

Crago Co is concerned that it may be overtrading.

Financial information relating to the company is as follows.

	20X5		20X4	
	\$000	\$000	\$000	\$000
Credit sales income		17,100		12,000
Cost of sales		8,550		7,500
Current assets				
Inventory	2,500		2,100	
Trade receivables	2,000		1,000	
Current liabilities		4,500		3,100
Trade payables	1,900		1,250	
Overdraft	2,400		850	
		4,300		2,100
Net working capital				
		200		1,000
Long-term debt		3,000		3,000

Companies which are similar to Crago Co have the following average values for 20X5:

Inventory days	65 days
Trade receivables days	30 days
Trade payables days	50 days
Current ratio	1·7 times
Quick ratio	0·8 times
	2,500

Assume there are 360 days in each year.

**Required:**

**Evaluate whether Crago can be considered to be overtrading and discuss how overtrading can be overcome.**

Note: Up to 4 marks are available for calculations. (10 marks)