



Crystal Clear – the story continues...

Crystal Clear dilemmas

The owner of Crystal Clear, Jim Carey, is considering taking over a rival firm called Cooley Crystal. Negotiations are at an advanced stage and Jim has asked to look at the financial accounts of this firm, including its Balance Sheet for the past three years.

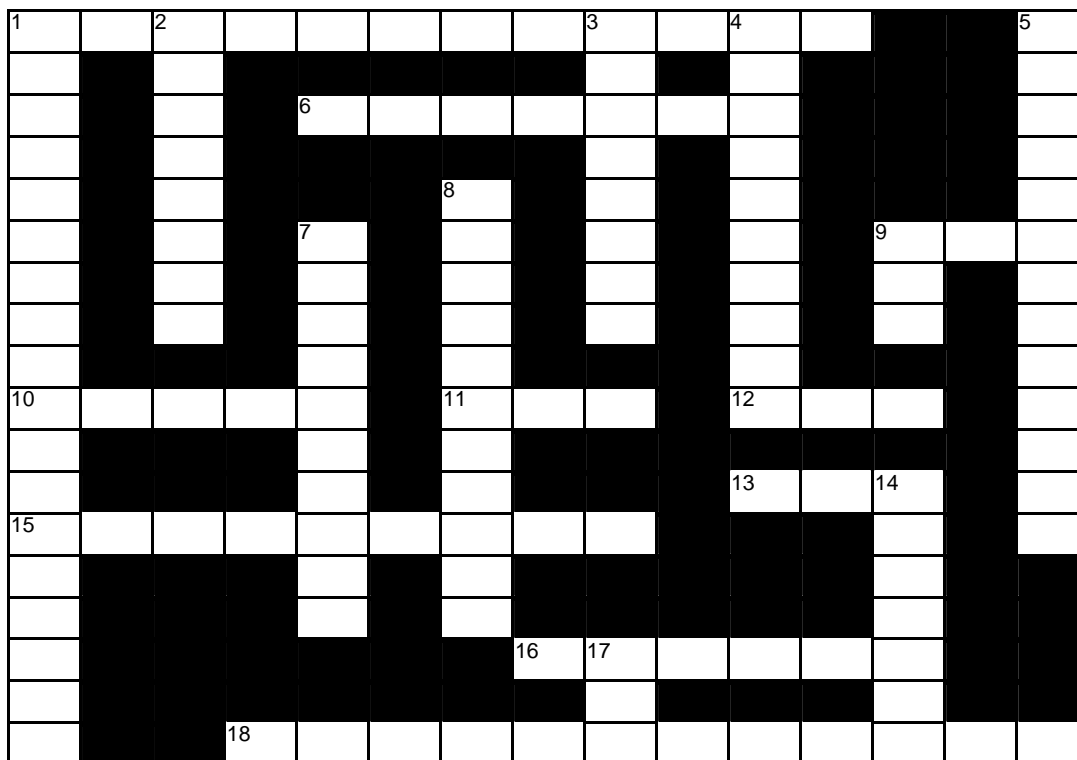
Balance Sheet for <i>Cooley Crystal</i>			
	Year 1	Year 2	Year 3
<u>TOTAL NET ASSETS SECTION</u>			
Fixed Assets			
Such as land, buildings and equipment	80,000	46,000	52,000
	-----	-----	-----
Total Fixed Assets	80,000	46,000	52,000
Add Current Assets			
Such as stock, debtors, cash and Money in the bank	120,000	166,000	192,000
Less Current Liabilities			
Liabilities that will have to be paid within a year such as unpaid bills.	(40,000)	(44,000)	(80,000)
	-----	-----	-----
TOTAL NET ASSETS	160,000	168,000	164,000
	=====	=====	=====
<u>FINANCED BY SECTION</u>			
Equity (Shares sold)	150,000	150,000	150,000
Retained earnings	0	8,000	4,000
Term Loan	10,000	10,000	10,000
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CAPITAL EMPLOYED	160,000	168,000	164,000
	=====	=====	=====

1. Calculate Cooley Crystal's current ratio for (a) Year 1, (b) Year 2 and (c) Year 3.
2. Calculate Cooley Crystal's acid ratio for (a) Year 1, (b) Year 2 and (c) Year 3.
3. Calculate Cooley Crystal's gearing ratio for (a) Year 1, (b) Year 2 and (c) Year 3.
4. Comment on any trends in the financial affair of the business.
5. Would you recommend this company as a wise purchase for Crystal Clear?

Cooley Crystal calculations	
Current Ratio	Year 1 = Year 2 = Year 3 =
Acid Ratio	Year 1 = Year 2 = Year 3 =
Gearing Ratio	Year 1 = Year 2 = Year 3 =



Crossword 11 - Monitoring the Business



CLUES

Across

1. This calculation measures a firm's ability to pay its current liabilities (7, 5)
6. Gross _____ is the amount of money a company makes before paying tax (5)
9. The Harley Davidson motorcycle company introduced this type of stock control system (3)
10. A fruit and a computer company (5)
11. Dino's Desserts Ltd. has a very poor ratio of this type (3)
12. The currency in Japan (3)
13. The state-owned business that produces most of Ireland's electricity (3)
15. This refers to a firm's ability to pay its bills (9)
16. The net _____ ratio shows how effectively a firm is turning sales into net profits (6)
18. Software packages that can perform financial calculations quickly (12)

Down

1. Debts likely to be paid within twelve months (7, 11)
2. _____ earnings are the profit left over after all costs, overheads and dividend payments are made (8)
3. This ratio measures a firm's ability to raise cash quickly in order to pay 1 across (4, 4)
4. This happens when a firm's total liabilities exceed its total assets and it is unable to pay all its debts (10)
5. This account shows the net profit earned by a firm after expenses and overheads have been deducted (6, 3, 4)
7. Where a firm only gets a small amount of its long-term finance from fixed interest debt (3, 7)
8. When a firm has too little working capital and too much money going out of the business (11)
9. You need one of these to earn income (3)
14. Team Jordan draws up a _____ sheet every year (7)
17. The opposite of subtract (3)s



Recall & Review Summary - fill in the gaps



Every business, whether commercial or non-commercial, needs to be able to manage its finances prudently in order to pay its way and ensure its survival and possible growth. For businesses that exist to make a profit, the three main financial problems that can arise are _____ (when a firm has too much finance making too little profit), _____ (when there is too little finance in the business to pay expenses) or where the business is highly geared (has so much debt that it may have difficulty paying the interest). If a business finds itself unable to pay its debts it will become insolvent.

To help businesses manage their finances, accountants prepare Trading and Profit and Loss Accounts to measure profitability. The Trading Account shows the _____ profit from buying and selling before business expenses and overheads have been deducted. The Profit & Loss Account shows the _____ profit earned by a firm after expenses and overheads have been deducted. The Balance Sheet is a summary of the financial position of a firm, setting out the total assets (owned), liabilities (owed) and capital of the business.

When accounts have been prepared, managers and other interested stakeholders can conduct ratio _____ to study the financial performance. In particular, ratios are used to measure profitability and liquidity (the ability to pay day-to-day expenses).

Score: _____ out of 5