S6 BAFS Practice Paper | Depreciation methods, gross margin, current and quick ratios, inventory turnover, break-even, cash budget and earnings per share

Senior Secondary Business, Accounting and Financial Management

S6 BAFS practice paper with answers: straight-line depreciation, margin analysis, liquidity ratios, break-even, cash budget and earnings per share.

Question 1 Straight-line and reducing-balance depreciation

A company bought a machine at the start of 2026 for $480,000. It is expected to last 7 years with a residual value of $60,000. The company is comparing straight-line depreciation with the reducing-balance method at 25% a year.

#	Question
1	(a) Find the annual depreciation charge under the straight-line method.
2	(b) Find the carrying amount after 3 years under the straight-line method.
3	(c) Find the depreciation charges for years 1 to 3 under the reducing-balance method and the carrying amount after 3 years.
4	(d) Compare the accumulated depreciation over 3 years under the two methods and state which one better matches the benefit pattern of the machine.

Question 2 Cost of goods sold, gross profit and net profit

A sole trader reports the following for 2026: sales $1,250,000; opening inventory $86,000; purchases $720,000; carriage inwards $14,000; closing inventory $96,000; administration expenses $148,000; selling and distribution expenses $96,000.

#	Question
5	(a) Find the cost of goods sold.
6	(b) Find the gross profit and the gross profit margin to one decimal place.
7	(c) Find the net profit and the net profit margin to one decimal place.
8	(d) If closing inventory was overstated by $12,000, find the corrected gross profit, net profit and gross margin, state the direction of the error, then find the inventory turnover in times (two decimal places) and the average inventory period in days (one decimal place).

Question 3 Liquidity ratios and return on capital employed

At 31 December 2026 a company has current assets of inventory $180,000, receivables $240,000 and cash $60,000, against current liabilities of $300,000. Credit sales for the year were $1,440,000 and opening receivables were $200,000. Profit before interest and tax was $320,000 on capital employed of $1,280,000.

#	Question
9	(a) Find the current ratio and the quick ratio to two decimal places.
10	(b) If inventory of $60,000 is bought on credit just before year end and is still unpaid, find the new current ratio and quick ratio.

#	Question
11	(c) Find the receivables turnover in times (two decimal places) and the average collection period in days (one decimal place).
12	(d) Find the return on capital employed. The company then borrows $400,000 at 6% a year to buy back shares; find the new return and comment.

Question 4 Contribution margin and break-even

A product sells for $180 a unit with a variable cost of $108 a unit. Fixed costs are $432,000 a year.

#	Question
13	(a) Find the contribution per unit and the contribution margin ratio.
14	(b) Find the break-even quantity in units and the break-even sales revenue.
15	(c) How many units are needed to earn a target profit of $180,000? If actual sales are 9,000 units, what is the margin of safety percentage?
16	(d) If unit variable cost rises by 10% and the price is unchanged, find the new contribution per unit, the new break-even quantity as a whole number, and the percentage rise in break-even quantity to one decimal place.

Question 5 Cash budget and bad debts

A company sells $300,000, $360,000 and $420,000 in January, February and March 2026. It collects 60% in the month of sale and 35% in the following month, with 5% becoming bad debts. Purchases are 50% of that month sales and are paid in the following month. Other cash expenses are $88,000 a month, paid in the month. Cash at 1 February 2026 was $45,000.

#	Question
17	(a) Find the cash collected in February and in March.
18	(b) Find the February cash payments and the cash balance at the end of February.
19	(c) Find the March cash payments and the cash balance at the end of March.
20	(d) Find the total bad debts for the first quarter and explain what bad debts mean for a cash budget.

Question 6 Earnings per share and financing choice

A limited company has 400,000 ordinary shares of $1 in issue. Profit after tax for 2026 was $168,000 and dividends of $0.15 a share were paid. The company plans a $500,000 project earning 12% before tax, with profits tax at 16.5%. Option 1 issues 100,000 new shares at $5 each; Option 2 borrows $500,000 at 7% a year.

#	Question
21	(a) Find the present earnings per share.
22	(b) Find the total dividend, the dividend cover in times and the payout ratio to one decimal place.
23	(c) Option 1: find the extra profit after tax, the number of shares after issue, the new earnings per share and the percentage change to one decimal place.

#	Question
24	(d) Option 2: find the annual interest, the extra profit after tax, the new earnings per share and the percentage change, and state the risk of this option.