

APPENDICES

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APPENDIX 1

Examination Overview

Unit 3 Examination	Section A	Section B
Content	Personal Finance	Business Finance
Mark allocation (100 marks)	36 marks	64 marks
Time allowed (2hrs)	40 – 45 minutes	75 – 80 minutes

APPENDIX 2

Our Top Tips for Exam Success

- 1 Read the question carefully
- 2 Timing
- 3 '3 step approach' on calculation questions
- 4 Produce a well-balanced argument for 6 marks+
- 5 Use the scenario to put knowledge into context, make use of calculations if appropriate
- 6 When there are two or more elements to the question ensure pros and cons are given for each one
- 7 Provide a justified conclusion on the extended 12 mark answers

APPENDIX 3

Understanding the demands of the different question styles

The 1 and 2 mark questions

Keep answers brief Key term only (1 mark)

Likely to require two content points (2 marks)

e.g. 'Give two ways' or 'Identify two methods'

OR it could be an 'Outline' question - Point + development e.g. 'Outline one benefit'

The 6 mark 'Discuss' Question

Two 6 mark questions, one in each section

Requires balance

Pros and cons/advantages & disadvantages

Linked to the scenario well

The 8 mark 'Analyse' Question

One 8 mark question in section B

Linked to the scenario throughout

A number of points (balance), developed well

The 10 mark 'Assess' Question

There will be two 10 mark questions, one in each section.

There will be multiple points to examine e.g. 'two options' or 'the effects on'

