The big picture

Imagine that a business earns a profit of 2 million HKD. With only this information, it is usually impossible to tell whether a business is doing well. Only by comparing financial figures to other data is it really possible to know the health of a business. Ratio analysis helps to do this. In simple terms, a ratio is one number expressed in terms of another number. For example, in a school with 40 male and 60 female teachers, the male to female ratio is 2:3.

Financial ratios are quantitative expressions of the relationships between variables in the final accounts that you learned about in Subtopic 3.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/). Financial ratios give a better understanding of a business's performance because they put the business results into context through comparisons. Considered on their own, the profit and loss account and the balance sheet do not provide much insight into the financial health of a business. For example, a seemingly high profit figure for the year may not reveal much about the business's efficiency unless the profit figure is compared to the value of capital employed.

Figure 1. Financial figures on their own have little meaning; they need to be compared and put into context in order to be understood.

Credit: SEAN GLADWELL, Getty Images

More information for figure 1

The image presents a bar chart with several vertical bars of varying heights overlaid with numerical data. A trend line runs across the bars, indicating changes over time. The background features additional numerical values, partially visible, emphasizing the context of financial analysis. The chart appears to be illustrating financial ratios or data trends, where the x-axis likely represents time or specific financial metrics, while the y-axis measures values, possibly in currency or percentage format.

[Generated by AI]

Ratio analysis helps businesses to:

- understand the relative size of their profits
- identify trends in profitability, liquidity and efficiency over time
- control their costs
- make decisions about investments and growth
- make comparisons with competitors in the same industry

Concept

Change

Any changes in a business's external environment (Section 1.1.6 (/study/app/business-hl/sid-351-cid-762729/book/tool-business-plan-id-36505/)) will cause changes in the financial ratios for the business as well. For example, a change in corporate tax rates or interest rates will cause changes to the profit and will therefore affect the ratio analysis.

The COVID-19 pandemic caused major changes to businesses globally. Companies closed down, became bankrupt and experienced supply-chain problems. Unemployment and debt increased. Such changes had a major impact on the financial ratios of many businesses.

This subtopic will focus on the methods used to calculate profitability and liquidity ratios. It will also address the importance of these ratios for businesses and the strategies businesses can use to improve these ratios. This quantitative analysis is important to help guide business decision-making and to measure the performance of a business over time.

Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Explain** and **calculate** profitability ratios: gross profit margin, net profit margin and return on capital employed (AO2, AO4)

Overview (/study/app/hl/sid-351-cid-762729/c

- **Discuss** possible strategies to improve profitability ratios (AO3)
- **Explain** and calculate liquidity ratios: current ratio and acid (quick) test ratio (AO2, AO4)
- **Discuss** possible strategies to improve liquidity ratios (AO3)

Profitability ratios I: Gross profit margin and profit margin

Profitability ratios Profitability ratios Strategies to improve profitability Strategies to improve profitability

Profitability ratios show a company's profit in relation to other financial figures. For example, profits can be compared as a ratio to sales revenue or to the value of capital used in the business. Businesses are interested in profitability ratios because they help the business understand how well it is using the spending on resources to generate profit. Profitability ratios are also important for helping investors decide whether or not to invest in the business. High profitability may mean higher dividends for shareholders.

Concept

Sustainability (economic)

Businesses/entrepreneurs are risk-takers and seek to make a profit and to continue their businesses. Sustaining business activity is especially important when businesses are providing for human needs, supporting the wellbeing of varied stakeholders in the community, and providing tax revenue to support public services.

Ratio analysis helps a business understand its financial performance more clearly, so it can take steps to sustain its business into the future.

Gross profit margin (GPM)

Making connections

Businesses use the statement of profit or loss (Subtopic 3.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/)) for the data needed to calculate gross profit margin and profit margin.

Student view

Overview (/study/app/business-hl/sid-351-cid-762729/c

You will remember from Subtopic 3.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/) that gross profit is the revenue remaining after a business has subtracted the cost of sales. The gross profit margin (GPM) compares the gross profit to the sales revenue. It is calculated with the following formula and is expressed as a percentage:

$$\textbf{Gross profit margin} = \frac{\textbf{gross profit}}{\textbf{sales revenue}} \times \textbf{100}$$

The statement of profit or loss for the fictional company Pap-Pie Ltd (**Table 1**) can be used to find the gross profit margin for the business. This is the same data you saw in Subtopic 3.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/), without the details on cost of sales and expenses.

Table 1 . Statement of profit or loss for Pap-Pie Ltd for the year ending 31 December 2021.

	$
Sales revenue	1 000 000
1 000 000	(450 000)
Gross profit	550 000
Expenses	(240 000)
Profit before interest and tax	310 000
Interest	(10 000)
Profit before tax	300 000
~~Tax (15%)~~	(45 000)
Profit for the period	255 000
Dividends	150 000
Retained profit	105 000

The gross profit margin for Pap-Pie Ltd is calculated as follows:

$$\text{GPM} = \frac{\$550\,000}{\$1\,000\,000} \times 100$$

$$= 55\%$$

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

This means that every $100 of sales revenue generates a gross profit of $55. This is the excess revenue over the cost of sales; the margin or difference between the sales revenue and the cost of sales. Therefore, the higher the GPM figure, the better for Pap-Pie Ltd. In the event that the figure is low, the business may consider strategies to increase it.

