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Surname		Other names	
Centre Number		Candidate Number	
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Edexcel IGCSE

Accounting
Paper 1

Thursday 12 May 2011 – Morning Time: 2 hours 30 minutes	Paper Reference 4AC0/01
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You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Write your answers neatly and in good English.
- Try to answer every question.
- Check your answers if you have time at the end.



SECTION B**Answer ALL questions**

- 11** The following trial balance has been prepared by a trainee accounting clerk from the books of Harsha Patel.

Trial Balance as at 31 December 2010

Account	Debit £	Credit £
Bank balance	59 000	
Capital		87 900
Carriage outwards	350	
Closing stock		3 241
Drawings		27 500
Fixtures and fittings	30 000	
Opening stock	2 623	
Provision for depreciation – fixtures and fittings	2 500	
Purchases		38 950
Rent and rates	7 500	
Sales	65 400	
Wages and salaries		10 000
Suspense	218	
	<u>167 591</u>	<u>167 591</u>



- (a) Prepare a corrected version of Harsha’s trial balance, with an amended figure for the suspense account.

(3)

Trial Balance as at 31 December 2010

Account	Debit £	Credit £
Bank balance		
Capital		
Carriage outwards		
Closing stock		
Drawings		
Fixtures and fittings		
Opening stock		
Provision for depreciation – fixtures and fittings		
Purchases		
Rent and rates		
Sales		
Wages and salaries		
Suspense		



(c) Prepare the suspense account, clearly showing the opening balance calculated in part (a).

(3)

Suspense Account

Date	Narration	£	Date	Narration	£

(Total for Question 11 = 10 marks)



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Throughout Question 12, assume that the rate of VAT is 10%

12 Rita Kaur is a wholesaler of footwear. She buys and sells mainly on credit terms. She does not offer a cash discount to any of her customers.

On 1 April 2011 her sales ledger contained the following debit balances.

A Alpa	£3 000
B Blach	£5 000
C Caron	£2 000
D Drake	£6 000

On 1 April 2011 her nominal ledger contained the following balances:

Sales Account	£23 400
Returns Inwards Account	£2 360
Sales Ledger Control Account	£16 000
VAT Account	£3 200 (Cr)

The following are extracts from her books for April 2011.

Sales Book

Date	Narration	Goods	VAT	Total
April 1	A Alpa	600	60	660
April 7	B Blach	260	26	286
April 10	D Drake	1 520	152	1 672
April 17	A Alpa	1 450	145	1 595
April 25	C Caron	1 600	160	1 760
	Totals for Month	<u>5 430</u>	<u>543</u>	<u>5 973</u>

Returns Inwards Book

Date	Narration	Goods	VAT	Total
April 13	B Blach	60	6	66
April 28	D Drake	340	34	374
	Totals for Month	<u>400</u>	<u>40</u>	<u>440</u>



Cash Book (Debit side)

Date	Narration	VAT	Bank
April 1	Balance b/d		8 000
April 2	Cash sales (including VAT)	50	550
April 5	D Drake		6 000
April 8	C Caron		1 000
April 15	Cash sales (including VAT)	75	825
April 21	A Alpa		1 500
April 30	Rent received		500
April 30	B Blach		2 250
	Totals for Month	<u>125</u>	<u>20 625</u>

The Journal

Date	Narration	Debit	Credit
April 28	A Alpa (Purchases Ledger)	1 000	
	A Alpa (Sales Ledger)		1 000
	Being transfer of balance in purchases ledger offset against balance in the sales ledger		

The following totals were extracted from her books at the end of April:

	Goods	Vat	Total
Purchases Journal	3 200	320	3 520
Returns Outwards Journal	260	26	286

Rita made cash purchases totalling £770 (including VAT) during the month of April 2011.



- (a) Prepare the account of A Alpa in Rita Kaur’s sales ledger. Balance the account on 30 April 2011 and bring the balance down.

(6)

A Alpa Account

Date	Narration	£	Date	Narration	£

- (b) Prepare the sales ledger control (total debtors) account for the month of April 2011. Balance the account on 30 April 2011 and bring the balance down.

(6)

Sales Ledger Control (Total Debtors) Account

Date	Narration	£	Date	Narration	£



(c) Prepare the sales account, returns inwards account and VAT account for the month of April 2011. There is no need to balance the accounts.

