Activity 1: Accounting ratio formula

Categories	Ratios
Profitability Ratios: measure the ability to make ________	____________ ____________ ____________ ____________
________________________: measure the ability to repay debts	____________________ ____________________
Management Efficiency Ratios: measure the ability to control _________ and debtors etc.	____________ ____________ ____________ ____________ ____________ ____________

Activity 2: Finding ratios from financial statements
Fact Sheet 2A

Funny Company Limited
Trading and Profit and Loss Account for the year ended 31 December 20XX

		$	$
Sales			707,000
Less:	Returns Inwards		7,000
Net sales			700,000
Less:	**Cost of Goods Sold**		
Opening Inventory		30,500	
	Add: Purchases	360,000	
		390,500	
	Less: Closing Inventory	(10,000)	(380,500)
Gross Profit			319,500
Add:	Revenues		
	Discounts received		30,000
			349,500
Less:	**Expenses**		
	Provision for depreciation of machineries	20,000	
	Bad debts	5,000	
	Discounts allowed	10,000	
	Debenture interest	10,000	
	Salaries	120,000	(165,000)
Net Profit			184,500
Add:	Retained profit brought forwards		50,000
			234,500
Less:	**Appropriations**		
	Transfer to general reserve	19,500	
	Preference share dividend	5,000	
	Ordinary share dividend	10,000	(34,500)
Retained profit carried forwards			200,000

Activity 2: Finding ratios from financial statements
Fact Sheet 2B

Funny Company Limited

Balance Sheet as at 31 December 20XX

	Cost	Provision for depreciation	Net Book Value
Fixed Assets	$	$	$
Machineries	1,800,000	(700,000)	1,100,000
Current Assets			
Inventory		10,000	
Debtors		150,000	
Cash		30,000	
		190,000	
Less: Current Liabilities			
Trade creditors	180,000		
Accrued interest	5,000	(185,000)	
Net current assets			5,000
			1,105,000
Financed by:			
Capital	Authorized	Issued	
Ordinary shares	500,000	80,000	
Preference shares	200,000	50,000	130,000
	700,000		
Reserves			
Share premium		50,000	
General reserve		45,000	
Retained profit		200,000	
Dividend		15,000	310,000
Shareholders' Equity			440,000
Long Term Liabilities			
Debenture			665,000
			1,105,000

Activity 2: Finding ratios from financial statements
Fact Sheet 2C

Tricky Company Limited
Trading and Profit and Loss Account for the year ended 31 December 20XX

		$	$	$
Sales				12,000
Less:	Returns Inwards			1,000
Net sales				11,000
Less:	***Cost of Goods Sold***			
Opening Stock			1,500	
	Add: Purchases		3,000	
			4,500	
	Less: Closing stock		(1,000)	3,500
Gross Profit				7,500
Add:	Revenues			
	Discounts received			100
				7,600
Less:	**Expenses**			
	Provision for depreciation of equipment		200	
	Bad debts		100	
	Discounts allowed		200	
	Salaries		1,500	(2,000)
Net Profit				5,600
Add:	Retained profit brought forwards			50,000
				55,600
Less:	**Appropriations**			
	Preference share dividend		1,000	
	Ordinary share dividend			
	Interim	1,500		
	Final	1,500	3,000	4,000
Retained profit carried forwards				51,600

Activity 2: Finding ratios from financial statements
Fact Sheet 2D

Tricky Company Limited
Balance Sheet as at 31 December 20XX

	Cost	Provision for depreciation	Net Book Value
Fixed Assets	$	$	$
Equipment	800,000	(500,000)	300,000
Current Assets			
Stock		1,000	
Net debtors		5,000	
Cash		3,000	
		9,000	
Less: Current Liabilities			
Trade creditors		(2,000)	
Net current assets			7,000
			307,000
Financed by:			
Capital	Authorised	Issued	
Ordinary shares	150,000	50,000	
Preference shares	50,000	10,000	60,000
	200,000		
Reserves			
Share premium		10,000	
Retained profit		234,500	
Dividend		2,500	246,500
Balance as at 31 December 20XX			307,000

Activity 2: Finding ratios from financial statements

Calculate the accounting ratios of the two companies with your group members and complete the following table.

