## Answers

### Chapter 15 Quiz

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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| 1. What financial information is important to the stakeholders of a business – founders, lenders and equity investors – are where do they come from? | ➢ Profitability – Income statement  
➢ Efficiency – Ratio analysis from income statement and balance sheet  
➢ Liquidity – Cash flow statement  
➢ Risk – Breakeven point, gearing or leverage |
| 2. What is a balance sheet?                                              | A snapshot at a point of time that shows the assets of a business and where the funds to purchase them came from.                      |
| 3. What is an income statement?                                          | A document showing the sales, costs and profit of a business in a period.                                                              |
| 4. What are the advantages and disadvantages of desk research?           | Advantages:  
➢ Cheap  
➢ Quick  
➢ Good for background information  
Disadvantages:  
➢ Not specific to your business  
➢ Can be incomplete, inaccurate  
➢ Can be out-of-date |
| 5. What are the advantages and disadvantages of field research?          | Advantages:  
➢ Reflects your needs  
➢ You control quality  
➢ Up-to-date |
<table>
<thead>
<tr>
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<th>Disadvantages:</th>
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<tr>
<td></td>
<td>- Expensive</td>
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<td>- Takes time</td>
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<td>- Can tell competitors what you are up to</td>
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<thead>
<tr>
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<th>Turnover – cost of goods sold.</th>
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<td>Gross profit – operating costs.</td>
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<td>Operating profit – interest.</td>
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<td>Total cash receipts – total cash payments, in any period.</td>
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|   | Net profit  
|   | Shareholders’ funds  
|   | (total assets–total liabilities)  
|   | (%)  |
|   | Operating profit  
|   | Shareholders’ funds+loan capital  
|   | (total assets–current liabilities)  
|   | (%)  |
|   | When the interest rate is lower than the return on total assets. |
|   | Operating profit  
|   | Sales/Turnover  
|   | (%)  |
|   | Gross profit  
|   | Sales/Turnover  
|   | (%)  |
|   | Sales/Turnover  
|   | Total assets  
|   | number)  |
|   | Sales/Turnover  
|   | Debtors (receivables)  
|   | (number)  |
|   | Sales/Turnover  
|   | Stock (inventory)  
|   | (number)  |
18. Define the term **current ratio**.  
Current assets  
Current liability

19. Define the term **quick ratio**.  
Current assets, excluding stock/inventory  
Current liabilities

20. Define the term **gearing** or **leverage**.  
All loans+overdraft  
Shareholders’funds (%)

21. Define the term **interest cover**.  
Operating profit  
Interest (number)

22. What do you evaluate performance against?  
➢ Forecasts  
➢ Trends over time  
➢ Industry norms

23. What are the two most widely used methods of valuing a business?  
➢ Market value of assets  
➢ Multiple of earnings

24. What is a **PE ratio**?  
The ratio of the price of shares (the value of a company) to its earnings.

25. What are the six financial drivers that allow you to monitor the performance of any business?  
1. Cash  
2. Sales/turnover  
3. Profit margins  
4. Margin of safety  
5. Productivity  
6. Debtors/receivables and/or stock/inventory turnover