(8)

Sales Account

Date	Narration	£	Date	Narration	£

Returns Inwards Account

Date	Narration	£	Date	Narration	£

VAT Account

Date	Narration	£	Date	Narration	£



(d) Evaluate the usefulness to Rita Kaur of maintaining a sales ledger control account.

(5)

Area with horizontal dotted lines for writing the answer.

(Total for Question 12 = 25 marks)



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Question Number	Answer	Mark
12(d)	<p>The key here is does the candidate clearly understand what a sales ledger control account is and what its value is to the running of a business. The following sample answer identifies how you should allocate the 5 marks.</p> <p>Sample Answer</p> <p>The balance of the control can be checked against the sum of the individual balances in the sales ledger and discrepancies or errors (1) identified. These errors could either be in the day books or in the individual accounts in the sales ledger (1).</p> <p>The balance of the control account can also assist in the preparation of the balance sheet at the year end by providing a total for debtors (1) .</p> <p>The control account can also be used to identify and prevent fraud in the business. (1)</p> <p>However there are some disadvantages to maintaining a sales ledger control account. It may be costly to maintain (1) and there is no certainty that all errors will be located (1)</p> <p>Overall there are several advantages to Rita of maintaining a sales ledger control account but there may also be some disadvantages (1)</p>	(5)

13 The following balances were extracted from the ledgers of Omar Bashir on 30 April 2011.

Account	Balance £
Bad debts	3 200
Equipment (cost)	15 000
Insurance	4 322
Motor expenses	27 690
Motor vehicles (cost)	50 000
Opening stock	45 000
Premises (cost)	250 000
Provision for depreciation – equipment	5 000
Provision for depreciation – motor vehicles	30 000
Purchases	324 897
Returns inwards	6 500
Returns outwards	4 897
Rates	9 500
Sales	506 500
Sundry expenses	42 156

The following additional information at 30 April 2011 should be taken into account:

1. Stock was valued at £55 000.
2. Provide for depreciation by the reducing balance method on equipment (10%) and motor vehicles (25%).
3. A motor van purchased during the year for £20 000 has been included in the motor expenses account.
4. It is Omar's policy to provide a full year's depreciation on all assets held at the year's end.
5. Allow for business rates due but unpaid, £500, and for insurance paid in advance, £322.
6. Omar took stock to the value of £5 000 during the year for his own personal use.



Question Number	Answer	Mark																																																																																																																
13(a)	<p style="text-align: center;">Omar Bashir Trading and profit and loss account For year ended 30 April 2011</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">£</th> <th style="text-align: right;">£</th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">506</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">500(1)</td> <td></td> </tr> <tr> <td>Returns inwards</td> <td></td> <td style="text-align: right;"><u>6 500(1)</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">500 000</td> </tr> <tr> <td>Cost of Sales</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening stock</td> <td></td> <td style="text-align: right;">45 000(1)</td> <td></td> </tr> <tr> <td>Purchases (324 897* - 5 000*)</td> <td style="text-align: right;">319 897</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">(2)</td> <td></td> <td></td> </tr> <tr> <td>Returns outwards</td> <td style="text-align: right;"><u>4</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">897(1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>315 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">360 000</td> <td></td> </tr> <tr> <td>Closing stock</td> <td></td> <td style="text-align: right;"><u>55 000(1)</u></td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td></td> <td></td> <td style="text-align: right;"><u>305 000</u></td> </tr> <tr> <td>Gross Profit</td> <td></td> <td></td> <td style="text-align: right;">195000</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Expenses</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Bad debts</td> <td></td> <td style="text-align: right;">3 200(1)</td> <td></td> </tr> <tr> <td>Insurance (4 322* - 322*)</td> <td></td> <td style="text-align: right;">4 000(2)</td> <td></td> </tr> <tr> <td>Motor expenses</td> <td></td> <td style="text-align: right;">7 690(1)</td> <td></td> </tr> <tr> <td>Rates (9 500* + 500*)</td> <td></td> <td style="text-align: right;">10 000(2)</td> <td></td> </tr> <tr> <td>Sundry expenses</td> <td></td> <td style="text-align: right;">42 156(1)</td> <td></td> </tr> <tr> <td>Provision for depreciation - equipment</td> <td></td> <td style="text-align: right;">1 000(2cf)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>10 000</u></td> <td></td> </tr> <tr> <td>motor vehicles</td> <td></td> <td style="text-align: right;">(2cf)</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">78 046</td> </tr> <tr> <td>Net Profit</td> <td></td> <td></td> <td style="text-align: right;"><u>116 954</u></td> </tr> </tbody> </table>		£	£	£	Sales		506				500(1)		Returns inwards		<u>6 500(1)</u>					500 000	Cost of Sales				Opening stock		45 000(1)		Purchases (324 897* - 5 000*)	319 897				(2)			Returns outwards	<u>4</u>				897(1)					<u>315 000</u>				360 000		Closing stock		<u>55 000(1)</u>		Cost of goods sold			<u>305 000</u>	Gross Profit			195000				(1)	Expenses				Bad debts		3 200(1)		Insurance (4 322* - 322*)		4 000(2)		Motor expenses		7 690(1)		Rates (9 500* + 500*)		10 000(2)		Sundry expenses		42 156(1)		Provision for depreciation - equipment		1 000(2cf)				<u>10 000</u>		motor vehicles		(2cf)					78 046	Net Profit			<u>116 954</u>	(20)
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Question Number	Answer	Mark
13(b)(i)	Sample answer With additional information 5 I have used the accruals (matching) concept (1), which states that only transactions relating to the year under consideration should be included in the final accounts (1).	(2)

