2. Woolman Windows (WW)

Woolman Windows (*WW*) manufactures windows for houses. The windows are sold to suppliers of building materials in Canada. *WW's* windows have two pieces of glass sealed in a wooden frame with a special glue that prevents any air from passing through. The windows are energy-efficient. In addition, moisture never appears between the two pieces of glass, a problem common to many other energy-efficient windows. The *WW* brand is widely recognized in the residential construction industry in Canada.

Because of the housing crisis in North America, *WW* has seen its sales fall and its financial position deteriorate.

Table 1: selected items from *WW's* balance sheet as at 31 May 2009 (all figures in $ thousands).

Cash	150
Creditors	515
Debtors	850
Loan capital	X
Short-term borrowing	285
Retained profit	1300
Share capital	300
Stock	400
Total (net fixed assets)	1800

Table 2: selected items from *WW's* profit and loss account for the year ended 31 May 2009 (all figures in $ thousands).

Cost of goods sold	4700
Expenses	2150
Gross profit	2195
Sales revenue	6895

WW manufactures only standard-sized windows using flow production. *WW* offers trade credit* with payment in 30 days. However, *WW* is considering taking "special orders", that is, to manufacture windows that are not standard-sized. Doing so might be profitable if the number of windows per special order were a minimum of 100 windows (break-even point). *WW* would manufacture special orders using batch production. For special orders, the buyer would pay 50% upon placing the order and the remainder upon delivery. The disadvantage is that an additional employee would have to be employed to plan the production process for each special order. *WW* is uncertain if special-order sales will be sufficient to cover the cost of the recruitment and training of the new employee.

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* trade credit: credit extended to a business from its suppliers. Trade credit is usually listed on the balance sheet of a business as "creditors" or, in some countries, "accounts payable".

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(Question 2 continued)

(a) Define the following terms:

(i) *share capital* *[2 marks]*

(ii) *batch production*. *[2 marks]*

(b) (i) Using the information in **Table 1**, construct a balance sheet for *WW* as at 31 May 2009 and calculate the loan capital (figure X). *[5 marks]*

(ii) Using relevant information from **Table 1**, calculate the acid test (quick) ratio *(show all your working)*. *[2 marks]*

(iii) Using relevant information from **Table 1**, calculate the gearing ratio. *[1 mark]*

(iv) Using the information in **Table 2**, calculate the net profit before interest and tax *(show all your working)*. *[2 marks]*

(v) Using relevant information from **Table 2**, calculate the gross profit margin. *[1 mark]*

(c) Using financial and non-financial information, examine *WW's* decision to start producing special-order windows. *[5 marks]*