Strategies to improve GPM

To increase its gross profit margin, a business can use a combination of strategies that either increase sales revenue or reduce its cost of sales. These are outlined in **Table 2** and **Table 3**.

Table 2. Benefits and limitations of strategies to improve sales revenue.

Strategies	Benefits	Limitations
Diversification (products and markets)	Different products may have higher gross profit margins. This can also reduce risk for the business.	Can be costly and risky (Section 1.5.7 (/study/app/business-hl/sid-351-cid-762729/book/tool-ansoff-matrix-id-36539/)).
Lowering prices	Can increase sales and sales revenue (HL Section 4.5.4 (/study/app/business-hl/sid-351-cid-762729/book/further-pricing-methods-id-39008/)).	Only works if the business achieves economies of scale to lower costs of production. May not be possible for small businesses.
Increasing prices	Can increase sales revenue, especially where the product has little competition and/or loyal customers (HL Section 4.5.4 (/study/app/business-hl/sid-351-cid-762729/book/further-pricing-methods-id-39008/)).	In a competitive market, increasing prices may cause sales to decline significantly, lowering sales revenue and GPM.

Table 3. Benefits and limitations of strategies to decrease cost of sales.

Strategies	Benefits	Limitations
Economies of scale	Purchasing economies of scale would reduce the unit costs and result in higher profit margins.	Economies of scale may only be available to large companies. May not be possible for small businesses.
Using lower cost suppliers	Lower cost suppliers would reduce cost of sales.	Could threaten the quality of products and harm revenues.

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

Strategies	Benefits	Limitations
Reducing direct labour costs	Productivity can be improved and costs can be reduced either by hiring fewer workers who are directly involved in production, or by using non-financial motivation strategies (Subtopic 2.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/)).	Pressure on production workers could increase labour turnover, increasing costs of recruiting and training (and affecting other profitability ratios).

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Figure 1. Ed Supplies is an educational supplies business.
Credit: Morsa Images, Getty Images

Ed Supplies (*ES*) is an educational supplies business in the United Arab Emirates (UAE). Its head office is located in an expensive area in Dubai. The managing director and head of sales each receive large annual bonuses and special allowances such as free housing.

ES orders supplies mainly from relatively expensive suppliers in the United Kingdom (UK). But ES has been charging a relatively low price for its products, even though the market is not very competitive. It has 10 employees and has a warehouse to store the products. In 2021, it had sales revenue of 40 million AED. It also had an annual gross profit of 20 million AED. Its expenses were 15 million AED.

Questions

1. Calculate the gross profit margin of ES. [2 marks]
2. Explain two strategies that ES could use to improve its gross profit margin. [4 marks]

Student view

Question 1

Overview (/study/ap hl/sid-351-cid-762729/c

$$\text{GPM} = \frac{20 \text{ million AED}}{40 \text{ million AED}} \times 100$$

$$= 50\%$$

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working.

Question 2

Firstly, *ES* could improve its gross profit margin by reducing the cost of sales. Cost of sales refers to the direct costs of producing its products. By reducing cost of sales, these would be lower relative to the sales revenue and result in a higher gross profit margin. One way to do this would be for *ES* to find alternative, lower cost suppliers. *ES* is currently importing 'relatively expensive' supplies from the UK. Perhaps local businesses in the UAE could offer ES lower cost supplies, reducing the cost of sales and increasing the GPM.

Secondly, *ES* could increase the prices of its educational products. Increasing the price can increase sales revenues. As long as the cost of sales remains the same, this would increase the gross profit margin because the difference between the sales revenue and cost of sales would increase. The text says that *ES* 'has been charging a relatively low price for its products'. If it could increase the product prices, *ES* may be able to earn more sales revenue, thus increasing the GPM.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *how*, explain *why*.

- Other responses may be possible and, if appropriately explained and applied in context, may receive full marks.
- To achieve full marks, you must always include theory and application to the case study in your responses.

Profit margin (PM)

The profit margin (PM) shows the profit before income and tax as a percentage of sales revenue. It is an important ratio as it shows how well managers can control indirect costs, also known as overheads or expenses. These are costs not directly related to the production of a good or service. They include costs such as rent, administrative staff salaries, insurance, promotion and other costs.

The formula for the profit margin is:

$$\textbf{Profit margin} = \frac{\textbf{profit before interest and tax}}{\textbf{sales revenue}} \times \textbf{100}$$

Student view

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Exam tip

The profit before interest and tax in the numerator of the profit margin formula is often called 'earnings before interest and tax' (EBIT) or simply 'operating profit'.

