Accounting Ratios   profitability and Efficiency

1. Sales Growth $\frac{\text{Revenue 13}}{\text{Revenue 12}}$ = increase/decrease %

2. Gross profit margin $\frac{\text{Gross Profit}}{\text{revenue}}$ %

3. Operating expenses / Sales

4. Operating profit margin $\frac{\cancel{\text{profit before tax}}\ \text{Operating profit}}{\text{revenue}}$ %

5. Asset Efficiency $\frac{\text{revenue}}{\text{equity + loans}}$ times

6. Return on capital employed $\frac{\cancel{\text{profit before tax + interest}}\ \text{Operating profit}}{\text{equity + loans}}$ %
   4 x 5.

7. Return on Shareholders Funds $\frac{\text{Profit for year}}{\text{equity}}$ (after interest and tax)   %

8. EPS $\frac{\text{Profit}}{\text{Share capital}}$ cent

9. Dividend per Share $\frac{\text{Dividends paid}}{\text{Share capital}}$ cent

10. Dividend payout ratio   dividends paid / profit   %

11. Dividend yield   dividend per share / price of share   %

12. Price earnings ratio → price of share / EPS   times

13. Book value per share → Equity / shares   €
    no loans included

2 Accounting Ratios LIQUIDITY AND GEARING.

1. Current Ratio $\frac{CA}{CL}$ times

2. Acid test ratio $\frac{CA - \text{stock}}{CL}$ times

3. Stock turnover period $\frac{\text{Stock} \times 365}{\text{cost of sales}}$ which is revenue − gross profit days

4. Settlement trade receivables $\frac{\text{Trade receivables} \times 365}{\text{revenue}}$ (total sales) days

5. Settlement trade payables $\frac{\text{Trade payables} \times 365}{\text{cost of sales}}$ days

6. Operating cash cycle = 3 + 4 − 5 Stock turnover period + trade days − trade payables days

7. Operating cash flow / CL $\frac{\text{operating cash flow}}{\cancel{\text{Stock}}\ \text{current liabilities}}$ %

8. Gearing: $\frac{\text{loans}}{\text{equity + loans}}$

Gearing with overdraft $\frac{\text{loans + overdraft}}{\text{equity + loans + overdraft}}$ %

9. Interest cover: $\frac{\text{Operating profit}}{\text{Interest expense}}$ times

Accountry

Accounting Q3 Notes

1. Introduction

- Consolidated income statement shows that GG's sales revenue have increased by just over 5%. A relatively small increase
- There were dramatic increases in after tax profit, increased to 16 times 2011 figure
- However, 2011 base was extremely low, barely broke even, margin of 0.1%

- X factors contributing to the 2012 improvement.
- The X extra income yielded an extra Y in operating profit pre exceptional
- This marginal return represents a profit margin of 15% illustrating significant economies of scale benefits and strong control of operating costs
- Reduction in exceptional costs of
- Tax, credit this year,
- Here profit still low at 2%
- SOCI - profit erased by ? " regained by "

BALANCE SHEET - Total assets have increased marginally
main movements have been low, they are " " "
- within equity & liabilities, primary due to reduction in ... ...
- NCL have increased by ~M. other drops/rises

CASH FLOW STATEMENT - After by falling by 100m in 2011, cash and cash equivalents were boosted by + 2um inflow
- Net cash inflow from operating activities increased by 8 driven by profit.
- Main fall, ... follow last year 40% of outflow of cash and cash

2. Analysis of profitability and efficiency

1. Sales growth — this year sales / last year sales
2. GPM — GP / rev
3. OPM — OP / rev
4. Asset efficiency — revenue / NCA + equity
5. ROCE — 3x4 — OP / NCA + equity
6. ROSF — net profit after / SE equity

7. EPS   Net incom - Pref / SCap
8. DPS   Divd - pref - div / Shes
9. P/E ratio   Price / earns
10. Divide yeld   dPS / price

All per above GGS increase in sales and tax reduction ~~retotted~~ helped to pull up all profitability ratios. OPM and ROE doubled
- ROCE driven by OPM, as asset efficy remained flat
- ROSF showed more dramatic gain ⇒ beause of small profit in 20..
- Paid a dividend of 7p/1 EPS in 20..
- This year dividend (...) EPS ... payout of 50%
- High P/E ratio and low dividend yield indicating financial mkt have responded positively to group's prospects increase

3.0 Analysis of Liquidity & Gearing

Short term perspective

1. Current   CA/CL
2. Acid test   CA - Stock / CL
3. Inventory days   inventory x365 / Cost of sales
4. Receiv days   debtors / revenue
5. Payable Days   creditors / Cost of sale
6. Operating cash cycle   3+4-5
7. Cash flow to maturing obligations   cash flow from operations / CL
8. Dividend payout ratio   DPS/EPS
9. Profit retention ratio   1 - DPS/EPS

Longer term

10. Gearing   NCL / NCL + Equity
11. Interest cover   OP / interest

3

Accounting Notes Q3

3.0 contd.

- Both of short term liquidity strengthened slightly and are at safe levels for an enterprise with low risk.
- Marginal changes in OCC ...
- Average interval between collecting and paying is...

