysing a business's liquidity.

Calculating Liquidity Ratios

Below is a balance sheet for Company Z. The owners want you to provide them with some information and advice on the liquidity of their business.

Use the balance sheet to calculate the current ratio and liquid capital ratio in the table provided for 2019 and 2020. Then answer the questions.

Balance Sheet Company Z	2019	2020
	£	£
Current Assets		
Cash	35,000	115,000
Inventory	95,000	15,000
Accounts Receivable	7,000	2,000
Total Current Assets	137,000	132,000
Fixed Assets		
Building	100,000	100,000
Land	20,000	20,000
Machinery	20,000	20,000
Equipment	5,000	2,000
Total Fixed Assets	145,000	142,000
Total Assets	322,000	314,000
Current Liabilities		
Accounts Payable	2,000	8,000
Wages Payable	40,000	46,000
Interest Payable	4,000	4,000
Total Current Liabilities	46,000	58,000
Long Term Liabilities		
Bank Loan	78,000	66,000
Total Long-Term Liabilities	78,000	66,000
Total Liabilities	124,000	124,000
Net Assets	198,000	190,000

Ratio	2019	2020	Good or bad
Current Ratio			
Liquid Capital Ratio			

Assess the liquidity of the business using both ratios for 2019.

Assess the liquidity of the business using both ratios for 2020.

Compare the liquidity of both years and whether it has significantly changed or not.

Provide advice to the business owners on what they could do to improve the liquidity of their business for 2021.

Activity 15 – Calculate, Interpret and Analyse Liquidity Ratios

You did such a great job with the evaluation of **DC Socks LTD** profitability that they now want you to advise them on their liquidity.

They have provided you with a statement of financial position for 2019 & 2020.

They would like you to calculate the current ratio and liquid capital ratio for both years and then use it to analyse the liquidity of the business.

Statement of Financial Position 2019

	Cost (£)	Depreciation (£)	Carrying Amount (£)
Non – current assets			
Premises	220,000	11,000	209,000
Vehicles	90,000	22,000	68,000
Equipment	74,000	17,000	57,000
Current Assets			
Inventory			82,000
Trade receivables			12,000
Cash at bank			12,000
Cash in hand			6,000
			112,000
Less current liabilities			
Trade payables			28,000
Overdraft			4,000
			32,000
Working capital			80,000
Non – current liabilities			
Bank loan			112,000
Net assets			302,000
Financed by			
Capital			188,000
Retained profit			114,000
Capital employed			302,000

Statement of Financial Position 2020

	Cost (£)	Depreciation (£)	Carrying Amount (£)
Non – current assets			
Premises	209,000	9,000	200,000
Vehicles	68,000	18,000	60,000
Equipment	57,000	12,000	45,000
Current Assets			
Inventory			12,000
Trade receivables			8,000
Cash at bank			65,000
Cash in hand			9,000
			94,000
Less current liabilities			
Trade payables			34,000
Overdraft			1,000
			35,000
Working capital			59,000
Non – current liabilities			
Bank loan			98,000
Net assets			266,000
Financed by			
Capital			120,000
Retained profit			144,000
Capital employed			266,000

Ratio	Ratio Formula	2019	2020	Good or bad?	Is there a significant change?
Current Ratio					
Liquid Capital Ratio					

Compare the current ratio & liquid capital ratio and suggest what it says about the business financially in 2019.

Compare the liquid capital ratio in 2019 to 2020 again suggesting what it suggest about the business's performance.

Outcome F4 – Measuring Efficiency

Activity 16 – Quick Practice Questions on Trade Receivable Days, Trade Payable Days and Inventory Turnover.

Trade Receivable Days

A small business called Reed Guitars wants to know its trade receivable days. They have told you that they have £70,000 in credit sales and trade receivables of £40,000. Calculate their trade receivable days.

Help Reed Guitars by explaining what this figure you have calculated means.

Trade Payable Days

Reed Guitars have trade payables of £4,000 and credit purchases of £60,000. They were really happy with what you told them about their receivable days that they want you to:

Calculate their trade payable days and explain the figure to them.

Compare their trade receivable days and payable days so they understand what this means for the business financially.

Inventory Turnover Days

Reed Guitars have opening inventory of £26,000, closing inventory of £7,000 and cost of goods sold of £33,000.

Calculate their inventory turnover.

Explain what this suggests about the business.

Activity 17 – Calculate, Interpret and Analyse Efficiency Ratios

What is the calculation for trade receivable days?

Explain what trade payable days shows a business.

What is the calculation for inventory turnover?

Between a fruit and veg shop and a second hand car dealer, explain which would have the highest inventory turnover and why?

Justify whether or not efficiency ratios are useful for a business to use.