From the statement of profit or loss of Pap-Pie Ltd in **Table 1**, the profit before interest and tax is $310 000 and the sales revenue $1 000 000. The profit margin is therefore calculated as:

$$\text{PM} = \frac{\$310\,000}{\$1\,000\,000} \times 100$$

$$= 31\%$$

This indicates that out of every $100 in sales revenue, $31 is the company's profit after the cost of sales and all expenses have been deducted.

The profit margin is a better measure of profitability than the gross profit margin. The profit margin takes into account both the direct costs of producing the products and the indirect costs or expenses.

For-profit commercial enterprises often aim for high and increasing profit margins. A business may also compare their profit margin with that of its competitors as a way of evaluating financial performance. These businesses may use strategies to improve the profit margin ratio. Any steps to improve gross profit margin, such as raising revenue through higher prices or reducing cost of sales, will also improve the profit margin for a business. However, if the business also reduces its expenses, the profit margin can improve even more. It may be possible for a business to reduce the following expenses:

- **Rent.** This could be achieved by negotiating a lower rental payment for existing premises, or by relocating to new premises. The disadvantage of moving may be that the new location is less convenient for customers or has lower quality facilities.
- **Electricity.** This could be achieved by monitoring and lowering electricity use, or by using alternative, lower-cost sources of energy. The business must ensure, however, that lower electricity use does not result in a lower quality product.
- **Stationery.** A business could aim to lower paper use by relying more on digital communication. However, this could also increase energy use, causing higher expenses elsewhere.
- **Administration costs.** This could be achieved through reducing administrative staffing or by lowering salaries or perks. However, the business must be careful not to damage staff motivation by taking these measures (Subtopic 2.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/)).

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

For-profit social enterprises may interpret gross profit margin and profit margins differently from for-profit commercial enterprises. If a for-profit social enterprise is offering its socially or environmentally beneficial products at an affordable price to increase positive impact, then it could be that profitability is lower. Likewise, it could be that paying workers a living and fair wage, working to regenerate ecosystems, or engaging in other ways to distribute value to more stakeholders will result in higher costs and lower gross profit margin and profit margin. This doesn't mean that the business is doing poorly, just that the value it is generating is realised and distributed in other ways.

Thus, it is important to understand that profitability, as measured through these relatively narrow profitability metrics, is not the only way to judge the value that a business is generating, or even how efficient it is.

Theory of Knowledge

You have already learned that changes in the external environment can have an impact on business operations. Recent changes in environmental, sociocultural and economic factors are causing businesses and their stakeholders to reassess their interpretations of profitability ratios.

Given the rapid degradation of the natural environment and threats of climate change, as well as rising economic inequality, society has begun to question the business goals of maximising profit and delivering value to a narrow group of shareholders.

- How does this sociocultural change, influenced by changes to the natural environment and economic conditions, impact our understanding and interpretation of profitability ratios, as well as business objectives related to those ratios?

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Use the information given in the previous activity about Ed Supplies (*ES*) to answer the questions below.

In 2021, *ES* had sales revenue of 40 million AED. It also had an annual gross profit of 20 million AED. Its expenses were 15 million AED.

Questions

1. Calculate *ES*'s profit margin. [2 marks]
2. Explain two strategies that *ES* could take to improve its profit margin. [4 marks]

Student view

Question 1

Overview (/study/app/business-hl/sid-351-cid-762729/c

To determine profit margin, you first have to calculate the profit.

$$\text{PM} = \text{gross profit} - \text{expenses}$$

$$= 20 \text{ million AED} - 15 \text{ million AED}$$

$$= 5 \text{ million AED}$$

$$\text{PM} = \frac{\text{profit}}{\text{sales revenue}} \times 100$$

$$= \frac{5 \text{ million AED}}{40 \text{ million AED}} \times 100$$

$$= 12.5\%$$

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working.

Question 2

One strategy that *ES* could take would be to reduce expenses. Expenses are the costs of running the business that are not associated with producing individual products. They are also known as indirect costs or overheads. Reducing expenses will increase the difference between sales revenue and profit, thus increasing the PM. The text mentions that *ES* has its head office in an 'expensive area in Dubai'. It also mentions that 'the managing director and head of sales each receive large annual bonuses and special allowances such as free housing'. By moving the head office to a less expensive area and reducing the bonuses and perks of the top managers, *ES* could reduce its expenses and can thus improve the PM.

A second strategy that *ES* could take would be to increase sales revenues by diversifying its product range. *ES* could sell new products that have a higher price, and therefore generate more sales revenue. These products could also have a higher gross profit margin, so would be likely to have a higher profit margin too. As *ES* is an educational products supplier, perhaps it could move into more expensive products such as digital equipment for classrooms, where the profit margins may be higher.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *how*, explain *why*.

- Other responses may be possible and, if appropriately explained and applied in context, may receive full marks.
- To achieve full marks, you must always include theory and application to the case study in your responses.

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

Examine the financial data for Company A in **Table 2** and answer the questions below.

