



Return on capital employed	= net profit ÷ capital employed × 100 = 35 ÷ 385 × 100 = 9%
Current ratio	= current assets ÷ current liabilities = 296 ÷ 209 = 1.4 (ratio is 1.4:1)
Acid test	= (current assets - stock) ÷ current liabilities = (296 - 176) ÷ 209 = 120 ÷ 209 = 0.6 (ratio is 0.6:1)
Debtor days	= debtors ÷ sales turnover × 365 = 72 ÷ 2265 × 365 = 12 days
Creditor days	= creditors ÷ purchases × 365 = 198 ÷ 1464 × 365 = 49 days
Stock turnover	= cost of goods sold ÷ average stock
Average stock	= (285 + 176) ÷ 2 = 231
Stock turnover	= 1573 ÷ 231 = 7 (times a year) or = 365 ÷ 7 = 52 days

*All figures from accounts are in £000s. Answers have been rounded up for simplicity.

Task 3

Cammish & Co. Chartered and Certified Accountants		
Performance Analysis for Harrogate Quality Bathrooms Ltd - Summary		Accounts date: 31 March 2008
Profitability		
Gross profit margin	31%	For every £100 of sales, £31 of gross profit has been generated. It shows that 31% of sales revenue in 2008 was gross profit.
Net profit margin	1.5%	For every £100 of sales, £1.50 of net profit has been generated. It shows that 1.5% of sales revenue was net profit.
Return on capital employed	9%	This shows that for every £100 of capital invested in the business £9 return has been generated. The ratio shows that the profit for 2008 was almost one tenth the size of business in terms of capital employed. A rate that is significantly in excess of the rate that could be earned on a bank deposit is desirable, as this rate is.



Liquidity		
Current ratio	1.4:1	For every £1 of short-term debt, the business has approximately £1.40 of current assets to pay them with. We often recommend that the value should be between 1.5 and 2. A value lower than 1.5 could mean that the firm is in danger of not being able to meet its current liabilities. A value higher than 2 could indicate that too much of the firm's finance is tied up in short-term assets, and may not be being used productively.
Acid test	0.6:1	For every £1 of short-term debt, the business has approximately 60p of liquid assets to pay them with. We often recommend that a value of 1 is preferred. Lower values could indicate a liquidity problem, such as an inability to meet short-term debt.
Efficiency		
Debtor days	12 days	Debtors have taken, on average, 12 days to pay. A 12-day delay has been typical between an invoice being issued and payment being received.
Creditor days	49 days	Creditors have been paid, on average, after 49 days. There has typically been a 49-day delay between suppliers issuing an invoice and payment being made. Debtors are paying faster than creditors are being paid.
Stock turnover	52 days	Stock is held, on average, for 52 days. This indicates the length of time that an item of stock is typically held by the business.

Task 4 (D2)

An example of a PowerPoint presentation is included in this Box (see *Harrogate Quality Bathrooms Ltd.ppt* file).

GRADING COMMENTS

The contents of both the profit and loss account and balance sheet need to be explained for coverage of P4. In order to cover P5 learners need to accurately carry out ratio calculations. Analysing the ratios provides evidence for coverage of M2. Using the results of the calculations and the other data provided to evaluate the financial performance of the business will provide evidence for coverage of D2.