Question Number	Answer	Mark
13(b)(ii)	Sample answer With additional information 6 I have used the business entity concept (1), which states that only transactions involving the business should be included in the business books (1). The goods for own use are drawings and as such, they need to be ignored in the calculation of cost of sales . Only the purchases used in the business are recorded (1).	(3)

Question	Answer	Mark
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- 14 An accountant has prepared for Oriental Furniture Ltd the following profit and loss appropriation account, for the year ended 31 March 2011.

Oriental Furniture Ltd
Profit and loss appropriation account
Year ended 31 March 2011

	£000	£000
Operating profit		250
Retained earnings brought forward		50
		300
Less appropriations		
Transfer to general reserve	25	
Ordinary dividend: Interim (paid)	25	
Final (proposed)	25	
		75
Retained earnings carried forward		225

In addition, the following balances appeared in its books at that date.

Account	£000
Bank overdraft	30
Closing stock	60
Debentures – 2020	100
Debenture interest due	10
General reserve	25
Fixtures and fittings (cost)	62
Issued share capital	300
Premises (cost)	600
Prepaid expenses	10
Provision for depreciation – fixtures and fittings	12
Trade creditors	35
Trade debtors	55



Number																																																																																																										
14	<p>Oriental Furniture Ltd Balance Sheet As at 31 March 2011</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">£000</th> <th style="text-align: center;">£000</th> <th style="text-align: center;">£000</th> </tr> <tr> <th style="text-align: left;">Fixed Assets</th> <th style="text-align: center;">Cost</th> <th style="text-align: center;">Agg Dep</th> <th style="text-align: center;">N.B.V.</th> </tr> </thead> <tbody> <tr> <td>Premises</td> <td style="text-align: center;">600</td> <td></td> <td style="text-align: center;">600*</td> </tr> <tr> <td>Fixtures and Fittings</td> <td style="text-align: center;"><u>62</u></td> <td style="text-align: center;"><u>12</u></td> <td style="text-align: center;"><u>50*</u></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>662</u></td> <td style="text-align: center;"><u>12</u></td> <td style="text-align: center;">650</td> </tr> <tr> <td colspan="4">Current Assets</td> </tr> <tr> <td>Stock</td> <td style="text-align: center;">60*</td> <td></td> <td></td> </tr> <tr> <td>Debtors</td> <td style="text-align: center;">55*</td> <td></td> <td></td> </tr> <tr> <td>Prepayments</td> <td style="text-align: center;"><u>10*</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">125</td> <td></td> </tr> <tr> <td colspan="4">Current Liabilities</td> </tr> <tr> <td>Creditors</td> <td style="text-align: center;">35*</td> <td></td> <td></td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: center;">30*</td> <td></td> <td></td> </tr> <tr> <td>Interest accrued</td> <td style="text-align: center;">10*</td> <td></td> <td></td> </tr> <tr> <td>Proposed dividend</td> <td style="text-align: center;"><u>25*</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">100</td> <td></td> </tr> <tr> <td>Working capital</td> <td></td> <td></td> <td style="text-align: center;">25*</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: center;">675</td> </tr> <tr> <td colspan="4">Long term Liabilities</td> </tr> <tr> <td>Debentures 2020</td> <td></td> <td></td> <td style="text-align: center;">100*</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: center;"><u>575</u></td> </tr> <tr> <td colspan="4">Financed by:</td> </tr> <tr> <td>Share capital</td> <td></td> <td style="text-align: center;">300*</td> <td></td> </tr> <tr> <td>General reserve</td> <td></td> <td style="text-align: center;">50*</td> <td></td> </tr> <tr> <td>Profit and loss account</td> <td></td> <td style="text-align: center;">225*</td> <td></td> </tr> <tr> <td>Shareholders funds</td> <td></td> <td></td> <td style="text-align: center;"><u>575*</u></td> </tr> </tbody> </table>		£000	£000	£000	Fixed Assets	Cost	Agg Dep	N.B.V.	Premises	600		600*	Fixtures and Fittings	<u>62</u>	<u>12</u>	<u>50*</u>		<u>662</u>	<u>12</u>	650	Current Assets				Stock	60*			Debtors	55*			Prepayments	<u>10*</u>					125		Current Liabilities				Creditors	35*			Bank overdraft	30*			Interest accrued	10*			Proposed dividend	<u>25*</u>					100		Working capital			25*				675	Long term Liabilities				Debentures 2020			100*				<u>575</u>	Financed by:				Share capital		300*		General reserve		50*		Profit and loss account		225*		Shareholders funds			<u>575*</u>	(15)
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2010	£250 000* (c)	£150 000* (c)									
2011	£330 000* (c)	£210 000* (c)									