Important that both sides are addressed, with pros and cons for each

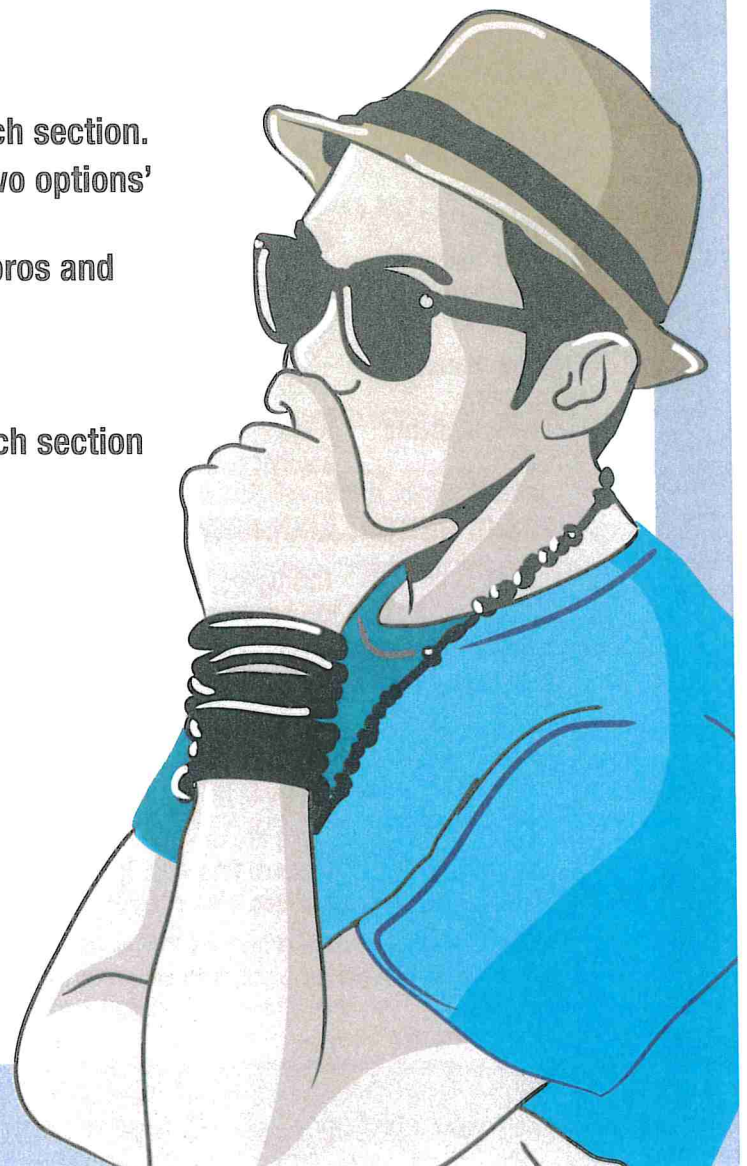
The 12 mark 'Evaluate' Question

There will be two 12 mark questions, one in each section

A quarter of the total marks

Requires a structured, extended response

Fully justified conclusion



APPENDIX 4

Key Terms – Personal Finance

Key Term

Definition

Methods of Payment

Cash	Notes and coins in a wide range of denominations
Debit Card	Issued by banks with payments for goods and services being deducted directly from a current account
Credit Card	Issued by financial institutions allowing customers to delay payments for goods and services
Cheque	A written order to a bank to make a specific payment for a specific amount of money from one person's account to another account
Electronic transfer	Payment is transferred directly from one bank account to another
Direct debit	An agreement made with a bank allowing a third party to withdraw money from an account on a set day to pay for goods or services received e.g. electricity bill
Standing order	An agreement made with a bank to transfer a fixed sum of money to a third-party account on a set date on a regular basis e.g. a fixed loan repayment
Pre-paid card	Money is uploaded onto a card with transactions then being withdrawn to reduce the balance
Contactless card	Cards with an embedded chip and antenna that enable consumers to wave their card over a reader at the point of sale for an automatic transaction
Charge card	Issued by financial institutions allowing customers to delay payments for goods and services for a short period of time with the balance being paid off in full at each statement date
Store card	Issued by a retail outlet to allow customers to delay payments for goods and services – similar to a credit card but only for the store(s) specified
Mobile banking	The ability to carry out financial transactions using mobile devices such as phones or tablets
Bankers Automated Clearing Service (BACS) Faster Payment	A system that allows the transfer of payments directly from one bank account to another in 3 working days (unless faster payment is available)
Clearing House Automated Payment Systems (CHAPS)	A system that allows the transfer of payments directly from one bank account to another usually on the same day

Types of Current Accounts

Standard	This type of account provides full day-to-day banking facilities e.g. cheque book, debit card, easy access to your money and an authorised overdraft facility
Packaged, premium	This type of account usually has an annual fee or additional charge in return for offering extra incentives. These benefits can vary but may include offers such as discounted home insurance, no fee overdraft, and premium access to popular event tickets
Basic	This account offers limited features and would be typically held by a person with no credit history in the UK or a poor credit history
Student	These are designed to assist young people and students to become prudent with their personal finances. They may come with bonus features, such as interest free overdraft facilities

Types of Borrowing

Overdraft	Allows an individual to withdraw money from a current account that they do not actually have
Personal Loan	Allows an individual to borrow a set amount of money which is to be repaid in regular instalments, with interest
Hire Purchase	Allows an individual to have use of an item immediately but pay for it in regular instalments. The property is only owned by the individual when the final instalment has been paid
Mortgage	A long-term loan to fund the purchase of assets e.g. property and will be repaid over a long period e.g. 25 years
Credit cards	Allows an individual to pay for goods or services on card with a statement issued at the end of each month. The balance can be paid in full without incurring interest or in smaller amounts with interest charge
Payday loan	A short-term source of finance that can help to bridge the gap between the present moment in time and receiving a wage

Types of Saving and Investment

Individual Savings account (ISA)	A tax-free way to save or invest
Deposit and savings accounts	An account where interest is paid on the balance
Premium bonds	A government scheme that allows individuals to save, up to a set amount, in bonds. No interest is earned but the bond is placed into a regular draw for cash prizes
Bonds and gilts	These are fixed term securities where the individual lends money to companies and governments in return for interest payments
Shares	Investments in business in return for equity. The shareholder becomes a part owner of the business
Pensions	Long term savings plans where individuals make regular contributions through their working life. This is then repaid upon retirement, either as a lump sum or regular payments

