**EFFECTIVE FINANCIAL MANAGEMENT**

**Learning Outcome 2: ACTIVITY 5**

**Preparing projected key financial ratios**

Financial statements are a key source of financial information in financial management. An ability to examine, understand and interpret the information in financial statements also provides a grounding for much of the rest of the work of a financial manager.

A financial ratio analysis based on projected financial statements can be used to develop and deepen the understanding and interpretation of projected financial performance and financial position.

Look back to LO2 Activity 4.

#### In small groups

Identify a business with which you are familiar. This could be a multinational company from which you have purchased goods/services, a business that owns your favourite brand or the business for which you work (or wish to work in the future).

From your research:

1. Reflect on the results of your analysis in LO2 Activity 4. Reflect on the likely impact that your chosen objective will have on the key variables identified and on the projected financial statements.
2. Consider the projected financial statements of your chosen business (alternatively, consider the financial statements of a business with which you are familiar). Identify the data items that are used to calculate:
   1. Return on capital employed
   2. Current ratio
   3. Financial gearing
3. Calculate each of the financial ratios that are specified in (1).
4. Compare the results of the calculations with the results of your calculations in LO 2Activity 4. Interpret the results of the calculations to compare and contrast the financial performance and financial position using the actual financial statements and the projected financial statements.
5. Prepare a short presentation on your findings.