**INNOVATION AND BUSINESS PERFORMANCE**

**Learning Outcome 1: ACTIVITY 4**

Ratio calculations

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance sheet as at 31 Dec 2016** | | |  |  |  |
|  | 31 Dec 2016 | |  | 31 Dec 2015 | |
|  | £’000 | £’000 |  | £’000 | £’000 |
| **Fixed Assets** |  |  |  |  |  |
| Land and buildings |  | 50 |  |  | 25 |
| Fixtures and fittings |  | 25 |  |  | 20 |
|  |  | 75 |  |  | 45 |
| **Current Assets** |  |  |  |  |  |
| Stock | 10 |  |  | 5 |  |
| Debtors | 15 |  |  | 10 |  |
| Cash at bank | 5 |  |  | 5 |  |
|  | 30 |  |  | 20 |  |
| **Current Liabilities** |  |  |  |  |  |
| Creditors | (10) |  |  | (10) |  |
|  |  |  |  |  |  |
| **Net current assets** |  | 20 |  |  | 10 |
| **Long term liabilities** |  |  |  |  |  |
| Bank Loan |  | (30) |  |  | (30) |
| **Net Assets** |  | 65 |  |  | 25 |
|  |  |  |  |  |  |
| Financed by: |  |  |  |  |  |
|  |  |  |  |  |  |
| Capital |  | 10 |  |  | 10 |
| Retained profit |  | 55 |  |  | 15 |
| Capital Employed |  | 65 |  |  | 25 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Profit & Loss for Year Ending 31 Dec 2016** | | | | | |
|  | Y/E 31 Dec 2016 | |  | Y/E 31 Dec 2015 | |
|  | £’000 | £’000 |  | £’000 | £’000 |
|  |  |  |  |  |  |
| **Revenue** |  | 125 |  |  | 100 |
|  |  |  |  |  |  |
| **Cost of Goods Sold** |  | 25 |  |  | 20 |
| **Gross Profit** |  | 100 |  |  | 80 |
| **Operating Expenses** |  |  |  |  |  |
| Salaries | 15 |  |  | 15 |  |
| Depreciation | 10 |  |  | 10 |  |
| Rent & Rates | 10 |  |  | 5 |  |
| Other expenses | 5 |  |  | 5 |  |
| Total Expenses |  | 40 |  |  | 35 |
| Operating Profit |  | 60 |  |  | 45 |
|  |  |  |  |  |  |
| Interest | 5 |  |  | 5 |  |
| Tax | 15 |  |  | 10 |  |
|  |  | 20 |  |  | 15 |
| **Net Profit** |  | 40 |  |  | 30 |

Answer sheet

Calculate the ratios for this company for both years, using the financial statements provided and highlight any observations, based on how these ratios have changed.

|  |  |  |  |
| --- | --- | --- | --- |
| **Measure** | **Definition** | **2016 Calculation** | **2015 Calculation** |
| **Return on Capital Employed (ROCE)** |  |  |  |
| **Gross Profit Margin** |  |  |  |
| **EBITDA** |  |  |  |
| **Current Ratio** |  |  |  |

**Comments on ratios**

1.

2.

3.

4.