**Rate of Return on Assets ratio**

This ratio uses the profit for the period divided by average total assets.

**Average total assets** is the:

assets for the period, plus the average for the assets of the previous period, divided by 2.

|  |  |
| --- | --- |
| rate of return on assets | profit  average total assets |

**For example:**

An extract from the income statement of Lemon Enterprises for the year ended 30 June 2024 revealed the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Lemon Enterprises Income statement (extract) for the year ended 30 June 2024**   |  |  | | --- | --- | |  | $ | | Sales  Gross profit  Profit/Loss | 370,000  45,000  (5,500) | |

**Note:** Total assets at 1 July 2023 = $14,000 and at 30 June 2024 = $25,000

The rate of return on assets industry average is 170%

1. Calculate the rate of return on assets.
2. Comment on your findings.

**Answer:**

|  |  |
| --- | --- |
| Rate of return on assets | [14,000 (1) + 25,000 (1)] / 2 (1) = 19,500  (5,500) (1)  19,500  = -0.28:1 or -28.21% |

B)

The rate of return on assets for Lemon Enterprises of -28.21% is considerably below the industry average of 170% indicating that the business is not using its assets to generate profits as efficiently or effectively as similar businesses in the industry. The business may have idle assets that it should dispose of or needs to be able to convert its investment in assets into profits more effectively.