UNIT 4

The Business Guys

Chapter 11
Ratio Analysis

RATIO ANALYSIS

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Chapter 11 – Accounting (Ratio Analysis)

All ratios have to given as something to one e.g. X:1 or 2:1 etc...

Give answers to two decimal places or else you will lose marks

Always the same format: formula -> figures -> answer

2015 Q3 – Short

Using the figures below, calculate the Net Profit Percentage (Margin) of Auburn Publishing Ltd for 2014:

Sales	Gross Profit	Expenses
€50,000	€22,000	€12,000

(b) If the Net Profit Percentage for 2013 was 25%, outline how management could use this information in making decisions.

(a)

(b)

2011 – Short Q2

(a) Explain the term 'Return on Investment' (ROI).

(b) Using the figures below calculate the ROI for 'Natural Options Ltd.'.

Net Profit	€ 57,000	Ordinary Share Capital	€ 140,000
Reserves	€ 56,000	Long Term Loan	€ 24,000

(a)

(b)

2013 Q3 – Short

(a) Using the figures below calculate the **Current Ratio** for 'Sentry Ltd'.

Debtors	**€12,000**	**Bank Overdraft**	**€20,000**
Cash	**€15,000**	**Creditors**	**€50,000**
Closing Stock	**€ 8,000**		

(b) Comment on the liquidity position of Sentry Ltd:

(a)

(b)

2016 Q5 – Short

(a) Using the figures below, calculate the Debt/Equity ratio (Gearing) of Lalco Ltd. for 2015. (Show your formula and workings.)

Reserves	Long-term Loan	Ordinary Share Capital
€130,000	€700,000	€220,000

(b) Outline whether Lalco Ltd. is highly geared or lowly geared **and** the possible effect this result has on the business.

MS: (a) Formula 2m; Workings 2m; Answer 2m (b) 4m (2+2)

(a)

(b)

2012 Q5 (B)

The average performance of companies in the same industry as Bianua Ltd for 2011 is detailed in the table as follows:

Industry Average Results 2011	
ROI	11%
Current Ratio	2:1
Acid Test Ratio	1.2:1
Debt/Equity Ratio	0.3:1

The following figures are taken from the final accounts of Bianua Ltd for 2011.

Bianua Ltd figures for 2011	€
Net Profit	50,000
Sales	975,000
Current Assets (including closing stock)	155,000
Long Term Loan	300,000
Ordinary Share Capital	500,000
Current Liabilities	85,000
Retained Earnings	100,000
Closing Stock	80,000

(i) Calculate the following for 2011 for Bianua Ltd:
- Return On Investment (ROI)
- Current Ratio
- Acid Test Ratio
- Debt/Equity Ratio. (20 marks)

MS: Ratio formula 1m each & calculation (5m + 3m + 4m + 4m)

Return On Investment (ROI)

Current Ratio

Acid Test Ratio

Debt Equity Ratio

(ii) Analyse the *profitability* **and** *liquidity* of Bianua Ltd for 2011, with reference to the industry average results shown in the box above, **and** make recommendations for Bianua Ltd. (20 marks)
MS: 10m each – (3m + 2m + 2m + 3m) x 2

Profitability & Recommendation for Bianua Ltd

Liquidity & Recommendation for Bianua Ltd

This type of question also came up in 2010 and 2017, but asked you to analyse the trends for different stakeholders and for two limitations of the trends

2010 Q5 (B)

From the figures given below for **2009 calculate** the following for CES Ltd.:

(i) Net profit margin; (iii) Acid Test ratio;
(ii) Current ratio; (iv) Debt Equity ratio.

2010 Q5 (C)

Analyse the significance of the trends over the two years (2008/2009) for the following stakeholders:
(i) Investors/shareholders; (ii) Suppliers; (iii) Employees.

2017 Q6 (B)

From the figures given below for **2016 calculate** the following for Equinox Design Ltd. (show your workings):

(i) Net profit margin; (iii) Return on Investment
(ii) Current ratio; (iv) Debt Equity ratio. (20m)

Equinox Design Ltd: Information for 2016		Equinox Design Ltd: Results for 2015	
Sales	€200,000	Net Profit Margin	20.5 %
Net Profit	€30,400	Current Ratio	2:1
Current Assets	€20,000	Return on Investment	8%
Current Liabilities	€16,000	Debt/Equity Ratio	0.7:1
Issued Ordinary Share Capital	€300,000		.
Long-Term Loan	€400,000		
Retained Earnings	€60,000		

2017 Q6 (C)

(i) Analyse the profitability and liquidity of Equinox Design Ltd for 2016, with reference to the results for 2015 shown in the box above.
(ii) Should Equinox Design Ltd expand its business? Outline **one** reason for your answer.
(iii) Outline **two** limitations of using ratios to analyse the final accounts of a business. (25m)

2018 Q7 - Short

(a) Explain the term **working capital**
(b) Outline two problems caused by insufficient working capital for a start-up business
MS: (2+2); 2@3
No marks awarded for just repeating the explanation in (a)

(a) ______________________________

(b ______________________________

2014 Q5 (B) The following figures are taken from the final accounts of Flame Ltd for 2013.

Flame Ltd	2013
	€
Authorised Share Capital	900,000
Issued Share Capital	450,000
Long Term Loan	200,000
Retained Earnings	150,000

(i) Explain the term 'Debt/Equity Ratio'.
(ii) Calculate the Debt/Equity Ratio for 2013. **Show your workings.**
(iii) Discuss the importance of the Debt/Equity Ratio when deciding on new sources of finance for Flame Ltd. (20 marks)
MS: (i) 4m (2m + 2m) (ii) 10m (Formula 2m, 3 figures @ 2m, answer 2m) (iii) Importance 6m (3m + 3m)

(i) ______________________________

(ii) ______________________________

(iii) ______________________________

This type of question also came up in 2009, but asked you to analyse the trends over different years

2009 Q5 (C) Using the figures given below calculate the Debt/Equity ratio of SES Ltd for the years 2006 **and** 2007

	2006	**2007**
Long Term Loans	300,000	364,000
Ordinary Share Capital	450,000	450,000
Retained Earnings	50,000	70,000

Comment on the significance of the trend in the Debt/Equity ratio over the two years for the existing shareholders (20 marks)