

Business: ratio analysis

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Assignment IV| Level 3 BTEC Subsidiary Diploma in BUSINESS| Date:| Date issued: 11th November 2011| Date due in: 22nd November 2011| Unit Title/No: 5 Business Accounting Assignment 4 (written by Ms Groves)| 4.

Performing Ratio analysis for SIGNature Ltd what you will learn in this UNIT

The unit is divided into two parts. In the first part, Assignment 1, you developed an understanding of the accounting processes necessary to provide accurate and relevant financial information. The second part of the unit (Assignments 2, 3 and 4) cover the practical aspect of carrying out those accounting activities. GRADING CRITERIA P5 – Perform ratio analysis to measure the profitability, liquidity and efficiency of a given organisation M2 – Analyse the performance of a business using suitable ratios D2 – Evaluate the financial performance and position of a business using ratio analysis scenario You are still working for accountants, Fleesom and Leggett as in Assignment 3.

Sharma and Ryan at SIGNature Ltd now want you to help them understand their financial accounts. You should prepare a set of numbered appendices to the accounts which explain their profitability, liquidity and efficiency. Only Sharma and Ryan will see these notes and therefore these should give a fair and frank explanation of their performance. Task 1 (P5) In order to produce these appendices, you should perform the following tasks: a) Use the profit and loss account and balance sheet from Assignment 3 to carry out the following ratios to measure: * Profitability Gross profit percentage of sales * Net profit percentage of sales * ROCE * Liquidity * Current ratio * Acid test/liquidity ratio * Efficiency * Debtor's payment period * Creditor's payment period * Rate of Stock Turnover Outline clearly what is meant by profitability,

liquidity and efficiency as well as the meaning and relevance of each ratio.

P5 Structure.

docx Task 2 (M2) Include a set of notes to the appendices that uses the ratios to analyse the business's performance. You will need to explain what the results of the ratio analysis mean. Look at the cause and effect – what factors contributed to that outcome and what effect it has on the business. (E. g: if debtors are taking 45 days to pay – why has this happened and what impact will it have.

If Gross Profit is low, is it because cost of sales is high? Use phrases such as “this means that” and “therefore” for a super-duper answer.) Task 3 (D2)

Using the results of your analysis in Task 2, evaluate the financial performance and position of their business using ratio analysis. Your evaluation should consider in detail the strengths and weaknesses of the business. Consider each ratio in turn and assess the strength or weakness of the business in this area and how it might impact on the future of the business. Look at the figures in the projected Cash Flow you did for P3 and calculate what some the results would have been if these projections had been true. Would the performance of SIGNature Ltd been better or worse? Prepare a presentation or report of your findings for Sharma and Ryan – remember you must come to an overall conclusion about the health of the business bearing in mind that this is a new business start-up.