Types of Insurance

Car	To cover both theft and accidents – there is a legal requirement to insure any car that is on the road and this protects the driver, passengers and other road users.
Home and contents	Home – covers the physical building against events like a fire or flood damage. Contents – covers the physical items inside the house and when they are used away from home.
Life assurance and insurance	Life assurance – an ongoing policy to pay a lump sum upon death. Life insurance – a policy for a set period of time (e.g. mortgage term) to pay a lump sum if you die within that period.
Travel	Protects individuals or groups while abroad. Cover usually includes illness, loss or theft of property, cancellation and emergencies up to predetermined limits
Pet	Protects the owners of pets against some or all of the expenses associated with treating an injured or sick animal e.g. vet fees
Health	Covers individuals, families or employees against medical expenses including assessments, treatments and loss of earnings. In the UK, this can pay for private treatment or payment plans for routine visits e.g. to the dentist

Types of Financial Institution

Bank of England	The UK's central bank with responsibility for maintaining a healthy level of financial stability for the UK as a whole
Banks	An organisation that handles financial transactions and stores money on behalf of its customers
Building societies	Organisations that handle financial transactions and store money on behalf of its members. Members (account holders) are part owners of the building society and have a right to vote and receive information on the running of the society

Credit unions	Not-for-profit organisations that handle financial transactions and store money on behalf of their members
National Savings and Investment	A government backed organisation that offers a secure savings option
Insurance companies	Businesses that protect against the risk of loss in return for a premium. They are profit making organisations
Pension companies	Businesses that sell policies to individuals, wither privately or through employers, to allow them to save now to fund retirement in the future
Pawnbrokers	Businesses or individuals who loan money against the security of a personal asset e.g. an item of jewellery
Payday Loans	Organisations that offer a short-term source of finance to bridge a gap between now and next receiving a wage

Methods of Communication with Customers

Branch	A physical place where the customer will visit to carry out transactions
Online banking	The use of the internet to carry out banking transactions
Telephone banking	The use of a telephone to carry out banking transactions which may use either an automated service or require a customer advisor
Mobile banking	The use of mobile devices e.g. mobile phones and tablets, to conduct financial transactions

Providers of Financial Information and Guidance

Citizens Advice	An organisation, run by charities, that offers advice on a wide range of issues both financial and non-financial
Independent financial advisor (IFA)	Professionals who offer independent advice to their clients on financial matters e.g. savings, mortgages and investments
Price comparison sites	Websites that collate prices for similar goods and services within an industry allowing consumers to select the best deals
Money advice service	A government organisation set up to offer free and impartial financial advice in the UK
Debt counsellors	A professional who offers independent advice on how best to manage debt
Individual Voluntary Arrangements (IVAs) bankruptcy	A government organisation that allows an individual to declare themselves bankrupt while agreeing to pay all or part of the money they owe to creditors

APPENDIX 5

Key Terms – Business Finance

Key Term	Definition
The Purpose of Accounting	
Accounting	Accounting involves the recording of financial transactions, planned or actual, and the use of these figures to produce financial information.
Income	Income is the money coming into a business
Capital income	Capital income is the money invested by the owners or other investors, used to set up the business or buy additional equipment e.g. loan, mortgage, shares, owner's capital, debentures (medium to long-term sources of capital income)
Revenue income	Revenue income is the money that comes into the business from performing its day-to-day function - selling goods or providing a service e.g. sales (cash or credit), rent received, commission received, interest received, discount received
Expenditure	Expenditure is the money spent by a business

Capital Expenditure	Capital expenditure is used to buy capital items, which are assets that will stay in the business for a long period of time.
Non-current assets	Tangible items that will appear on the statement of financial position and include things like land, premises, equipment and vehicles.
Intangible assets	Cannot be touched but add value to the business e.g. goodwill, patents, trademarks and brand names
Revenue expenditure	Spending on items on a day-to-day or regular basis. These expenses are shown on the statement of comprehensive income e.g. inventory, rent, rates, heating & lighting, water, insurance, salaries, wages, bank charges, interest paid, depreciation allowance, discount allowed