DC Socks LTD want you to investigate the efficiency of their business in 2020 and have provided you with financial statements for you to analyse.

They want you to tell them some information about trade receivable days, trade payable days and inventory turnover. They also want you to calculate the ratios for them.

Statement of Comprehensive Income year end April 2020			Statement of Financial Position 2020			
	£	£		Cost (£)	Depreciation (£)	Carrying Amount (£)
Sales		256,000	Non – current assets			
Less cost of goods sold			Premises	209,000	9,000	200,000
Opening inventory	12,000		Vehicles	68,000	18,000	60,000
Purchases	130,000		Equipment	57,000	12,000	45,000
Closing inventory	32,000		Current Assets			
		110,000	Inventory			12,000
Gross profit		146,000	Trade receivables			8,000
Less Expenses			Cash at bank			65,000
Rent		20,000	Cash in hand			9,000
Salaries		40,000				94,000
Advertising		12,000	Less current liabilities			
Business rates		6,000	Trade payables			34,000
Distribution		20,000	Overdraft			1,000
Telephone & Broadband		1,200				35,000
Depreciation		14,000	Working capital			59,000
Total expenses		113,200	Non – current liabilities			
Revenue Income		0	Bank loan			98,000
Net profit		32,800	Net assets			266,000
			Financed by			
			Capital			120,000
			Retained profit			144,000
			Capital employed			266,000

Ratio	Ratio Formula	Calculation	Good or bad?
Trade Receivable Days			
Trade Payable Days			
Inventory Turnover			

Compare the trade receivable days with the trade payable days and suggest what it says about the business financially.

Suggest what DC Socks LTD could do to improve their inventory turnover days.

Activity 18 – Profitability, Liquidity Efficiency & Limitations

Using the information provided in the statement of comprehensive income and statement of financial position, calculate the ratios and answer the questions based on the information found.

Statement of Comprehensive Income year end April 2019			Statement of Financial Position 2019			
	£	£		Cost (£)	Depreciation (£)	Carrying Amount (£)
Sales		140,000	Non – current assets			
Less cost of goods sold			Premises	88,000	2,000	86,000
Opening inventory	40,000		Equipment	15,000	2,000	13,000
Purchases	22,000		Current Assets			
Closing inventory	19,000		Inventory			66,000
		43,000	Trade receivables			4,000
Gross profit		97,000	Cash at bank			18,000
Less Expenses			Cash in hand			2,000
Rent		18,000				90,000
Salaries		30,000	Less current liabilities			
Advertising		12,000	Trade payables			36,000
Business rates		3,000	Overdraft			5,000
Distribution		8,000				41,000
Depreciation		4,000	Working capital			49,000
Total expenses		75,000	Non – current liabilities			
Revenue Income		0	Bank loan			35,000
Net profit		22,000	Net assets			154,000
			Financed by			
			Capital			132,000
			Retained profit			22,000
			Capital employed			154,000

Statement of Comprehensive Income year end April 2020			Statement of Financial Position 2020			
	£	£		Cost (£)	Depreciation (£)	Carrying Amount (£)
Sales		220,000	Non – current assets			
Less cost of goods sold			Premises	86,000	2,000	84,000
Opening inventory	19,000		Equipment	13,000	2,000	11,000
Purchases	89,000		Current Assets			
Closing inventory	7,000		Inventory			101,000
		101,000	Trade receivables			12,000
Gross profit		119,000	Cash at bank			20,000
Less Expenses			Cash in hand			4,000
Rent		20,000				137,000
Salaries		45,000	Less current liabilities			
Advertising		18,000	Trade payables			72,000
Business rates		4,000	Overdraft			8,000
Distribution		10,000				80,000
Depreciation		4,000	Working capital			57,000
Total expenses		99,000	Non – current liabilities			
Revenue Income		0	Bank loan			55,000
Net profit		18,000	Net assets			97,000
			Financed by			
			Capital			75,000
			Retained profit			22,000
			Capital employed			97,000

Ratio	2019 Calculation	2020 Calculation	Is it a significant change?
Gross Profit Margin			
Net Profit Margin			
Mark-up			
ROCE			
Current Ratio			
Liquid Capital Ratio			
Trade Receivable Days			
Trade Payable Days			
Inventory Turnover			

Discuss the profitability of the business in 2019.

Compare the profitability of the business from 2019 to 2020.

Evaluate the businesses overall liquidity.

Assess how efficiently the business is being run.

Examine the limitations of ratio analysis when assessing the profitability, liquidity and efficiency of a business.

Activity 19 – Test Your Knowledge Learning Outcome F Kahoot

Test your knowledge of Learning Outcome F of Unit 3: Personal and Business Finance by clicking this link: [Click here to play the Kahoot](#)

Once you have completed the quiz, answer the questions below to assess your strengths and areas of development.