15 The following information is available about a retail business owned by Albert Gonzalez .

	Year ended 31 March 2010	Year ended 31 March 2011
	£000	£000
Sales	500	600
Cost of sales	250	270
Expenses	100	120
Capital employed	750	900

Current ratio	2.5:1	1.5:1
Acid test	1.5:1	0.8:1

(a) Using these figures:

(4)

(i) Calculate the gross profit for each year.

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(ii) Calculate the net profit for each year.

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(b) Stating clearly the formula used, calculate the gross profit margin for each of the two years.

(2)

Formula

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Gross profit margin for year ended 31 March 2010

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Gross profit margin for year ended 31 March 2011

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(c) Stating clearly the formula used, calculate the net profit margin for each of the two years.

(2)

Formula

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Net profit margin for year ended 31 March 2010

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Net profit margin for year ended 31 March 2011

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(d) Stating clearly the formula used, calculate the return on capital employed for each of the two years.

(2)

Formula

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Return on capital employed for year ended 31 March 2010

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Return on capital employed for year ended 31 March 2011

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14	<p>Oriental Furniture Ltd Balance Sheet As at 31 March 2011</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">£000</th> <th style="text-align: center;">£000</th> <th style="text-align: center;">£000</th> </tr> <tr> <th style="text-align: left;">Fixed Assets</th> <th style="text-align: center;">Cost</th> <th style="text-align: center;">Agg Dep</th> <th style="text-align: center;">N.B.V.</th> </tr> </thead> <tbody> <tr> <td>Premises</td> <td style="text-align: center;">600</td> <td></td> <td style="text-align: center;">600*</td> </tr> <tr> <td>Fixtures and Fittings</td> <td style="text-align: center;"><u>62</u></td> <td style="text-align: center;"><u>12</u></td> <td style="text-align: center;"><u>50*</u></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>662</u></td> <td style="text-align: center;"><u>12</u></td> <td style="text-align: center;">650</td> </tr> <tr> <td colspan="4">Current Assets</td> </tr> <tr> <td>Stock</td> <td style="text-align: center;">60*</td> <td></td> <td></td> </tr> <tr> <td>Debtors</td> <td style="text-align: center;">55*</td> <td></td> <td></td> </tr> <tr> <td>Prepayments</td> <td style="text-align: center;"><u>10*</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">125</td> <td></td> </tr> <tr> <td colspan="4">Current Liabilities</td> </tr> <tr> <td>Creditors</td> <td style="text-align: center;">35*</td> <td></td> <td></td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: center;">30*</td> <td></td> <td></td> </tr> <tr> <td>Interest accrued</td> <td style="text-align: center;">10*</td> <td></td> <td></td> </tr> <tr> <td>Proposed dividend</td> <td style="text-align: center;"><u>25*</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">100</td> <td></td> </tr> <tr> <td>Working capital</td> <td></td> <td></td> <td style="text-align: center;">25*</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: center;">675</td> </tr> <tr> <td colspan="4">Long term Liabilities</td> </tr> <tr> <td>Debentures 2020</td> <td></td> <td></td> <td style="text-align: center;">100*</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: center;"><u>575</u></td> </tr> <tr> <td colspan="4">Financed by:</td> </tr> <tr> <td>Share capital</td> <td></td> <td style="text-align: center;">300*</td> <td></td> </tr> <tr> <td>General reserve</td> <td></td> <td style="text-align: center;">50*</td> <td></td> </tr> <tr> <td>Profit and loss account</td> <td></td> <td style="text-align: center;">225*</td> <td></td> </tr> <tr> <td>Shareholders funds</td> <td></td> <td></td> <td style="text-align: center;"><u>575*</u></td> </tr> </tbody> </table>		£000	£000	£000	Fixed Assets	Cost	Agg Dep	N.B.V.	Premises	600		600*	Fixtures and Fittings	<u>62</u>	<u>12</u>	<u>50*</u>		<u>662</u>	<u>12</u>	650	Current Assets				Stock	60*			Debtors	55*			Prepayments	<u>10*</u>					125		Current Liabilities				Creditors	35*			Bank overdraft	30*			Interest accrued	10*			Proposed dividend	<u>25*</u>					100		Working capital			25*				675	Long term Liabilities				Debentures 2020			100*				<u>575</u>	Financed by:				Share capital		300*		General reserve		50*		Profit and loss account		225*		Shareholders funds			<u>575*</u>	(15)
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15(b)	<p>Formula Gross Profit/Sales x 100 Gross profit margin for year ended 31 March 2010 $250\,000/500\,000 \times 100 = 50\%$ Gross profit margin for year ended 31 March 2011 $330\,000/600\,000 \times 100 = 55\%$</p> <p>1 mark for correct formula + 1 mark for both correct percentages (2)</p>	(2)

Question Number	Answer	Mark
15(c)	<p>Formula Net Profit/Sales x 100 Net profit margin for year ended 31 March 2010 $150\,000/500\,000 \times 100 = 30\%$ Net profit margin for year ended 31 March 2011 $210\,000/600\,000 \times 100 = 35\%$</p> <p>1 mark for correct formula + 1 mark for both correct percentages (2)</p>	(2)

Question Number	Answer	Mark
15(d)	<p>Formula Net Profit/Capital Employed x 100 Return on capital employed for year ended 31 March 2010 $150\,000/750\,000 \times 100 = 20\%$ Return on capital employed for year ended 31 March 2011 $210\,000/900\,000 \times 100 = 23.3\%$</p> <p>1 mark for correct formula + 1 mark for both correct percentages (2)</p>	(2)

Question Number	Answer	Mark
15 (e)	<p>The key here is for the candidate to find reasons (identify a strategy) to explain their contention. Reasons must have validity and must be backed up by figures.</p> <p>Evaluation of performance between 2010 and 2011 Comment on profitability (1) with figures (1) Comment on liquidity (1) with figures (1) Decision based on evidence (1) Max 3 marks if no figures.</p> <p>Sample answer: Since Albert has increased his gross profit margin (from 50% to 55%) it may be that he has increased his selling price or negotiated better terms with his suppliers which has lowered his cost of sales. There has been no increase in his overhead ratio over the two years as the only change in the net profit margin was due to the increase in his gross profit margin. This indicates that he is maintaining the same level of overhead expenditure. The return on capital employed also indicates an improving profitability situation with an increase from 20% to 23%.</p> <p>In terms of liquidity the situation has worsened between the two years. His current ratio has diminished from 2.5:1 in 2010 to 1.5:1 in 2011. If this trend continues then he may have difficulty meeting his short term debts. The acid test also shows a diminishing trend, down from 1.5:1 to 0.8:1.</p> <p>Overall although Albert's profitability has shown some signs of improvement between 2010 and 2011 the reduction in his liquidity position would indicate that contrary to his belief his business performance in 2011 is not superior to 2010.</p>	(5)