Sources of Business Finance

Retained profit	<i>Profit = Sales Revenue – Total Cost</i> Money kept in the business to fund future expenditure
Net current assets	<i>Current Assets – Current Liabilities</i> Shows the money available in the business to fund day-to-day expenditure
Sale of assets	Selling an item of value in order to achieve a cash injection
Owner's capital	Money invested in the business from the owner's personal savings
Loans	Money borrowed from a financial institution normally for a set period of time and for a specific purpose
Crowd-funding	Attracting investment from a large number of speculative investors many of whom may invest relatively small amounts
Mortgages	Long-term loans, normally around 25 years, that are secured against a specific asset e.g. a building
Venture capital	Investment from an experienced entrepreneur in return for a stake in the business
Debt factoring	Selling the debts of a business to a third party in order to receive a quick cash injection
Hire purchase	Paying to use an asset in instalments to spread the cost over its useful life
Leasing	Paying to use an asset in instalments however the ownership of the asset remains with the supplier throughout the lease agreement
Trade credit	A period of time, offered by suppliers, to allow the customer to purchase now and pay later.
Grants	A lump sum provided to a business by the government or another organisation to be used for a specific purpose
Donations	Sums of money given voluntarily to a charity or social enterprise
Peer to peer lending	Involves one business lending money to another business person in return for interest payments
Invoice discounting	Reductions offered to customers making a product or service cheaper. Usually applied as a percentage of the total value

Break-Even and Cash Flow Forecasts

Break-even analysis	Break-even is the point at which a business is not making a profit or a loss. The money received from sales is the same as the money being spent on costs. $\text{Total Revenue} = \text{Total Costs}$
Variable costs	are costs that change with the level of output e.g. raw materials
Semi-variable costs	Part of the cost stays the same and part varies in relation to the degree of business activity e.g. a worker paid a fixed rate of pay but in addition may receive variable amounts of overtime
Fixed costs	are costs that do not vary with output. They remain the same e.g. rent
Total costs	$= \text{Fixed Costs} + \text{Total Variable Costs}$
Total revenue	The total amount of money coming in from sales. $\text{Total Revenue} = \text{Selling price} \times \text{quantity sold}$
Total Sales	The amount of sales made in a set time period e.g. one year. It can be expressed as value (monetary) or volume (quantity)
Selling price per unit	The amount a customer will pay for each unit purchased
Sales in value	Sales expressed as a monetary value e.g. £
Sales in volume (units)	Sales expressed as a quantity e.g. units

Cash flow forecast	A cash flow forecast tries to predict the cash flowing into and out of a business. A healthy cash flow is crucial to the survival of a business
Cash inflows/receipts	Money coming into the business from various sources e.g. cash sales, credit sales, loans, capital introduced, sale of assets and bank interest received
Cash outflow/payments	Money going out of a business for various purposes e.g. cash purchases, credit purchases, rent, rates, salaries, wages, utilities, purchase of assets, VAT and bank interest paid
Opening balance	The amount of cash available in a business at the end of the start of the month
Closing balance	The amount of cash available in a business at the end of the month. To calculate: Opening balance + net cash flow
Liquidity	Measures a firm's ability to meet short-term cash payments

Statements of Comprehensive Income and Financial Position

Statement of comprehensive income	SOCI shows the trading position of the business which is used to calculate gross profit. It then takes into account all of the expenses to calculate the profit or loss for the year.
Accrual	is when an expense is paid after the period to which it relates.
Prepayment	is when an expense is made in advance of the period to which it relates.
Statement of financial position	SOPF provides a snapshot of the net worth of a business at a particular moment in time, normally at the end of the financial year. It is a summary of everything a business owns (assets) and everything it owes (liabilities).
Non-current assets	Non-current assets are items of value that are owned by the business and likely to be held for more than one year e.g. premises and fixtures & fittings.
Current assets	Current assets are items of value that are owned by the business whose value is likely to fluctuate on a regular basis e.g. inventories, trade receivables, prepayments, cash in the bank and cash in hand.
Current liabilities	Current liabilities are things owed by the business that must be repaid within a 12-month period e.g. overdrafts, accruals and trade payables.
Non-current liabilities	Non-current liabilities are things a business owes that will take longer than one year to repay e.g. mortgages and bank loans.
Depreciation	Depreciation is an accounting concept used to spread the cost of an asset over its useful life. Assets appear on the statement of financial position at a realistic value (net book value) and the annual monthly amount by which the assets are depreciated is included as an expense on the statement of comprehensive income.
Straight-line depreciation	Asset is depreciated by a set amount each year
Reducing balance depreciation	Asset is depreciated by a set % of its remaining value each year. The percentage will be set by a senior account and means that the asset will be depreciated by a lower amount as it ages

