**Foreword**

To support teachers in adopting different learning and teaching strategies to deliver the Business Management module of the Business, Accounting and Financial Studies curriculum, the Technology Education Section of Curriculum Development Institute, Education Bureau developed this series of learning and teaching resource materials to provide a wide range of learning and teaching activities for teachers’ reference.

This series of resource materials covers six topics of the Business Management Module. Each topic is compiled with guiding notes for teachers, explanatory notes on concepts, reference, suggested reading, and student worksheets, etc.

The resource materials suggest real life examples for conducting the learning and teaching activities. The URL listed in the resources are up-to-date as at 2 Nov 2018. Teachers are advised to update any information adopted in the materials where necessary.

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 of a Company***

**Guiding Notes for Teachers**

**1. Learning Objectives**

After the activities, students are able to:

* demonstrate basic knowledge on financial management and financial analysis
* explain the key elements in financial statements and how the statements can assist decision-making
* state the general functions of accounting ratios
* assess business performance based on computation of ratios
* apply communication skill to work as a group and present findings

**2. Students’ Prior Knowledge**

*Compulsory Part:*

* Role and importance of financial management as one of the key business functions
* Key elements included in financial statements
* Decision making affected by financial performance

*Elective Part:*

* Assess business performance from a range of accounting ratios
* Types of ratios: profitability, liquidity, solvency and management efficiency
* Interpretation of accounting ratios
* Managerial actions to improve business performance based on financial analysis
* Limitations of financial analysis

**3. Description of Activities**

***3.1 Financial Analysis on a Company***

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

Ask students to form groups of 5-6. Each group should select one listed company to study and explain why they are interested in studying the selected company. Write down their choice on Student Worksheet 1 (SW 1) and provide justification for their option.

Teacher can guide students to select one listed company with suggestions including an airline, a property developer, a bank, a hotel or a retail chain, etc. Teacher can also facilitate students to select different industries for study. Reference for selecting a listed company:

* <http://www.irasia.com/listco/list/hk/index.htm>
* <https://en.wikipedia.org/wiki/List_of_companies_listed_on_the_Hong_Kong_Stock_Exchange>

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

Each group should visit and study the selected company’s website to collect information about the financial performance. Students are also required to study the company’s annual report and identify the relevant data from the financial statements for calculating accounting ratios. Write down all the data on SW 1. Examples for reference:

1. Vitasoy International Holdings Limited

http://www.cninfo.com.cn/finalpage/2017-12-13/1204219021.PDF (page 86 – 88)

2. CEC International Holdings Limited (759 Store)

<http://www.vitasoy.com/wp-content/uploads/2015/01/ew_00345-Annual-Report_20160715.pdf> (page 53-56)

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

After identifying the relevant data from financial statements, students are required to calculate the 4 types of accounting ratios: profitability, liquidity, solvency and management efficiency. Show all the formula and calculation in SW 2.

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

After calculating the accounting ratios, students are required to interpret the ratios with reference to the rule of thumb or last year’s figures, if any. Possible reasons for good or poor performance can be identified through analysing company-specific factors, industry-specific factors and/or environmental factors. Write the points on SW 2.

***Activity 3: Extended activity:***

Using SW 3, students can further analyse the company performance by completing one of the following tasks and present the results in the next lesson:

1. comparing accounting ratios with other similar companies.
2. comparing with accounting ratios calculated for previous years and identifying trends.
3. suggesting remedial actions to improve or enhance company performance.
4. explaining the limitations of accounting ratios.

***3.2 Student Worksheets***

Students will be given **three** worksheets to facilitate their learning when carrying out the activities designed for the topic. The aim of the worksheets is to guide students to complete the activities in a systematic manner, reflect students’ learning and help students organise and consolidate ideas/concepts. Teachers can facilitate in-class discussions and provide guidance whenever necessary. Teachers are also advised to collect students’ worksheets to check their understanding and progress, and give them feedback to enhance their learning.

***Worksheet 1 ----------------------***

***Activity 1(A)***

* Students are divided into groups of 5-6. Each group should select a listed company to study and identify its industry nature.
* Provide reasons for their choice.

***Activity 1(B)***

* Extract and categorise relevant data from studying the company’s websites and financial statements in the annual report.

***Worksheet 2 ----------------------***

***Activity 2(A)***

#### From the extracted data, calculate the four categories of accounting ratios: profitability, liquidity, solvency and management efficiency.

***Activity 2(B)***

#### Briefly analyse and interpret the accounting ratios obtained in Activity 2(A).

#### Assess the company performance from different perspectives, i.e. company-specific, industry-specific factors and general business environment.

***Worksheet 3 ----------------------***

***Activity 3***

#### Using the results obtained in Activity 2, each group should select one of the four tasks described in SW3 as an extended activity. Present their findings in the next lesson.

