



Worksheet 3: Making judgements answers

- 1 Assess the performance of V plc and T plc in terms of profitability and efficiency in managing inventory.

What are you making a judgement about?

The performance in terms of profitability and efficiency for both companies.

What does your judgement depend upon?

Whether the profitability ratio(s) of one business is better/worse.

Whether the efficiency ratio(s) of one business is better/worse.

The possible reasons for differences of the profitability ratios.

The possible reasons for differences of the efficiency ratios.

- 2 Advise the directors whether or not they should increase the proposed dividend. Justify your answer by discussing the benefits and drawbacks of your advice for both the company and the shareholders.

What are you making a judgement about?

Advice whether or not to increase the proposed dividend.

What does your judgement depend upon?

The cash available in the business.

The retained earnings balance.

The need for future funds.

The market value of the shares.

- 3 Suggest whether the business should reduce the terms of credit for its receivables to improve the cash flow position.

What are you making a judgement about?

Whether or not to reduce the credit terms for its receivables to improve the cash flow position.

What does your judgement depend upon?

Impact on cash inflows.

Impact on future sales/demand.

The likely reaction of the competitors.

The relationship with receivables in the short term and in the long term.