Table 2. Partial statement of profit or loss for Company A (in thousands of $)

	2020	2021
Sales revenue	2000	2400
Cost of sales	1200	1480
Gross profit	800	920
Expenses	600	600
Profit before income and tax	200	320

Questions

1. Calculate the GPM and PM in 2020 and 2021.
2. Why did the GPM decrease from 2020 to 2021, but the PM increase?

Question 1

$$2020\ \text{GPM} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$= \frac{800}{2000} \times 100$$

$$= 40\%$$

$$2021\ \text{GPM} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$= \frac{920}{2400} \times 100$$

$$= 38.33\%$$

$$2020\ \text{PM} = \frac{\text{profit}}{\text{sales revenue}} \times 100$$

$$= \frac{200}{2000} \times 100$$

$$= 10\%$$

$$2021\ \text{PM} = \frac{\text{profit}}{\text{sales revenue}} \times 100$$

$$= \frac{320}{2400} \times 100$$

$$= 13.33\%$$

Question 2

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

Sales revenues increased, but the cost of sales increased by an even larger percentage. Because the cost of sales increased so much, the gross profit margin declined. However, as sales revenues increased, the expenses remained the same, so the profit margin increased. This can be explained by the fact that some expenses, like rent for a building, will not change as output and revenues increase.

3 section questions

Question 1

What does the gross profit margin measure?

1 The gross profit, as a percentage of sales revenue ✓

2 The return on capital employed

3 The overall profit of the company

4 The operating profit as a percentage of sales revenue

Explanation

The gross profit is calculated by subtracting the cost of goods sold from sales revenue. The gross profit margin measures the gross profit as a percentage of sales revenue to show the profit the company generates from its core business activities.

Question 2

A business can improve its gross profit margin by increasing sales revenues (as long as economies of scale are achieved).

Which of the following is **not** a strategy to increase sales revenue?

1 Finding lower cost suppliers ✓

2 Launching new goods and services

3 Reducing prices

4 Using different promotional strategies

Student view

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Explanation

Finding lower cost suppliers enables the business to reduce its direct costs and still be profitable. This is a strategy to reduce costs, but it will not increase sales revenues.

Question 3

The profitability ratio that measures the profit before interest and tax as a percentage of sales revenue is called:

1 Profit margin ✓

2 Gross profit margin

3 Net profit before interest and tax

4 Net profit after interest and tax

Explanation

The profit margin measures the profit as a percentage of sales revenue. This is calculated by subtracting expenses from the gross profit to find profit before interest and tax. Then this profit figure is expressed as a percentage of sales revenue.

Profitability ratios II: Return on capital employed

Profitability ratios Profitability ratios Strategies to improve profitability Strategies to improve profitability

Making connections

Businesses use the statement of profit or loss and the statement of financial position (balance sheet) for the data needed to calculate return on capital employed. See Subtopic 3.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/).

Return on capital employed (ROCE) is a profitability ratio, but it compares different financial figures from the ones explored in Section 3.5.1 (/study/app/business-hl/sid-351-cid-762729/book/prof-ratios-i-gross-profit-and-profit-margin-id-39306/). The ROCE measures the business's profit before interest and tax in terms of the capital that has been 'employed' or used in the business. The formula to calculate ROCE is as follows:

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$$\text{ROCE} = \frac{\text{profit before interest and tax}}{\text{capital employed}} \times 100$$

Capital employed is the value of all sources of longer-term internal and external finance for a business. The formula for calculating capital employed is as follows:

$$\text{Capital employed} = \text{non-current liabilities} + \text{equity}$$

You can calculate the ROCE using the financial information for Pap-Pie Ltd that was used in Subtopic 3.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/).

Profit before interest and tax = $310 000
Non-current liabilities = $180 000
Equity = $530 000

$$\text{ROCE} = \frac{\text{profit before interest and tax}}{(\text{non-current liabilities} + \text{equity})} \times 100$$

$$= \frac{310\,000}{(180\,000 + 530\,000)} \times 100$$

$$= 44\%$$

An ROCE of 44% means that every $100 of resources (equity) used generates $44 in profit. This figure represents a good ROCE ratio for Pap-Pie Ltd.

To be interpreted more effectively, however, the ROCE must be compared with other businesses in the same industry. For example, if the industry ROCE is 50%, then Pap-Pie Ltd is doing less well by this measure compared to competitors. This is because its ROCE is below the industry standard. Therefore, Pap-Pie Ltd is not using its resources as effectively as the other businesses in the industry.

Another way of using the ROCE to evaluate business performance is to compare the data over time for Pap-Pie Ltd. If the business increases the ROCE over time, it is becoming more efficient at converting resources into profit.

A third way of interpreting the ROCE is to consider whether it is higher than the interest rate that could be earned from placing the financial resources in a regular, relatively risk-free savings account. The ROCE should be above the interest rate that would be earned on such an account. If it is not, then it would make more financial sense to put the financial resources into a risk-free account.

Some ways of evaluating ROCE performance may not be appropriate for for-profit social enterprises. For-profit social enterprises may have a lower ROCE than other businesses in the industry because they are distributing value more widely in their organisation. They may be charging lower prices for

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

their products, paying workers living and fair wages, and working to regenerate ecosystems, among other actions. These are likely to lower the financial return on investment but increase other kinds of returns to stakeholders.

