

For courses from September 2022 to August 2023; Updated 22/05/23

Question Bank (2021 edition)

Chapter 10, Question 10.1, page 93

Insert the following at the beginning of the question:

P plc purchased 70% of the shares in S Ltd a number of years ago. The statements of profit or loss for each company for the year ended 31 March 20X2 are given below.

BPP Practice Assessment 3, Task 6, (i), question page 301 and solution page 314

Part (i) should ask 'Return on shareholders funds' to be calculated and not 'Return on capital employed'.

Question extract

| | | |
|--|--|-------|
| Required | | |
| Calculate the following ratios to the nearest ONE DECIMAL PLACE. | | |
| (8 marks) | | |
| (i) Return on capital employed | | % |
| (ii) Gross profit margin | | % |
| (iii) Quick (acid test) ratio | | :1 |
| (iv) Interest cover | | times |

Solution extract

Task 6

Calculation of the ratios

| | | | |
|--------------------------------|-----------------------------------|------|-------|
| (i) Return on capital employed | $\frac{455}{7,372} \times 100$ | 6.2 | % |
| (ii) Gross profit margin | $\frac{7,360}{16,000} \times 100$ | 46.0 | % |
| (iii) Quick (acid test) ratio | $\frac{1,600}{1,356}$ | 1.2 | :1 |
| (iv) Interest cover | $\frac{880}{308}$ | 2.9 | times |

Formulae used to calculate the ratios

| | |
|-----------------------------------|--|
| (i) Return on shareholders' funds | $\frac{\text{Profit after tax}}{\text{Total equity}} \times 100\%$ |
|-----------------------------------|--|

BPP Practice Assessment 4, Task 6, page 333

The requirement states that ratios should be calculated to the nearest ONE DECIMAL PLACE.

The solutions to BPP Practice Assessment 4 show the quick ratio to two decimal places.

The solution to the quick ratio of '0.96' should instead read '**1.0**'.

Task 6

Calculation of the ratios

| | | | |
|-------|---|------|-------|
| (i) | Operating profit margin $\frac{3,626}{37,384} \times 100$ | 9.7 | % |
| (ii) | Return on shareholders' funds $\frac{2,300}{19,679} \times 100$ | 11.7 | % |
| (iii) | Quick (acid test) ratio $\frac{7,789 - 4,461}{3,476}$ | 0.96 | :1 |
| (iv) | Inventory turnover $\frac{21,458}{4,461}$ | 4.8 | times |