

Paul Robbins training and consultancy

Management Accounting: Decision and Control

Performance Indicator Ratios

Worked Example **Model Answer**

You have been provided with a summary from the Financial Statements of Oxford Trading Ltd for the last three years.

	Year 1 (£000)	Year 2 (£000)	Year 3 (£000)
Sales Revenue	965	987	1,105
Cost of Sales	540	571	623
Current Assets	459	470	525
Current Liabilities	238	267	282
Inventory	173	184	199
Trade Receivables	205	211	216
Trade Payables	148	152	167
Profit from Operations	96	102	111
Interest Paid	18	22	25
Net Profit	78	80	86
Long Term Debt	175	190	190
Equity (Net Assets)	560	595	610
Non Current Assets	135	142	151

Note that Current Liabilities includes short-term debt and trade payables only.

You should express your answers to two decimal places.

You should use this information to calculate the following ratios, including stating the formula you used to perform the calculation.

Performance Indicator Ratio	Year 1	Year 2	Year 3
<u>Current Ratio</u> Current Assets / Current Liabilities	459 / 238 = 1.93	470 / 267 = 1.76	525 / 282 = 1.86
<u>Quick Ratio</u> (Current Assets less Inventories) / Current Liabilities	(459 – 173) / 238 = 1.20	(470 – 1184) / 267 = 1.07	(525 – 199) / 282 = 1.16
<u>Inventory Holding Period</u> (Inventory / Cost of Sales) x 365	(173 / 540) x 365 = 116.94 days	(184 / 571) x 365 = 117.62 days	(199 / 623) x 365 = 116.59 days
<u>Accounts Receivable Collection Period</u> (Trade Receivables / Sales) x 365	(205 / 965) x 365 = 77.54 days	(211 / 987) x 365 = 78.03 days	(216 / 1,105) x 365 = 71.35 days
<u>Accounts Payable Payment Period</u> (Trade Payables / Cost of Sales) x 365	(148 / 540) x 365 = 100.04 days	(152 / 571) x 365 = 97.16 days	(167 / 623) x 365 = 97.84 days
<u>Return on Net Assets</u> (Operating Profit / Net Assets) x 100	(96 / 560) x 100 = 17.14%	(102 / 595) x 100 = 17.14%	(111 / 610) x 100 = 18.20%
<u>Return on Capital Employed</u> (Operating Profit / Capital Employed) x 100	96 / (175 + 560) x 100 = 13.06%	102 / (190 + 595) x 100 = 12.99%	111 / (190 + 610) x 100 = 13.88%
<u>Interest Cover</u> Operating Profit / Interest Payable	96 / 18 = 5.33 times	102 / 22 = 4.64 times	111 / 25 = 4.44 times
<u>Gearing %</u> (Total Debt / Total Debt plus Equity) x 100	(90 + 175) / (90 + 175 + 560) x 100 = 32.12%	(115 + 190) / (115 + 190 + 595) x 365 = 33.89%	(115 + 190) / (115 + 190 + 610) x 365 = 33.33%

<u>Asset Turnover</u>			
<i>Sales Revenue / (Non Current Assets + Net Current Assets)</i>	<i>965 / (135 + 221)</i>	<i>987 / (142 + 203)</i>	<i>1,105 / (151 + 243)</i>
	<i>=2.71 times</i>	<i>= 2.86 times</i>	<i>= 2.80 times</i>