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Figure 1. Zazia Perfumes Ltd — a fictional Japanese company.
Credit: Yulia Naumenko, Getty Images

Examine the data from the financial statements of Zazia Perfumes Ltd, a fictional business based in Tokyo, which produces beauty products and perfumes. Then answer the questions that follow. All financial figures are in millions of JPY.

Table 1. Data from the financial statements of Zazia Perfumes Ltd (in thousands of JPY).

	2020	2021
Sales revenue	50	65
Cost of sales	10	15
Expenses	25	30
Non-current liabilities	70	70
Equity	50	50

Questions

1. Calculate the GPM for Zazia perfumes Ltd. for both 2020 and 2021 and comment on your findings. [4 marks]

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

2. Calculate the PM for Zazia perfumes Ltd. for both 2020 and 2021 and comment on your findings. [4 marks]
3. Calculate the ROCE for Zazia perfumes Ltd. for both 2020 and 2021. [2 marks]

Question 1

2020

$$\text{Gross profit 2020} = \text{sales revenue} - \text{cost of sales}$$

$$= 50 \text{ thousand JPY} - 10 \text{ thousand JPY}$$

$$= 40 \text{ thousand JPY}$$

$$\text{GPM 2020} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$= \frac{40 \text{ thousand JPY}}{50 \text{ thousand JPY}} \times 100$$

$$= 80\%$$

2021

$$\text{Gross profit 2021} = \text{sales revenue} - \text{cost of sales}$$

$$= 65 \text{ thousand JPY} - 15 \text{ thousand JPY}$$

$$= 50 \text{ thousand JPY}$$

$$\text{GPM 2021} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$= \frac{50 \text{ thousand JPY}}{65 \text{ thousand JPY}} \times 100$$

$$= 76.9\%$$

Section Student (0/9) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/prof-ratios-i-gross-profit-and-profit-margin-id-39306/print/) Assign

Zazia perfumes has earned a gross profit of 80 JPY and 76.90 JPY for every 100 JPY of sales revenue for 2020 and 2021 respectively. This is a decrease in the gross profit margin. Though sales revenue increased, cost of sales increased by a larger proportion, causing a decrease in the gross profit margin.

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working for each year.

Comment on is an AO2 level command term that requires breaking down ideas into simpler parts to see how the parts relate with accurate application to the case study.

- One mark is given for recognising that the GPM decreased because the cost of sales increased more rapidly.
- One mark is given for using data to support the response.
- Other responses may be possible and, if appropriately commented on and applied in context, may access full marks.

Student view

Overview (/study/ap hl/sid-351-cid-762729/c

Question 2

2020

$$\text{Profit 2020} = \text{gross profit} - \text{expenses}$$

$$= 40 \text{ thousand JPY} - 25 \text{ thousand JPY}$$

$$= 15 \text{ thousand JPY}$$

$$\text{PM 2020} = \frac{\text{profit}}{\text{sales revenue}} \times 100$$

$$= \frac{15 \text{ thousand JPY}}{50 \text{ thousand JPY}} \times 100$$

$$= 30\%$$

2021

$$\text{Profit 2021} = \text{gross profit} - \text{expenses}$$

$$= 50 \text{ thousand JPY} - 30 \text{ thousand JPY}$$

$$= 20 \text{ thousand JPY}$$

$$\text{PM 2021} = \frac{\text{profit}}{\text{sales revenue}} \times 100$$

$$= \frac{20 \text{ thousand JPY}}{65 \text{ thousand JPY}} \times 100$$

$$= 30.77\%$$

Zazia Perfumes Ltd has earned a profit before interest and tax of 30 JPY and 30.77 JPY for every 100 JPY of sales revenue in 2020 and 2021 respectively. This is a slight increase in profit margin, indicating that expenses grew more slowly than sales revenue for the period.

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working for each year.

Comment on is an AO2 level command term that requires breaking down ideas into simpler parts to see how the parts relate with accurate application to the case study.

- One mark is given for recognising that the GPM decreased because the cost of sales increased more rapidly.
- One mark is given for using data to support the response.
- Other responses may be possible and, if appropriately commented on and applied in context, may access full marks.

Question 3

$$2020 \text{ ROCE} = \frac{\text{profit before interest and tax}}{(\text{non-current liabilities} + \text{equity})} \times 100$$

Student view

Overview (/study/ap hl/sid-351-cid-762729/c

$$= \frac{15}{(70 + 50)} \times 100$$

$$= 12.5\%$$

$$2021\ \text{ROCE} = \frac{\text{profit before interest and tax}}{(\text{non-current liabilities} + \text{equity})} \times 100$$

$$= \frac{20}{(70 + 50)} \times 100$$

$$= 16.67\%$$

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working.

ROCE is calculated using the 'profit before interest and tax', because this allows businesses to better compare financial performance over time. Taking out the impact of interest rates and taxes, which are not in the business's control, enables the business and stakeholders to see the performance of the business.

