

A9 Financial analysis

Chapter 21 Financial analysis

$$\text{mark-up} = \frac{\text{gross profit}}{\text{cost of goods sold}} \times 100\%$$

$$\text{gross profit ratio/margin} = \frac{\text{gross profit}}{\text{net sales}} \times 100\%$$

$$\text{net profit ratio/margin} = \frac{\text{net profit before tax}}{\text{net sales}} \times 100\%$$

$$\text{return on capital employed} = \frac{\text{profit before interest and tax}}{\text{average capital employed}} \times 100\%$$

Capital employed =

1. Sole proprietorships: capital balance
2. Partnerships: capital account balances + current account balances (if any)
3. Limited companies: non-current liabilities + shareholders' fund

$$\text{working capital / current ratio} = \frac{\text{current assets}}{\text{current liabilities}} : 1$$

$$\text{quick / liquid ratio / acid test} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}} : 1$$

$$\text{inventory turnover (times)} = \frac{\text{cost of goods sold}}{\text{average inventory}}$$

$$\text{average trade receivables collection period} = \frac{\text{average trade receivables}}{\text{net credit sales}} \times 365 \text{ days / 12 months}$$

$$\text{average trade payables repayment period} = \frac{\text{average trade payables}}{\text{net credit purchases}} \times 365 \text{ days / 12 months}$$

$$\text{trade receivables turnover (times)} = \frac{\text{net credit sales}}{\text{average trade receivables}}$$

$$\text{trade payables turnover (times)} = \frac{\text{net credit purchases}}{\text{average trade payables}}$$

$$\text{earnings per share} = \frac{\text{net profit after tax} - \text{preference dividend}}{\text{number of ordinary shares issued}}$$

$$\text{total assets turnover (times)} = \frac{\text{net sales}}{\text{total assets}}$$

$$\text{gearing ratio} = \frac{\text{non-current liabilities} + \text{preference share capital}}{\text{non-current liabilities} + \text{shareholders' fund}} \times 100\%$$

$$\text{dividend cover for ordinary shares (times)} = \frac{\text{net profit after tax} - \text{preference dividend}}{\text{ordinary dividend paid}}$$

$$\text{price-earnings ratio} = \frac{\text{current price per ordinary share}}{\text{earnings per share}}$$

Shareholders' fund = Ordinary and preference share capital + Reserves + Retained profits

Retained profits = Retained profits b/f + Profit after tax – Transfer to reserve – Ordinary and preference share dividend

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Name : _____ Class: ____

例子: Fancy Limited's financial information for 2018 and 2017 is as follows:

	2018
	\$
Sales (cash sales \$11,600)	298,200
Credit purchases	277,800
Operating expenses	43,600
Ordinary share dividend	13,500
Current price per ordinary share	10

Balances as at 31 December	2018	2017
	\$	\$
Non-current assets, net	144,800	145,300
Inventory	153,500	86,400
Trade receivables	95,300	58,200
Current liabilities (Trade receivables)	125,900	70,400
35,000 Ordinary share capital	70,000	70,000
Retained profits	124,800	80,900
5% long-term bank loan	95,000	95,000
Cash at bank	22,100	26,400

REQUIRED: Calculate (to two decimal places) the following ratios for 2018:

- | | | | |
|---|--|------------------------|--------------------------------|
| (a) mark-up | (b) gross profit ratio | (c) net profit ratio | (d) return on capital employed |
| (e) current ratio | (f) quick ratio | (g) inventory turnover | |
| (h) average trade receivables collection period | (i) average trade payables collection period | | |
| (j) trade receivables turnover | (k) trade payables turnover | (l) earnings per share | |
| (m) total assets turnover | (n) gearing ratio | (o) dividend cover | (p) price-earnings ratio |

- (a) _____
- _____
- _____
- (b) _____
- (c) _____
- _____
- (d) _____
- _____
- (e) _____
- _____
- (f) _____
- (g) _____
- (h) _____
- _____
- (i) _____
- (j) _____
- (k) _____
- (l) _____
- (m) _____
- (n) _____
- (o) _____
- (p) _____