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

**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)***.

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