If a business is dissatisfied with the ROCE, there are a number of ways to improve it. These are listed in **Table 1.**

Table 1. Strategies to improve ROCE.

Strategy	Detail
Increase sales revenue to increase profit before interest and tax.	Special promotions, price changes, increasing distribution channels available to customers, and introducing new and improved products can all increase sales revenues (hopefully by less than costs increase with these strategies).
Reduce cost of sales and expenses to increase profit before interest and tax.	Using lower cost suppliers, improving stock control, seeking economies of scale, and improving quality management to reduce resource waste can lower cost of sales and expenses.
Sell unused and obsolete assets.	Selling unused, obsolete and underused assets will improve the business's operational efficiency and reduce costs.
Reduce long-term liabilities.	Paying off debt or negotiating lower interest rates or more attractive repayment terms on loans.

Student view

Overview (/study/app/hl/sid-351-cid-762729/c

Strategy	Detail
Reduce share capital and retained profit (equity).	This would reduce the denominator in the equation, but is not really desirable. Reducing retained profit, for example, would mean that there is less financial capital to invest in the business.

Making connections

In order to understand strategies to improve profitability ratios, you may be required to draw on previous learning. For example, you have previously learned about:

- economies of scale (Subtopic 1.5 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36532/))
- pricing and promotional strategies and distribution channels (Subtopic 4.5 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39004/))

HL students will study how businesses can improve stock control in Subtopic 5.6 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39337/), and how a business can improve its quality management and reduce waste in Subtopic 5.3 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39339/).

Case study

Leading sports brands: Which is the fittest?

Figure 2. Competition is high between brands in the sportswear industry.
Credit: Peter Cade, Getty Images

Nike and Adidas are among the world's leading sports brands, earning billions of dollars in sales revenue. They are driven by aggressive marketing strategies, involving for example the endorsement of celebrity sports figures such as Christiano Ronaldo and Lionel Messi.

Student view

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Does the popularity of the brand necessarily mean it is financially sound? Compare the sales revenue, profitability and efficiency ratios of Nike and Adidas in **Table 2** and then answer the questions below.

Table 2: Profitability ratios for Nike and Adidas for 2021.
Sources: Nike (https://investors.nike.com/investors/news-events-and-reports/default.aspx) and Adidas (https://report.adidas-group.com/2021/en/consolidated-financial-statements/consolidated-income-statement.html)

	Nike	Adidas
Sales revenue	46.31 billion USD	21.23 million euros
Gross profit margin	44.8%	50.7%
Profit margin	15.5%	15.45%

Questions

1. Define the term gross profit margin (GPM). [2 marks]
2. Define the term return on capital employed (ROCE). [2 marks]
3. Explain whether Adidas's shareholders should be satisfied with the company's GPM. [2 marks]

Question 1

The gross profit margin (GPM) is a profitability ratio that expresses the gross profit as a percentage of sales revenue. Gross profit is the profit a business makes after subtracting the cost of sales.

Define is an AO1 level command term, requiring the precise meaning of a term.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- No application to the stimulus material is required for definitions.

Question 2

Return on capital employed (ROCE) is a profitability ratio that expresses the profit before interest and tax as a percentage of the capital used by the business.

Define is an AO1 level command term, requiring the precise meaning of a term.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- No application to the stimulus material is required for definitions.

Question 3

Student view

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Adidas's gross profit margin of 50.7% means that for every $100 of sales revenue, Adidas earns $50.70 in gross profit. This means that Adidas's cost of sales are worth $49.30 for each $100 of sales.

One way to compare Adidas's GPM is to compare it to other industry leaders. If the GPM is higher than that of its competitors, it indicates that the business is using raw materials and other direct costs more efficiently to generate profit. Adidas's GPM is 50.7%, which is higher than close competitor Nike's GPM of 44.8%. This is a positive indicator for Adidas. However, shareholders would likely want to know other information, such as how the 2021 GPM compares to previous years.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- Other responses may be possible and, if appropriately commented on and applied in context, may achieve full marks.
- To achieve full marks, you must always include theory and application to the case study in your responses.

2 section questions

Question 1

What is the formula for calculating capital employed for the ROCE calculation?

1 Capital employed = non-current liabilities + equity ✓

2 Capital employed = gross profit + share capital + retained earnings

3 Capital employed = profit before interest and tax + share capital + retained earnings

4 Capital employed = current liabilities + equity

Explanation

Capital employed is the value of all sources of internal and external finance for a business. It includes all non-current liabilities and equity of a business.

Question 2

Identify the term used to measure a company's financial performance in terms of the capital employed.

Student view

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Return on capital employed

Accepted answers

Return on capital employed, ROCE, Returns on capital employed

Explanation

ROCE (return on capital employed) is the measurement of a company's financial performance in terms of the capital employed. ROCE is calculated by dividing the net profit before interest and tax by non-current liabilities plus share capital. This allows businesses to better compare the financial performance based on the past.