Ratio Analysis

Gross Profit Margin	This ratio looks at gross profit as a percentage of sales turnover.
Mark-up	This ratio calculates gross profit as a percentage of the cost of sales.
Net Profit Margin	This ratio shows the net profit as a percentage of sales.
Return on Capital Employed (ROCE)	This ratio shows the percentage return a business is achieving from the capital invested to generate the return.
Current Ratio	This ratio shows a business the amount of current assets it owns in relation the amount of current liabilities it owes.
Liquid Capital Ratio	This ratio gives a more accurate reflection of the true liquidity of a business as it removes the least liquid of all current assets from the equation i.e. inventories.
Trade Receivable Days	This ratio measures, on average, how long it takes for debtors to pay and is expressed as a number of days.
Trade Payable Days	This ratio shows, on average, how long it takes a firm to pay for goods and services bought on credit and is expressed as a number of days.
Inventory Turnover	This ratio shows the average amount of time an item of stock is held by a business and is expressed as a number of days.

APPENDIX 6

Formula Sheet

Specification Reference	Formula	Equation
E1 - Cash Flow Forecasts	Net Cash Flow	Total Cash Inflow – Total Cash Outflow
	Closing balance	Opening balance + Net Cash Flow
E2 -Break-Even Analysis	Total Revenue	Selling Price x Quantity Sold
	Total Costs	Fixed costs + Total Variable costs
	Profit	Total revenue – Total costs
	Total contribution	Sales Revenue - Total Variable Costs
	Contribution (per unit)	Selling Price – Variable Cost (per unit)
	Profit (using contribution)	Contribution per unit x margin of safety
	Break-even output	Total Fixed Costs / Unit Contribution
Margin of Safety	Actual Sales – Break-even level of output	
F1 - Statement of Comprehensive Income	Revenue	Unit price x Quantity sold
	Gross Profit	Sales Revenue – Cost of Goods Sold
	Cost of Goods Sold	Opening Inventory + Purchases – Closing Inventory
	Profit/Loss for the year	Gross Profit – expenses + other income
	Net Book Value	Cost - Depreciation
F2 - Statement of Financial Position	Net Current Assets	Current Assets - Current Liabilities
	Net Assets	Non-current assets + Net current assets - Long term liabilities
	Capital Employed	Opening Capital + Profit for the Year less drawings
	Balance Sheet (what needs to balance?)	Net Assets = Capital Employed
F3 - Measuring Profitability	Gross Profit Margin	Gross Profit/Revenue x 100
	Mark-Up	Gross Profit/Cost of Sales x 100
	Profit Margin	Profit/Revenue x 100
	Return on Capital Employed	Profit/Capital Employed x 100
F4 - Measuring liquidity	Current Ratio	Current Assets/Current Liabilities
	Liquid Capital Ratio	Current Assets - Inventory/Current Liabilities
	Trade Receivable Days	Trade Receivables/Credit Sales x365
	Trade Payable Days	Trade Payables/Credit Purchases x 365
F5 - Measuring Efficiency	Inventory Turnover	Average Inventory/Cost of Sales x 365