What did you score on the Kahoot quiz?

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What areas of Learning Outcome F can you identify as your strengths after playing the quiz?

What areas of Learning Outcome F can you identify as your development areas after playing the quiz?

How do you plan to develop the areas you have identified to increase your knowledge and understanding of these topics?

Activity 20 – Word Scramble Learning Outcome F

1. GSORS FIROTP _____
2. TEN FTIORP _____
3. QUDIIL LTIPACA _____
4. TCRUENR OTARI _____
5. AANFCILNI IPIOSTNO _____
6. EERMVHESOICNP OCNIME _____
7. XSENEPES _____
8. NEIVTRNOY _____
9. ADRNCETOPIE _____
10. EADTR IEVCREAELB DAYS _____
11. NVEEURE _____
12. LLSEIAITBII _____

Activity 21 – Word Search Learning Outcome F

H J S H Y O G T G W D Q X J C K L E T V N O P X
 E P R H N T D R D E L W B G O D J K R E O S F M
 O Z X C E I W A X V C B Y G M Z V D S L I N M A
 R H X A U F Y D T T U I Z X P K X O V V T C C Q
 N B J W G O X E Y D L H S B R A U U F R A U N Y
 G U I F Z R E R J D J H C J E O Q Z T U I C G V
 O Q V S X P O E W H C A U K H J F B R W C O B E
 S S R E R T L C L T R L R Z E O H S W J E V I O
 G P Z J N E I E G L U H R Q N K Q Q Y K R X T O
 H Y R E Z N A I U V Q W E D S G Y E L N P G G M
 W M V M H J B V X K S L N I I Q S K H V E R S S
 U N S O P V I A P D I A T F V J U S C I D O V C
 I E E B O Z L B P I O E R O E P C E B G P S D R
 O J S S U C I L E C V Q A U I D O S L S Q S W E
 O A N A N Y T E B P C B T X N S E T Q C Q P S V
 H G E M V D I D H S L O I U C F E H Z I B R N E
 D N P J R C E A G T S A O R O Y A U A S Y O I N
 T L X L E T S Y R P W B V F M G E F G T H F U U
 U P E O Q J Y S P M N U K Z E J W M W Z E I A E
 E O G Z V K P C C Q A J M Z Y A I L I R F T Q D
 P L A T I P A C D I U Q I L X U L T F W W G B L
 B T W Z D P Y I O F Z L P A W N J Z T Y K J V Y
 N A S D T V L C R T M J R E X F F X T G S L U D
 S D O C H L N O I T I S O P L A I C N A N I F L

Liabilities Revenue Trade receivable days Depreciation Inventory

Expenses Comprehensive income Financial position Current ratio

Liquid capital Net profit Gross profit

[illegible]

2. Net profit \div revenue $\times 100 =$
4. Trade receivables \div credit sales $\times 365 =$
6. Current assets \div current liabilities $=$
7. Average inventory \div cost of goods sold $\times 365 =$
8. Trade payable \div credit purchases $\times 365 =$
9. Gross profit \div revenue $\times 100 =$

1. Current assets - inventory ÷ current liabilities =
3. Gross profit ÷ cost of goods sold x 100 =
5. Net profit ÷ capital employed x 100 =

Activity 23 – Personal and Business Finance Learning Outcome F

Unit 3: Personal and Business Finance Checklist		
Learning Outcome F: Complete statements of comprehensive income and financial position and evaluate a business's performance		
Topic	Your explanation of the terminology	Exam ready?
F1 – Statement of comprehensive income		
Purpose & Use		
Completion of a statement of comprehensive income		
Calculating a statement of comprehensive income		
Amending a statement of comprehensive income		
Adjusting for depreciation		
Adjusting for prepayments & accruals		
Interpretation, analysis and evaluation of statements		
F2 – Statement of financial position		
Purpose & Use		
Completion of a statement of financial position		
Calculating a statement of financial position		
Amending a statement of financial position		
Adjusting for depreciation		
Adjusting for prepayments & accruals		
Interpretation, analysis and evaluation of statements		
F3 – Measuring profitability		
Calculating gross profit margin		

Calculating net profit margin		
Calculating mark-up		
Calculating return on capital employed (ROCE)		
Analysis & evaluation of profitability ratios		
F4 – Measuring liquidity		
Calculating current ratio		
Calculating liquid capital ratio		
Analysis & evaluation of liquidity ratios		
F5 – Measuring efficiency		
Calculating trade receivable days		
Calculating trade payable days		
Calculating inventory turnover		
Analysis & evaluation of liquidity ratios		
F6 – Limitations of ratios		
Limitations of ratios when assessing business performance		