Liquidity ratios

Liquidity refers to a company's ability to convert its short-term assets into cash. Liquidity ratios measure a company's ability to cover its short-term debt obligations, without having to sell off any fixed assets.

It is important that a company has good liquidity. Otherwise the business risks not being able to pay its trade creditors and may become insolvent.

The liquidity ratios are related to another important concept in business; the working capital cycle. Every business relies on a regular flow of cash into the business so that it has the funds to purchase resources and pay workers to produce the product. The working capital cycle is illustrated in **Figure 1**.

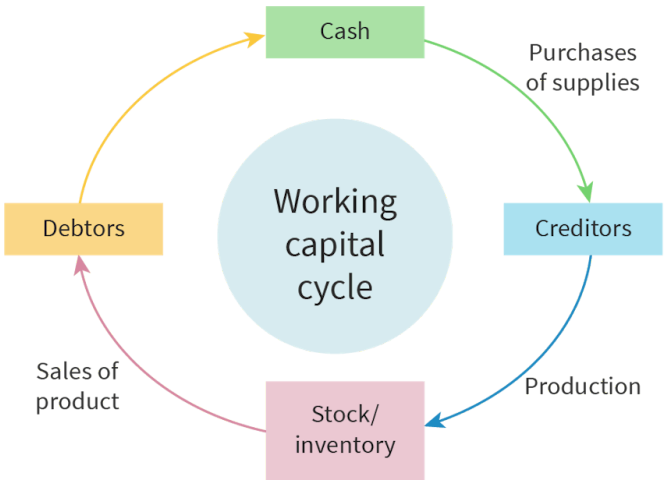

Figure 1. The working capital cycle.

More information for figure 1

Student view

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The image is a circular flow diagram titled "Working capital cycle." At the center is a circle labeled "Working capital cycle." The flow represents the continuous process of cash movement in a business. Starting at the top, there is a green box labeled "Cash," flowing to "Purchases of supplies," indicating the use of cash to buy materials.

Next, the flow leads to a blue box labeled "Creditors" on the right, indicating that supplies are purchased on credit. From there, the flow arrows to the bottom right, marked "Production," indicating the conversion of supplies into stock or inventory.

Continuing, the flow moves to a pink box labeled "Stock/inventory" at the bottom, representing stored goods ready for sale. Arrows direct the flow to the bottom left labeled "Sales of product," signifying sales to customers.

Finally, the flow leads to an orange box labeled "Debtors" on the left, indicating customers who owe money for purchased goods. Completing the cycle, there is a flow arrow back to the top green box, "Cash," representing received payment and the restarting of the cycle.

[Generated by AI]

The business uses cash to purchase raw materials and supplies. This money goes to trade creditors who have sold these resources to the business. The business then builds up stock (inventory) ready for sale. The business sells its product to debtors, who pay the business for the products. This inflow of cash is then used to purchase more resources to continue production.

Working capital is calculated by subtracting current liabilities from current assets and is a measure of cash flow into a business.

$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

You will learn more about cash flow in Subtopic 3.7 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39317/). This section will explore liquidity ratios, which is another way of measuring how liquid a business is.

There are two liquidity ratios:

- the current ratio
- the acid test (quick) ratio

The current ratio and the acid test ratio are used by banks to determine whether they should make loans to companies. Managers also consider these ratios to evaluate the business's ability to pay its debts when they are due.

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Exam tip

Ratios can involve different units of measurement. In the previous section, the gross profit margin and profit margin were expressed as percentages. But liquidity ratios are expressed as simple numerical values. Make sure you are aware of how the final value for each of the ratios is expressed.

Current ratio

The current ratio is a liquidity ratio that calculates the business's current (short-term) assets relative to its current (short-term) liabilities.

You will remember from Section 3.4.3 (/study/app/business-hl/sid-351-cid-762729/book/final-accounts-st-of-financial-position-id-39285/) that current assets include cash, debtors and stock (inventory). Cash is the most liquid of these assets, followed by debtors, and then finally stock. Current liabilities include overdrafts, trade creditor and short-term loans.

The current ratio is calculated using the formula:

$$\textbf{Current ratio} = \frac{\textbf{current assets}}{\textbf{current liabilities}}$$

The following worked example again uses data from the statement of financial position (balance sheet) of Pap-Pie Ltd. The business had current assets valued at $70 000 and current liabilities valued at $20 000.

$$\text{Current ratio} = \frac{\$70\,000}{\$20\,000}$$

$$= 3.5$$

This means that every $1 of current liabilities that Pap-Pie Ltd owes to its trade creditors, it has $3.50 in liquid current assets to cover those liabilities.

Generally, the prudent accounting recommendation is a current ratio in the range of 1.5 to 2. A ratio below 1 indicates that the company is at risk of not being able to cover its short-term debts. This could result in insolvency (Section 3.6.2 (/study/app/business-hl/sid-351-cid-762729/book/strategies-to-improve-efficiency-id-39313/)). A business may want to adjust the current ratio too, depending on the uncertainty of the external environment.

