Activity-based Resources for BAFS Topic 3: Assessing Financial Performance of a Company

Business Management Module

Financial Management

**Activity-based Resources for Business. Accounting and Financial Studies**

Business Management Module – Financial Management

***Topic 3: Assessing Financial Performance***

**Student Worksheet 1**

**Group members:**

|  |
| --- |
| 1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
 |

**Activity 1(A): Selection of listed company**

Based on your group’s interest, select one listed company to study. Write the company name, industry nature and reasons for your option.

|  |  |
| --- | --- |
| ***Company selected:*** |  |
| ***Industry nature:*** |  |
| ***Reasons for selecting this company:*** |  |

**Activity 1(B): Search for financial data in financial statements**

Study the annual report of your selected company and extract relevant data from the financial statements of the company.

|  |  |
| --- | --- |
| 1. Net profit
2. Gross profit
 |  |
| 1. Current assets
2. Inventories
3. Cash
 |  |
| 1. Share capital/capital employed
 |  |
| 1. Current liabilities
2. Long term liabilities
 |  |

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**Student Worksheet 2**

**Activity 2(A): Computation of accounting ratios**

Based on the financial data extracted in **Student Worksheet 1**, calculate the four types of accounting ratios below.

|  |  |  |
| --- | --- | --- |
| ***Accounting ratios***  | ***Formula*** | ***Ratio calculated*** |
| ***Profitability*** |
| 1. Gross profit ratio
2. Net profit ratio
3. Return on capital employed
 |  |  |
| ***Liquidity*** |
| 1. Working capital/current ratio
2. Quick/liquid/acid-test ratio
 |  |  |
| ***Solvency*** |
| 1. Gearing ratio
 |  |  |
| ***Management Efficiency***  |
| 1. Trade receivables turnover
2. Trade payables turnover
3. Total assets turnover
4. Inventory turnover
 |  |  |

**Activity 2(B): Financial analysis**

Based on the accounting ratios calculated in **Activity 2(A)**, analyse them and provide your interpretation. Your group needs to analyse the accounting ratios from the perspectives of company, industry and general business environment.

|  |  |
| --- | --- |
| ***Types of accounting ratios*** | ***Interpretation*** |
| **Profitability** |
| 1. Gross profit ratio
2. Net profit ratio
3. Return on capital employed
 |  |
| **Liquidity** |
| 1. Working capital/current ratio
2. Quick/liquid/acid-test ratio
 |  |
| **Solvency** |
| 1. Gearing ratio
 |  |
| **Management****Efficiency** |
| 1. Trade receivables turnover
2. Trade payables turnover
3. Total assets turnover
4. Inventory turnover
 |  |

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**Student Worksheet 3**

**Activity 3: Extended activity**

***Task (1)***: Comment the company’s financial performance of the company by comparing its accounting ratios to its competitors’.

|  |  |  |
| --- | --- | --- |
| ***Accounting ratio*** | ***Company studied in Activities (1) & (2)***  | ***Competitor*** |
| ***Profitability*** |
| 1. Gross profit ratio
2. Net profit ratio
3. Return on capital employed
 |  |  |
| ***Liquidity*** |
| 1. Working capital/current ratio
2. Quick/liquid/acid-test ratio
 |  |  |
| ***Solvency*** |
| 1. Gearing ratio
 |  |  |
| ***Management Efficiency*** |
| 1. Trade receivables turnover
2. Trade payables turnover
3. Total assets turnover
4. Inventory turnover
 |  |  |

***Task (2)***: Compare the company’s accounting ratios with those in previous years and describe the trends of its financial performance.

|  |  |  |
| --- | --- | --- |
| ***Accounting ratio*** | ***Year 1/ Last year*** | ***Year 2 / This year*** |
| ***Profitability*** |
| 1. Gross profit ratio
2. Net profit ratio
3. Return on capital employed
 |  |  |
| ***Liquidity*** |
| 1. Working capital/current ratio
2. Quick/liquid/acid-test ratio
 |  |  |
| ***Solvency*** |
| 1. Gearing ratio
 |  |  |
| ***Management Efficiency*** |
| 1. Trade receivables turnover
2. Trade payables turnover
3. Total assets turnover
4. Inventory turnover
 |  |  |

***Task (3):*** Based on the results obtained in ***Activity (2),*** list the problems of the company you have observed and suggest remedial actions to address the problems.

|  |
| --- |
| ***Problems identified:*** |
| ***Suggested actions:*** |

***Task (4):*** What are the limitations of accounting ratio analysis? Explain your answer with the results obtained in ***Activity (1)*** and ***Activity (2)***.

|  |
| --- |
|  |