Assignment - 05

1) What is Dupont Analysis.

Dupont Analysis is a methods of analysing a company's financial Performance by breaking down it Return on Equity (ROE) into three key components.

1. Profitability (Net income | sales)
2. Efficiency (sales | Total Assets)
3. Leverage (Total Assets | share holder's Equity)

Formula:

ROE = (Net Income | sales) x (Sales | Total Assets) x (Total Assets | Shareholder's Equity)

This analysis helps identify are where a company can improve it Performance such as:

i) Increaseing Profitability through cost reduction or Pricing strategie

ii) Enhancing effiency by better utilizing assets

iii) Optimizing leverage by managing debt and Equity level.

Doupent Analysis Provide or comprehensive view of a company's financial ~~as compo~~ health and help investors analysis and management.

Make informed decision.

<u>Example:-</u>

Company XYZ have

- Net income : $100,000
- Sales : $500,000
- Total Assets : $750,000
- Share holder equity : $250,000

<u>Using Dupont Analysis</u>

1) Profitability = $100,000 / $500,000 = 20%

2) Effiency = $500,000 / $750,000 = 66.7%

3) leverage : $750,000 / $250,000 = 3

ROE = 20% x 66.7% x 3 = 40%

This mean company X.YZ ROE is 40%, driven by its profitability, effiency and leverage