**4. Schedule of Work**

|  |  |  |  |
| --- | --- | --- | --- |
| **Process of Activity** | **Student Worksheet** | **In/Outside Class** | **Time Required** |
| ***Introduction of activity*** | -- | In-class | 5 minutes |
| ***Activity 1(A)***   * Students are required to form groups and select a listed company for financial analysis * Write down the choice with reasons | *SW 1* | In-class | 10 minutes |
| ***Activity 1 (B) – Group work***   * Students are asked to identify relevant data for accounting ratios computation * Teacher guides students to find and categorise relevant data from the financial statements for ratio analysis | *SW 1* | In-class | 25 minutes |
| ***Activity 2(A)*** ***– Computation of accounting ratios***   * Teacher can explain the four types of accounting ratios (profitability, liquidity, solvency and management efficiency) and guide them to calculate the ratios | *SW 2* | In/Outside class | 20 minutes |
| ***Activity 2(B)*** – ***Group discussion***   * Each group is required to interpret the accounting ratios obtained in Activity 2(A) * Teacher guides students to analyse the financial performance from various perspectives, macro-environment, industry and company, etc. | *SW 2* | In-class | 20 minutes |
| ***Activity 3 – Extended activity***   * Each group is required to select one of the four given tasks as follow-up activity * Group discussion and presentation of findings in class | *SW 3* | In/Outside class | 20 minutes |
| ***Topic summary***   * Teacher wraps up with reference to Notes in ***Appendix A.*** | *Appendix A* | In-class | 10 minutes |
| ***Further reading***   * Suggestions are provided in ***Appendix B*** | *Appendix B* | In/Outside class | -- |

**Appendix A**

**Notes on Concepts Covered and Applied**

1. ***Role of financial management***

* Financial management is concerned with the effective and efficient management of the finances of an organization in order to achieve the organizational objectives. It involves acquiring, managing and financing the business entity’s resources or assets
* Planning for a firm’s money needs and managing the allocation and spending of funds are the foundations of financial management, or finance.

1. ***Financial statements***

* Financial statements are prepared for management purposes and information provision. The preparation of financial statement is based on the accounting system and process. Forms of financial statements:
* *Balance Sheet*: It shows a firm’s financial position about what it owns and the claims against its assets on a particular date.
* *Income Statement* *(Profit and Loss Account)*: It is a financial record of a company’s revenues, expenses, and profits over a period of time.
* *Statement of Cash Flows*: It provides investors and creditors with relevant information about a firm’s cash receipts and cash payment for its operations, investments, and financing during an accounting period.

***3. Ratio analysis***

* Accounting ratios are used to measure a firm’s financial health, weigh and evaluate a firm’s operating performance.
* Itis a common tool for measuring the firm’s liquidity, profitability, and reliance on debt financing, as well as the effectiveness of management’s resource use.
* The analysis allows comparisons with other firms and with the firm’s own past performance. Accounting ratios for the current accounting period also may be compared with similar calculations for previous periods to spot developing trends.
* Comparisons with accounting ratios of similar companies help managers to understand their firm’s performance relative to competitors’ results. These industry standards serve as important yardsticks and help to pinpoint problem areas as well as areas of excellence.

***4. Types of accounting ratios***

* Accounting ratios can be classified according to their specific purposes, and the major categories are:

#### Profitability ratios: It measures the organisation’s overall financial performance by evaluating its ability to generate revenues in excess of operating costs and other expenses. Commonly used profitability ratios are gross profit ratio, net profit ratio and return on capital employed.

* *Liquidity ratios*: measure the firm’s ability to fulfill its short-term liabilities out of current or liquid assets. The two commonly used liquidity ratios are the current ratio and the acid-test ratio.
* *Solvency ratios*: measure the extent to which a firm relies on debt financing. If management has assumed too much debt in financing the firm’s operations, problems may arise in meeting future interest payments and repaying outstanding loans. The common used solvency ratio is gearing ratio.
* *Management efficiency ratios:* measure the effectiveness of management’s use of firm’s resources. The common ratios are inventory turnover, trade receivables turnover, trade payable turnover and total assets turnover.

***5. Limitations of ratio analysis***

* Historical cost-based (e.g. ignore inflation and deflation impact on asset values)
* Window dressing may distort true and fair view of company situation and performance
* Different accounting treatments and policies may result in misinterpretation and difficulty in doing comparison
* Difficult to obtain a fair and reliable industry averages for comparison
* Average standard may not be the performance targets of a corporation

**Appendix B**

**Reference and Suggested Reading**

1. Boove, C. L. and Thill, J. V. (2015), *Business in Action (Chapter 17 & 18)*, 7th edition, USA: Pearson
2. Ferrell, O. C., Hirt, G. and Ferell, L. (2016), *Business: A Changing World* *(Chapter 15 & 16)*, 10th edition, USA: McGraw Hill