

10.2 Analysis of published accounts

Name: _____ Class: _____ Date: _____

Total: 29 marks**KEY WORDS** gearing 杠杆 • current ratio 流动比率 • liquidity 流动性 • profitability 盈利能力 • ratio analysis 比率分析

Objective

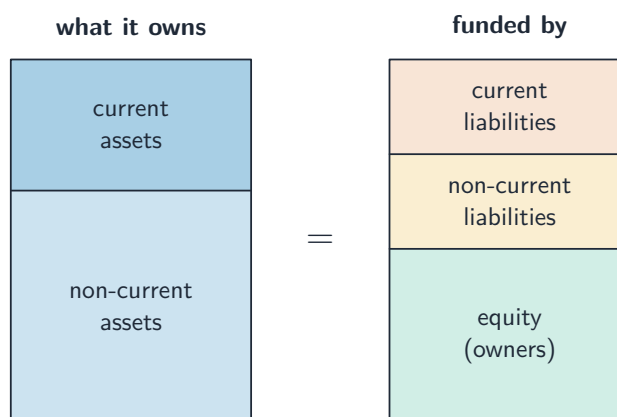
Build the skills to answer exam questions on **analysis of published accounts** 财报分析 — **ratio analysis** 比率分析: **profitability** 盈利能力 (gross/operating margin, ROCE), **liquidity** 流动性 (current and acid-test ratio), and **gearing** 杠杆.

You must be able to:

- calculate profitability, liquidity and gearing ratios
- explain what each ratio shows
- analyse and evaluate a firm's performance and the limits of ratios

1 Worked examples

■ Key ratios



Ratios link two figures from the statements to judge performance

$$\text{ROCE} = \frac{\text{operating profit}}{\text{capital employed}} \times 100\% \quad \text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

- **Worked ROCE:** operating profit \$80,000, capital employed \$400,000 $\rightarrow \frac{80000}{400000} \times 100 = 20\%$.
- **Worked current ratio:** current assets \$60,000, current liabilities \$30,000 $\rightarrow \frac{60000}{30000} = 2.0$ (about 1.5–2 is safe).

- **Gearing** = non-current liabilities $\div$ capital employed $\times$ 100; high gearing is risky if interest rates rise.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State what the **current ratio** measures. [2]

2.2 A firm has operating profit of \$50,000 and capital employed of \$250,000. Calculate its ROCE. [2]

2.3 State one limitation of ratio analysis. [2]

3 Exam-style questions

3.1 Explain one reason why a business calculates its **gross profit margin**. [3]

3.2 A firm has current assets of \$80,000 (including \$30,000 of inventory) and current liabilities of \$40,000.

(a) Calculate the current ratio. [2]

(b) Calculate the acid-test ratio. [2]

(c) Analyse what these two ratios suggest about the firm's liquidity. [4]

3.3 Evaluate the usefulness of ratio analysis for judging a business's performance. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 how easily a firm can pay its short-term debts from its current assets (2 for a clear idea; 1 for a partial idea).

2.2 $\frac{50,000}{250,000} \times 100\% = 20\%$ (2; award 1 for a correct method with the wrong figure).

2.3 any one of: uses past data; ignores non-money factors (brand, staff); needs a similar firm/industry to compare fairly (2 for a developed point; 1 for a basic one).

3.1 [3] **AO1** 1 — give a reason (to see profit kept per sale; to compare with last year or rivals). **AO2** up to 2 — develop it, e.g. comparing the gross margin with last year shows whether costs of sales are rising → managers can act to control them → protecting profit (2 developed / 1 limited).

3.2 (a) current ratio = $\frac{80,000}{40,000} = 2.0$ (2). (b) acid-test = $\frac{80,000-30,000}{40,000} = 1.25$ (2; allow follow-through). (c) [4] **AO2** 1–2 + **AO3** up to 2 — the current ratio of 2.0 looks safe, but removing inventory gives 1.25, still above 1, so the firm can meet short-term debts even without selling stock → liquidity is adequate but not excessive.

3.3 [12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Useful:** ratios turn raw figures into comparable measures of profitability, liquidity and gearing, and reveal trends over time. **Limited:** they use past data, ignore non-money factors, can be distorted by accounting choices, and need similar firms to compare fairly. **Judgement:** ratios are valuable when compared over time and against similar firms, but they must be read with non-financial information — their usefulness depends on the quality of the comparison.