APPENDIX 7

Revision Checklist – Personal Finance

Topic	Notes/ covered	Happy/ done
A1 Functions and role of money		
Functions of money:		
Unit of account		
Means of exchange		
Store of value		
Legal tender		
Role of money is affected and influence by a number of factors:		
Personal attitudes towards risk, reward, borrowing, spending & saving		
Life stages (childhood, adolescence, young adult, middle age, old age), key features of each stage, financial needs and implications at each stage		
Culture, including religious and ethical beliefs		
Life events can vary the personal life cycle from individual to individual		
External influences/trends and the financial-related effects		
Interest rate, cost of borrowing versus reward of saving		
Planning expenditure, common principles to be considered in planning personal finances:		
To avoid getting into debt		
To control costs		
Avoid legal action and/or repossession		
Remain solvent		
Maintain a good credit rating		
Avoid bankruptcy		
To manage money to fund purchases		
Generate income and savings		
Set financial targets and goals		
Provide insurance against loss or illness		
Counter the effects of inflation		
A2 Different ways to pay		
The use of money as a payment method, advantages and disadvantages of:		
Cash		
Debit card		
Credit card		
Cheque		
Electronic transfer		
Direct debit		
Standing order		
Pre-paid cards		
Contactless cards		
Charge cards		
Store cards		
Mobile banking		

Topic	Notes/ covered	Happy/ done
Banker's Automated Clearing Services (BACS) Faster Payment Service (FPS)		
Clearing House Automated Payment System (CHAPS)		
A3 Current Accounts		
Different types, features, advantages and disadvantages, different services offered:		
Standard		
Packaged, premium		
Basic		
Student		
A4 Managing Personal Finance		
Suitability of different financial products and services against individual needs.		
Different types, features, advantages and disadvantages, different services offered:		
Overdraft		
Personal loans		
Hire purchase		
Mortgages		
Credit cards		
Payday loans		
Different types of saving and investment features, advantages and disadvantages:		
Individual savings accounts (ISAs)		
Deposit and savings accounts		
Premium bonds		
Bonds and gilts		
Shares		
Pensions		
Risks and rewards of savings versus investment		
Different types of insurance products, features, advantages and disadvantages:		
Car		
Home and contents		
Life assurance and insurance		
Travel		
Pet		
Health		
B Explore the personal finance sector		
B1 Features of financial institutions		
Types of organisations and their advantages and disadvantages:		
Bank of England		
Banks		
Building societies		
Credit unions		
National savings and investments		
Insurance companies		
Pension companies		
Pawnbrokers		
Payday loans		

Topic	Notes/ covered	Happy/ done
B2 Communicating with customers		
Methods of interacting with customers, advantages and disadvantages:		
Branch		
Online banking		
Telephone banking		
Mobile banking		
Postal banking		
B3 Consumer protection in relation to personal finance		
Function, role and responsibilities of:		
Financial Conduct Authority (FCA)		
Financial Ombudsmen Service (FOS)		
Financial Services Compensation Scheme (FSCS)		
Office of Fair Trading (OFT)		
Legislation – consumer credit		
B4 Information guidance and advice		
Function, role and responsibilities, advantages and disadvantages of:		
Citizens Advice		
Independent financial advisor (IFA)		
Price comparison websites		
Money advice service		
Debt counsellors		
Individual Voluntary Arrangements (IVAs)		
Bankruptcy		

APPENDIX 8

Revision Checklist – Business Finance

C Understanding the purpose of accounting		
C1 Purpose of accounting		
Recording transactions		
Management of business (planning, monitoring and controlling)		
Compliance (preventing fraud, compliance with law and regulations)		
Measuring performance		
Control - assisting with the prevention of fraud, trade receivables and trade payables		
C2 Types of income		
Capital income:		
Loan		
Mortgages		
Shares		
Owner's capital		
Debentures		

Topic	Notes/ covered	Happy/ done
Revenue income:		
Cash sales		
Credit sales		
Rent received		
Commission received		
Interest received		
Discount received		
C3 Types of expenditure		
Capital expenditure:		
Non-current assets – tangible (land, buildings and premises, machinery and equipment, vehicles, fixtures and fittings)		
Intangible (goodwill, patents, trademarks, brand names)		
Revenue expenditure:		
Inventory		
Rent		
Rates		
Heating and lighting		
Water		
Insurance		
Administration		
Telephone		
Postage		
Stationery		
Salaries		
Wages		
Marketing		
Bank charges		
Interest paid		
Straight-line depreciation		
Reducing balance depreciation		
Discount allowed		
D Select and evaluate different sources of finance		
D1 Sources of finance		
Advantages, disadvantages, short term and long term:		
Internal		
Retained profit		
Net current assets		
Sale of assets		
External		
Owner's capital		
Loans		
Crowd-funding		
Mortgages		
Venture capital		