	Formula	Funny Company Limited	Tricky Company Limited
Gross Profit Ratio			
Net profit Ratio			
Return on Capital Employed			
Return on Total Assets			
Current Ratio			
Quick Ratio			
Stock Turnover Ratio			
Stock Turnover Period			
Debtors Turnover Ratio			
Debtors Collection Period			
Creditors Turnover Ratio			
Creditors Repayment Period			

Remarks: After all students finished their worksheets, each team should exchange its worksheet with another team for correction. Verify the answers with the teacher. Each correct answer generate one score.

Activity 3: Which company performed better?

Which company performed better, 1 or 2?

Complete the following table with your group members and decide which company performed better.

Ratios	Ratio Values		Which is better, 1 or 2?	Reasons
	Company 1	Company 2		
Gross Profit Ratio	0.31	0.25		
Net profit Ratio	0.12	0.15		
Return on Capital Employed	0.21	0.24		
Return on Total Assets	0.11	0.19		
Current Ratio	2.54 : 1	1.47 : 1		
Quick Ratio	1.12 : 1	1.30 : 1		
Inventory Turnover Ratio	4.5 times	3.8 times		
Inventory Turnover Period	81.11 days	96.05 days		
Debtors Turnover Ratio	4.66 times	3.98 times		
Debtors Collection Period	78.33 days	91.71 days		
Creditors Turnover Ratio	3.78 times	2.56 times		
Creditors Repayment Period	96.56 days	142.58 days		

Activity 4: Which company are they talking about?
Fact Sheet 4A

Based on the following dialogue between two suppliers Joseph and Yuri of companies A, B and C, determine which company X, Y and Z statements belong to.

Yuri: Hey! How are you Joseph?

Joseph: Oh! Yuri! I could not be better; how about you?

Yuri: Not bad except for some issues with our customer Company A.

Joseph: What's the issue?

Yuri: Company A did not pay their bills on time. As you know, in our industry, the credit period is usually 30 days. However, Company A did not pay even in 40 days!

Joseph: Yea! I think we are experiencing the same situation! Our clients also delayed payment creating pressure on our cash flow. Are you worrying about Company A's ability to pay their bills? They have a double digit Gross Profit Ratio, although only a single digit profit ratio if expenses are subtracted from the gross profit.

Yuri: Hmm… I think a better way to estimate their ability to pay is to determine the extent their current assets cover current liabilities. I know that Company A's Current Ratio is far exceeding the safety range of 2:1. Even though we exclude the inventory from the calculation, the ratio is still good.

Joseph: It's true. We need not worry about that at least in the short run. But, in the long run, I am concerned about the company's management efficiency. It can only make $3 net profits for every $100 of capital used. The other companies, B and C, both have double digit returns.

Yuri: Well, if the management doesn't change their direction, Company A will probably be excluded from the market. For example, they should review their inventory control. Company A's inventory, like that of Company B, was in the warehouse for more than 4 months on average.

Joseph: Yea, short holding period is so important for their products that go obsolete quickly…

Activity 4: Which company are they talking about?
Fact Sheet 4B

Statement X

Trading and Profit and Loss Account for the year ended 31 December 20XX

	$	$	$
Sales			707,000
Less: Returns Inwards			(7,000)
			700,000
Less: Cost of Goods Sold			
Opening Inventory		30,500	
Purchases	360,000		
Less: Returns Outwards	(10,000)		
		350,000	
Add: Carriage Inwards		4,000	
		384,500	
Less: Closing Inventory		(36,500)	(348,000)
Gross Profit			**352,000**
Other Income			
Discounts received		30,000	
Rent received		20,300	
Reduction in provision in doubtful debts		200	50,500
			402,500
Less: Expenses			
Wages and Salaries		74,000	
Insurance		4,000	
Rent and rates		140,000	
Loan interest		3,000	
Carriage outwards		5,000	
Discounts allowed		17,000	
Advertising expenses		40,000	
Bad Debts		2,000	
Provision for depreciation – Equipment		36,000	
Provision for depreciation – Motor vehicles		16,500	(337,500)
Net profit for the year			**65,000**

