



Subject: Year 13 Accounting WEEK 11

Name: _____

Strand 5	Analysis and Interpretation of Financial Statements
Sub strand 5.1	Analysing Company Accounting Reports
Content Learning Outcome	Analyse and interpret the financial reports of a company to assess its performance and position

Purpose of calculating ratios

1. Gross profit Ratio- Measures the gross profit per dollar of sales.
2. Mark up Percentage- Measures the gross profit based on cost price.
3. Net profit ratio-Measures net profit per dollar of sales.
4. Expenses ratio- Measures the expenses per dollar of sale.
5. Return on total assets` - Measures the return on assts invested in the business.
6. Return on shareholders' equity-Measures the return on investment provided by the owners.
7. Current ratio-Measures the ability of the business to meet the debts as they fall due.
8. Quick asset ratio -Measures the ability of the business to meet the immediate debts at a short notice.
9. Debt to Equity ratio-Measures the outsiders claim in relation to the owner's claim.
10. Debt ratio: Measures the total assets provided by the outsiders.
11. Shareholders' Equity Ratio-Measures the percentage of assets provided by the owners.
12. Rate of inventory turnover-Measures the number of times stock is sold during the year.
13. Debtors Turnover-Measures the length of time taken by the debtors to pay their dues.

Question one Interpreting Financial Statements

Given below are the Financial Statement highlights of Ruchi's Enterprises Ltd. Study the information given below and answer the questions that follow:

<u>Financial Highlights</u>	2014	2015
Net Profit Percentage	22%	25%
Expense Ratio	0.33:1	0.28:1
Debt to Equity Ratio	0.46:1	0.52:1
Rate of Debtors Turnover in days	35 days	55 days
Stock Turnover	4 times	6 times

(a) Comment on the following ratios or percentage:

- (i) Net Profit Percentage.
- (ii) Stock Turnover.
- (iii) Debt to Equity Ratio.
- (iv) Rate of debtor's turnover.
- (v) Stock turnover

(5 marks)

(b) Rate of Debtor's turnover in days has increased from 2014 to 2015. List **two** strategies that the business can take to recover the overdue accounts.

(2 marks)

