

## Year 11 GCSE Applied Business

Name:

Group:

**Unit 2: Financial records**  
**Student workbook**

# 2.4

### Topic 2.4: Financial Ratios (Profitability ratios and Liquidity ratios)

**LO:** To calculate financial ratios and understand their importance.

**L1 G-E:** To know what profitability and liquidity ratios are.

**L2 D-B:** To calculate financial ratios and explain their importance.

**L3 A-A\*:** To calculate financial ratios and evaluate their importance.

Pathway	Key objective
<b>A</b>	I can complete profitability and liquidity ratios correctly. I can use profitability and liquidity ratios to evaluate business performance and stakeholder interest.
<b>B</b>	I can complete profitability and liquidity ratios correctly. I can use profitability and liquidity ratios to explain business performance and stakeholder interest.
<b>C</b>	I can complete most profitability and liquidity ratios. I can use profitability and liquidity ratios to state business performance and stakeholder interest.
<b>D</b>	I can complete some profitability and liquidity ratios. I can use profitability and liquidity ratios to identify basic business performance and stakeholder interest.
Targets	
<b>1</b>	I know what financial ratios are and the names of the two financial ratios.
<b>2</b>	I know what profitability ratios are and the names of the three profitability ratios.
<b>3</b>	I can calculate and analyse Gross Profit Margin (GPM) ratios.
<b>4</b>	I can calculate and analyse Net Profit Margin (NPM) ratios.
<b>5</b>	I can calculate and analyse Return on Capital Employed (ROCE) ratios.
<b>6</b>	I can evaluate the importance of profitability ratios to different stakeholders.
<b>7</b>	I know what liquidity ratios are and the names of the two liquidity ratios.
<b>8</b>	I can calculate and analyse the Current ratio.
<b>9</b>	I can calculate and analyse the Acid Test ratio.
<b>10</b>	I can evaluate the importance of liquidity ratios to different stakeholders.
<b>11</b>	I can evaluate the advantages and disadvantages of using profitability and liquidity ratios.

**Topic 2.4: Financial Ratios**

1. Ratios are used to measure the financial health/performance of a business. A ratio is (1)

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2. State the two financial ratios (2)

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**Profitability Ratios**

3. Define the term 'profitability' (2)

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4. State the three profitability ratios (3).

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**Gross Profit Margin (GPM) ratio**

5. Define the term 'gross profit' (2)

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6. What financial statement can you find gross profit on? (1)

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7. What is the formula to calculate gross profit? (1)

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8. Define the term Gross Profit Margin (GPM) (2)

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9. What is the formula to calculate Gross Profit Margin (GPM)? (1)

10. Explain the difference between Gross Profit and Gross Profit Margin (GPM) (2)

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11. What two factors impact the Gross Profit Margin (GPM)? (2)

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12. Calculate the Gross Profit Margin (GPM) (6)

	£	Calculation
Gross Profit	25,000	
Sales (revenue)	50,000	
Gross Profit	80,000	
Sales (revenue)	120,000	
Gross Profit	104,830	
Sales (revenue)	524,150	

**Net Profit Margin (NPM) ratio**

**13. Define the term 'net profit' (2)**

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**14. What financial statement can you find net profit on? (1)**

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**15. What is the formula to calculate net profit? (1)**

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**16. Define the term Net Profit Margin (NPM) (2)**

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**17. What is the formula to calculate Net Profit Margin (NPM)? (1)**

**18. Explain the difference between Net Profit and Net Profit Margin (NPM) (2)**

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**19. What two factors impact the Net Profit Margin (NPM)? (2)**

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**20. Calculate the Net Profit Margin (NPM) (6)**

	£	Calculation
Net Profit	15,000	
Sales (revenue)	350,000	
Net Profit	45,000	
Sales (revenue)	360,000	
Net Profit	225,500	
Sales (revenue)	3,382,500	

**Return on Capital Employed (ROCE) ratio**

**21. Define the term 'Return on Capital Employed (ROCE)' (2)**

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**22. The Return on Capital Employed (ROCE) ratio measures (1)**

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**23. What is the formula to calculate Return on Capital Employed (ROCE)? (1)**

**24. Calculate the Return on Capital Employed (ROCE) (6)**

	£	Calculation
<b>Net Profit</b>	<b>55,000</b>	
<b>Capital employed</b>	<b>500,000</b>	
<b>Net Profit</b>	<b>80,000</b>	
<b>Capital employed</b>	<b>360,000</b>	
<b>Net Profit</b>	<b>174,750</b>	
<b>Capital employed</b>	<b>2,097,000</b>	

