

2. Study the information below and then answer the questions that follow.

Expansion for CareBeds Ltd?

Following a recent trip to research the hospital beds' market in the USA, Gareth Palmer, CareBeds Sales Director, had reported his findings to the rest of the Board of Directors. He believed they should try and compete for a share of the huge American market. To do so, he felt that the company needed to expand by investing in a factory extension as well as new machinery. Gareth had done some preliminary costing and anticipated a cost of around £8 million to £10 million.

Lucy Cartwright, the Financial Director, felt it necessary to point out that both the US and UK economies were facing difficulties and that interest rates were fairly high at present. In addition, she pointed out that the business was experiencing some bad debts at present and the **working capital** situation was a matter of some concern. She felt the proposals needed very careful consideration and asked for another meeting in two weeks' time. By then, every member of the Board could have given some consideration as to how such a significant investment might be financed.

Summary of the Balance Sheet of CareBeds Ltd – 01 May 2008

	£000s	£000s
Fixed Assets:		
Factory	16 000	
Machinery	10 000	
Equipment	4 000	
	<u> </u>	30 000
Current assets:		
Stocks	3 000	
Debtors	7 000	
Cash at bank	1 000	
	<u>11 000</u>	
Current liabilities:		
Trade creditors	4 000	
Other liabilities	6 000	
	<u>10 000</u>	
Net current assets (working capital)		<u> ?</u>
Total assets less current liabilities		<u> ?</u>
Long term liabilities		
Mortgage	2 000	
Bank loan	2 000	
	<u> </u>	
Net assets		<u> ?</u>
Capital and reserves:		
Share capital	16 000	
Retained profit	11 000	
	<u> </u>	<u> ?</u>

- (a) (i) What is meant by the term ‘liabilities’ when used on a balance sheet? [1]
- (ii) Suggest **one** example of a current liability, **other than** trade creditors, that a business like CareBeds might have. [1]
- (iii) Explain why the ‘debtors’ is shown as an asset on the balance sheet of CareBeds Ltd. [2]
- (b) Using the information provided in the balance sheet of CareBeds Ltd., calculate:
- (i) net current assets (working capital); [1]
- (ii) total assets less current liabilities; [1]
- (iii) net assets; [1]
- (iv) capital and reserves. [1]
- (c) Explain why *net current assets (working capital)* is such an important figure on a company’s balance sheet. [4]
- (d) Evaluate the various sources of finance that CareBeds Ltd. might use in order to pay for the proposed investment in the factory extension and in the new machinery. [8]