- Consider net cash inflow for OA was used as numerator in ratio 7.
- result of 20% is on low side, indicating cash flows are low to reduce level of CL's
- Taking account of stability of other ratios and increased holdings of cash and cash equivalents, there is no cause for concern

- high payout in 2011 followed by increase in DPS in 2012 suggest that the board were concerned that poor performance wouldn't affect [illegible] short term in [illegible] and that it [illegible] means

- Gearing risen slightly, still low at 35% could support more borrowing. Interest cover has recovered [illegible] at it was low in 2011, [illegible] improvements welcomed by [illegible] and [illegible]

4. Summary and analysis of cash flow

Net cash inflow from operating activities

Net cash outflow from investing activities

Net cash inflow from fin

Total outflow

Increase in cash holding

+ opening balance

+/ translation adj

= CU2

Operating Activities: Net cash flow increased by 8m, 10% in 2012
X figures account for this rise
Primary reason is increase in profit before tax, offset by ~
Offset by lower add back figure of
Group managed to reduce its investment in working capital in both years
The main impact in [illegible] was 47m higher reduction in trade payables
Finance income/expenses [illegible] Everything else [illegible]

INVESTING: Overall figure dropped marginally by X%. Core [illegible] of drop in
~ and increase in ~
Major switch in pattern of investment - away from joint venture towards acquisition
May have been due to different nature of the target company invested
over the 2 years rather than any fundamental shift in [illegible]
[illegible] [illegible] [illegible] [illegible] outflow 2m [illegible]

FINANCING: Dramatic change ⇒ fall of 116m [illegible]. Entirely due to loan repayment.
Repayment of borrowing ~~[illegible]~~ exceed new borrowing by [illegible] this accounts
for the ~101m fall in cash holdings. No repayment in 2012,
new borrowing [illegible] small change [illegible]

Increased net inflow from [illegible] of [illegible], reduction in working capital, holding of cash [illegible]
by 105% during 12, [illegible] well [illegible] [illegible] [illegible] cash over ~40%
[illegible] with repayment?

Summary
Recent [illegible] poor 2nd year. Increased sales unchanged & share [illegible] (marginal [illegible] of 15+%!)
[illegible] dividend and cash. Invested in [illegible] and [illegible], Small NCF inflow
High P/E suggests future improvements in profit and [illegible], [illegible] [illegible]
ROCE is also lower 3% below [illegible] [illegible]
[illegible] for improvements in [illegible] [illegible] [illegible] to [illegible] ROCE.

Any continued [illegible] [illegible] low margin will leave it [illegible]
to [illegible] [illegible] [illegible] [illegible]

Q3

Introduction

- Compared with 2010 X's financial performance showed significant gains/losses in all/most/some areas.
- However the group's prospects remain heavily dependent on it's high level of indebtedness.

Income Statement

Overall sales revenue fell/grew/remained by % in 2011 by X amount. Falls in country (and percent) gains in other countries)

The eurozone crisis was deepening throughout 2010 provides a clear backdrop to european decline

Increase/decrease in profit before tax, after tax and eps

Statement of changes in equity

- What was offset against losses in comprehensive income to end with dis/improvement in state of equity
- reference total other comprehensive income
- increase in profit adjusted for loss

Balance Sheet.

- Increase/decrease in NCA and CA by amount.
- What was main jump
- funded by? increase in equity and CA?
- Increase in trade? loans?
- Main increase in equity?

Cash Flow:

- End year cash holding
- which areas contributed to increase/decrease

2.

Analysis of Profitability & efficiency (manager & investor perspective).

2011 2010

1. Sales growth — Change in sales / over last year
2. Gross profit % — GP / sales
3. Operating profit margin OPM — OP / sales
4. Asset efficiency — Sales / (equity + NCL).
5. Net profit margin — net profit / sales
6. Return on ~~shareholders~~ Capital employed: 3x4 — OPM / (equity + NCL)
7. Return on Shareholders fund. — (net profit) / equity
8. Earning per share EPS — Given
9. Dividend per share DPS — Given
10. Price / earning ratio — Price per share / EPS — need share price for both years
11. Dividend yield — DPS / price per share

- Change in sales and effect it had on GPM. OPM up or down due to increased expenditure or economies of scale for.
- Costs up/down?
- Combined with marginal increase/decrease in asset efficiency boosted critical ROCE by almost 11%.
- This in turn boosted ROCE's two subsidiary ratios ROSF and EPS by more significant levels

3

Q3 Accounting

Analysis of Liquidity and Gearing

Short term.		2011	2010
1.	Current ratio	CA / CL	
2.	Acid test ratio	(CA - inventory) / CL	
3.	Inventory days	(inventory x 365) / cost of sold	
4.	Receivable days	(receivables x 365) / revenue	
5.	Payable days	(payables x 365) / cost of sold	
6.	Operating cash cycle	3+4-5	
7.	Cash flow to maturing obligations	net cash flow from operating activities / current liabilities	
8.	Dividend payout ratio	DPS / EPS	
9.	Profit retention ratio	1 - (DPS/EPS)	

LONGER TERM

10	Gearing	NCL / (NCL + Equity)	
11	Interest cover.	Operating profit / interest	
		interest comes from (finance costs - finance income in pnl)	