Topic	Notes/ covered	Happy/ done
Debt factoring		
Hire purchase		
Leasing		
Trade credit		
Grants		
Donations		
Peer to peer lending		
Invoice discounting		
E Break-even and cash flow forecasts		
E1 Cash flow forecasts		
Inflows/receipts		
Cash sales		
Credit sales		
Loans		
Capital introduced		
Sale of assets		
Bank interest received		
Outflows/payments		
Cash purchases		
Credit purchases		
Rent		
Rates		
Salaries		
Wages		
Utilities		
Purchase of assets		
Value Added Tax (VAT)		
Bank interest paid		
Prepare, complete, analyse, revise and evaluate cash flow		
Use of cash flow forecasts for planning, monitoring, control, target setting		
Benefits and limitations of cash flow forecasts		
E2 Break-even analysis		
Costs		
Variable		
Semi-variable		
Fixed		
Total		
Sales		
Total revenue		
Total sales		
Selling price per unit		
Sales in value and/or units		
Calculating using/manipulating break-even formula (units and/or sales value), completion of break-even chart, break-even point		
Identification of area of profit, area of loss		
Identify and calculate margin of safety (units and value)		
Calculation of total contribution, contribution per unit benefits and limitations		

Topic	Notes/ covered	Happy/ done
Use of break-even for planning, monitoring, control, target setting		
Prepare, complete, analyse, revise and evaluate break-even		
F Complete statements of comprehensive income and financial position and evaluate business performance (Sole Traders)		
F1 Statement of Comprehensive Income		
Purpose and use		
Completion, calculation and amendment to include gross profit (revenue, opening inventories, purchases, closing inventories, cost of goods sold), calculation of profit/loss for the year (expenses, other income)		
Adjustments for depreciation (straight-line and reducing balance method)		
Adjustments for prepayments, accruals		
Interpretation, analysis and evaluation of statements		
F2 Statement of financial position		
Purpose and use		
Completion, calculation and amendment of statement using vertical presentation to include:		
Non-current assets (tangible and intangible, cost, depreciation and amortisation, net book value)		
Current assets (inventories, trade receivables, prepayments, bank, cash)		
Current liabilities (bank overdraft, accruals, trade payables)		
Net current assets/liabilities		
Non-current liabilities (bank loan and mortgage)		
Net assets		
Capital (opening capital, transfer of profit or loss, drawings, closing capital)		
Adjustments for straight line (cost x%), depreciation, reducing balance (cost – depreciation to date x%)		
Adjustments for prepayments and accruals		
Interpretation, analysis and evaluation of statements		
F3 Measuring profitability		
Calculation, interpretation and analysis of:		
Gross profit margin: $(\text{gross profit}/\text{revenue}) \times 100$		
Mark-up: $(\text{gross profit}/\text{cost of sales}) \times 100$		
Profit margin: $(\text{profit}/\text{revenue}) \times 100$		
Return on capital employed (ROCE): $(\text{profit}/\text{capital employed}) \times 100$		
F4 Measuring liquidity		
Calculation, interpretation and analysis of:		
Current ratio: current assets/current liabilities		
Liquid capital ratio: $(\text{current assets} - \text{inventory})/\text{current liabilities}$		
F5 Measuring efficiency		
Calculation, interpretation and analysis of:		
Trade receivable days: $(\text{trade receivable}/\text{credit sales}) \times 365$		
Trade payable days: $(\text{trade payables}/\text{credit purchases}) \times 365$		
Inventory turnover: $(\text{average inventory}/\text{cost of sales}) \times 365$		
F6 Limitations of ratios		
Limitations of ratios when assessing business performance		