**Case study : Snuggles Carpets**

**Statement of profit or loss**

|  |  |  |
| --- | --- | --- |
|  | **2015**  **£m** | **2016**  **£m** |
| Sales | 2,240 | 2,681 |
| Cost of Sales | (1,745) | (2,272) |
| Purchases | 1710 | 2270 |
| Gross Profit | **495** | **409** |
| Expenses | (252) | (362) |
| Operating profit | **243** | **47** |

**Statement of Financial Position**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** | **2014**  **£m** | **2015**  **£m** | **2016**  **£m** | **EQUITY & LIABILITIES** | **2014**  **£m** | **2015**  **£m** | **2016**  **£m** |
| Noncurrent Assets |  |  | | Equity |  |  | |
| Land and buildings |  | 381 | 427 | Owner’s capital |  | 300 | 300 |
| Fixtures and fittings |  | 129 | 160 | Retained earnings (profits) |  | 263 | 234 |
| **Total noncurrent assets** |  | **510** | **587** | **Total Equity** |  | **563** | **534** |
| Current Assets |  |  | | Noncurrent liabilities |  |  | |
| Inventory | 250 | 300 | 406 | Loans |  | 200 | 300 |
| Receivables | 220 | 240 | 273 | Current Liabilities |  |  |  |
| Cash |  | 4 | 0 | Payables | 260 | 291 | 356 |
| **Total Current Assets** |  | **544** | **679** | Bank overdraft |  | 0 | 76 |
|  |  |  |  | **Total Current Liabilities** |  | **291** | **432** |
| **Total Assets** |  | **1,054** | **1,266** | **Total equity & liabilities** |  | **1,054** | **1,266** |

1. Complete the following ratio calculations for Snuggles Carpets (rounding to 2 decimal places):

**Operating profit margin**

**Gross profit margin**

**Return on Capital Employed (ROCE)**

**Average Inventories’ turnover period**

**Average settlement period for Receivables**

*NB. Assume that all customers buy using credit*

**Average settlement period for Payables**

*NB. Assume that all purchases from suppliers are supplied on credit*

**Current ratio**

**Acid test**

**Gearing**

2. Compare 2016 answers to 2015 answers. Do you think the business is getting better or worse? What does this mean? What has changed?

- what other information do you need to interpret these ratios?

3. Using your analysis above, suggest actions that the owner could take to

manage their business effectively in the future.