**Profitability ratio evaluation**

**25. Complete the table below (8)**

	<b>2016</b>	<b>2017</b>
<b>Sales (£)</b>	200,000	315,485
<b>Cost of sales (£)</b>	85,000	92,154
<b>Gross Profit (£)</b>		
<b>Expenses (£)</b>	75,500	87,489
<b>Net Profit (£)</b>		
<b>GPM % (£)</b>		
<b>NPM % (£)</b>		

**26. State and explain the change in GPM from 2016 to 2017 (3)**

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**27. State and explain the main issue with the businesses GPM in 2016 (3)**

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**28. State and explain what helped the NPM improve in 2017 (3)**

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**Liquidity Ratios**

**29. Liquidity ratios measure if a business has (1)**

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**30. State the 2 liquidity ratios (2)**

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**31. Liquidity ratios show whether a business is... (1)**

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**Current ratio**

**32. Define the term 'current ratio' (2)**

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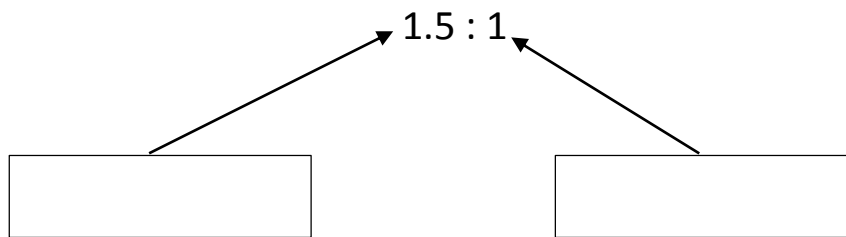
**33. What is the ideal current ratio? (1)**

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**34. What does the current ratio compare? (1)**

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35. Fill in the empty boxes. Use these words: Current assets and Current liabilities (2)



36. Convert the ratio above into money. Finish the sentence below. (1)

For every £1's worth of \_\_\_\_\_ the business has \_\_\_\_\_ worth of \_\_\_\_\_ available to pay their short-term debts.

37. What is the formula to calculate the current ratio? (1)

38. Calculate the current ratio (3)

		£	Calculation
A	Current Assets	100,000	
	Current Liabilities	50,000	
B	Current Assets	84,150	
	Current Liabilities	68,300	
C	Current Assets	289,487	
	Current Liabilities	305,895	



**Acid Test Ratio**

**39. Definition of the term 'Acid Test Ratio' (2)**

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**40. The ideal Acid Test Ratio is... (1)**

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**41. What is the formula to calculate the Acid Test Ratio? (1)**

**42. What is the difference between the Acid Test Ratio and the Current Ratio? (1)**

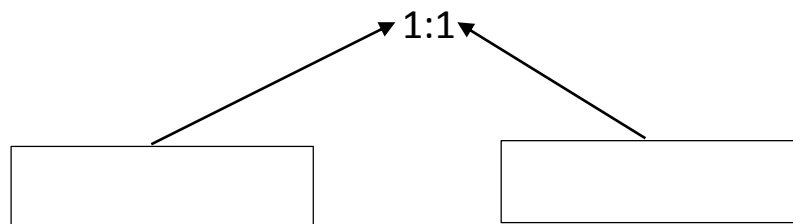
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**43. Explain why stock is not included in the Acid Test Ratio (1)**

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**44. Fill in the boxes below using the words current assets and current liabilities. (1)**



**45. Convert the ratio above into money. Finish the sentence below**

For every £1's worth of \_\_\_\_\_ the business has \_\_\_\_\_ worth of \_\_\_\_\_, excluding \_\_\_\_\_ available to pay their short-term debts.

46. Calculate the Acid Test Ratio (3)

		£	Calculation
A	Current Assets	100,000	
	Stock	50,000	
	Current Liabilities	50,000	
B	Current Assets	84,150	
	Stock	8,300	
	Current Liabilities	68,300	
C	Current Assets	289,487	
	Stock	204,368	
	Current Liabilities	305,895	

<b>Liquidity summary</b>
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Using your answers to question 38 and 46 answer the following questions.

47. For company A, explain the impact stock has had on their liquidity ratios (3)

<b>Current Ratio</b>	
<b>Acid Test Ratio</b>	

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48. For company B, explain the impact of them having a small amount of money tied up in stock (3)

<b>Current Ratio</b>	
<b>Acid Test Ratio</b>	

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49. For company C, explain the impact of them having a lot of money tied up in stock (3)

<b>Current Ratio</b>	
<b>Acid Test Ratio</b>	

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