Activity 4: Which company are they talking about?
Fact Sheet 4C

Statement X

Balance Sheet as at 31 December 20XX

	$	$	$
Fixed Assets	Cost	Accumulated Depreciation	Net Book Value
Equipment	180,000	70,160	109,840
Motor vehicles	70,000	31,500	38,500
	250,000	(101,660)	148,340
Current Assets			
Inventory		36,500	
Trade debtors	150,000		
Less: Provision for doubtful debts	(4,500)	145,500	
Prepayments		1,000	
Cash		3,000	
		186,000	
Current Liabilities			
Trade creditors	120,000		
Accrued expenses	2,000		
Bank overdraft	10,500	(132,500)	
Net Current Assets			53,500
			201,840
Loan-term Liabilities			
Bank loan			60,000
			141,840
Financed by:			
Capital			
Balance as at 1 January 20XX			109,840
Add: Net profit for the year			65,000
			174,840
Less: Drawings			(33,000)
Balance as at 31 December 20XX			141,840

Activity 4: Which company are they talking about?

Fact Sheet 4D

Statement Y

Trading and Profit and Loss Account for the year ended 31 December 20XX

	$	$
Sales		795,000
Less: Cost of sales		
Opening Stock	200,000	
Purchases (credit purchases $602,500)	652,500	
	852,500	
Less: Closing stock	(230,000)	
		622,500
Gross Profit		**172,500**
Less: Expenses		
Debenture interest	18,000	
Depreciation	37,500	
Other expenses	87,000	
		142,500
Net profit		30,000
Dividend proposed		19,500
Retained profit for the year		10,500
Retained profits brought forward from last year		118,000
Retained profits carried forward to next year		**128,500**

Statement Y

Balance Sheet as at 31 December 20XX

Fixed Assets		
Property, plant and equipment	715,000	715,000
Current Assets		
Inventories	230,000	
Trade debtors	175,500	
Bank	157,500	563,000
Less Current Liabilities		
Trade creditors	75,000	
Accrued expenses	30,000	(105,000)
		1,173,000
Capital		
Share capital	500,000	
General reserve	300,000	
Accumulated profits	128,500	
Debentures	225,000	
Proposed dividend	19,500	1,173,000

Activity 4: Which company are they talking about?
Fact Sheet 4E

Statement Z

Trading and Profit and Loss Account for the year ended 31 December 20XX

	$	$
Sales (credit sales $67,000)		80,000
Less : Cost of Goods Sold		
Opening Inventory	25,000	
Purchases	50,000	
	75,000	
Closing Inventory	(15,000)	(60,000)
Gross Profit		**20,000**
Less: Bank Interest	1,000	
Other Expenses	7,000	(8,000)
Net Profit		12,000

Statement Z

Balance Sheet as at 31 December 20XX

Fixed Assets		
Plant and Machinery, at cost	10,000	
Provision for Depreciation	(8,000)	2,000
Current Assets		
Inventory	15,000	
Trade Debtors	25,000	
Cash	6,000	46,000
Current Liabilities		
Trade Creditors	5,000	
Bank Overdraft	1,000	(6,000)
		42,000
Capital		
Balance as at 1 January 20XX		36,000
Net Profit		12,000
		48,000
Drawings		(6,000)
		42,000

Activity 4: Which company are they talking about?

You may find the following table could help your analysis:

	X	Y	Z
Gross Profit Ratio			
Net profit Ratio			
Return on Capital Employed			
Return on Total Assets			
Current Ratio			
Quick Ratio			
Inventory Turnover Ratio			
Inventory Turnover Period			
Debtors Turnover Ratio			
Debtors Collection Period			
Creditors Turnover Ratio			
Creditors Repayment Period			

Statement X belongs to Company _______.
Statement Y belongs to Company _______.
Statement Z belongs to Company _______.