Student view

Too high a current ratio, however, may be inefficient. It shows that there is too much money held in cash that could be invested more effectively in the business. It may also be that the debtors' figures are too high, indicating that the business has a problem collecting the money it is owed. It could also be

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that the business has too much stock on hand. Note that different industries have different ratios. For instance, fast-moving stock generates a steady cash flow. Thus, supermarkets and retailers can be comfortable with a lower current ratio. Pap-Pie Ltd seems to have a somewhat high current ratio.

There are several ways a business can improve its current ratio. A business can increase its current assets with methods listed in **Table 1**. Or a business can reduce its current liabilities with methods listed in **Table 2**.

Table 1. Benefits and limitations of methods to increase current assets.

Method	Benefits	Limitations
Increase sales	Selling more products with lower prices or increased promotion, or increasing revenue per unit with higher prices, may increase cash coming into the business and reduce stocks.	It is not always clear whether changing prices or promotion will increase or decrease total revenues. In addition, some strategies can increase liabilities, so the benefits may be cancelled out.
Reduce debtors' figures	Asking customers who buy on credit to pay sooner with cash can increase cash assets.	Demanding cash up front from customers may cause the business to lose customers.
Sell unused fixed assets	The sale of unused assets such as old trucks and machinery could help bring in more cash.	The business must be very careful not to sell assets that it needs to produce its products efficiently.
Reduce drawings	Drawings refers to cash withdrawals from the business for the owner's personal use. If these are reduced, the business will have more cash on hand.	Owners (of small businesses in particular) may need the cash for personal expenses, especially if they do not take a salary.

Table 2. Benefits and limitations of methods to reduce current liabilities.

Method	Benefits	Limitations
Extend credit period	If a business can lengthen the time it has to pay trade creditors for resources, then the trade creditors' figure can be lowered.	Increasing the time period of payment for resources can threaten relationships with suppliers.
Decrease overheads	Overheads such as rent, administrative staff salaries and stationery constitute a cash outflow. Reducing these costs could leave the company with more working capital to pay off its current liabilities.	A business may not be able to move to lower cost facilities. It must also be careful about motivational issues that might be caused by lowering salaries (Subtopic 2.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39054/)).

Student view

Method	Benefits	Limitations
Reduce current liabilities	Using some working capital to pay overdrafts and current liabilities will improve the current ratio and save money on interest payments.	A business may not have enough working capital to pay down debts more quickly. This will also limit the funds available to purchase the resources needed to produce its product.

Acid test (quick) ratio

The acid test (quick) ratio is a narrower indicator of a business's ability to pay its short-term debts. The acid test ratio excludes stock (inventory) from the current assets. Stocks are excluded because they are the least liquid of current assets. Whether a business can sell stock depends on many factors that may be out of the control of the business. The acid test (quick) ratio is calculated using the formula:

$$\textbf{Acid test ratio} = \frac{\textbf{current assets} - \textbf{stock}}{\textbf{current liabilities}}$$

The following worked example again uses data from the statement of financial position (balance sheet) of Pap-Pie Ltd. The business had current assets valued at $70 000, stock valued at $20 000 and current liabilities valued at $20 000.

$$\text{Acid test ratio} = \frac{70\,000 - 20\,000}{20\,000}$$

$$= 2.5$$

This means that for every $1 of current liabilities Pap-Pie Ltd incurs, the business has $2.50 worth of liquid assets to cover the liabilities. This is lower than the current ratio, but is still relatively high for a business with the same downsides as mentioned in the section on the current ratio.

If the acid test (quick) ratio is too low, the business can use all of the methods introduced in Table 2 for the current ratio. However, because stock is removed from the acid test ratio, reducing stocks is an additional method that a business can use to improve the ratio.

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Chowdary Mills in Mumbai, India, is a small, family-owned business that designs and manufacturers fabrics. The privately held company was founded by Azra Sayyed and her husband Zaheer Chowdary. Due to the increase in competition, as well as restrictions caused by the COVID-19 pandemic in India, the financial situation of Chowdary Mills has worsened.

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Azra and Zaheer's financial accountant Sana presented the financial information shown in **Table 3** for Chowdary Mills. All figures are expressed in Indian rupees (INR).

Table 3. Financial data for Chowdary Mills for the period ending 31 December 2021.

Cash	90 000
Debtors	60 000
Stock / Inventory	55 000
Overdrafts	60 000
Tax	30 000
Trade creditors	50 000

Questions

1. Calculate the current ratio for Chowdary mills. [2 marks]
2. Calculate the acid test (quick) ratio for Chowdary mills. [2 marks]
3. Comment on the figures for the current and acid test (quick) ratio. [2 marks]

Question 1

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Current ratio} = \frac{(90\,000 + 60\,000 + 55\,000)}{60\,000 + 50\,000}$$

$$\text{Current ratio} = 1.86$$

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working.

Question 2

$$\text{Acid text (quick) ratio} = \frac{(\text{current assets} - \text{stock})}{\text{current liabilities}}$$

$$\text{Acid text (quick) ratio} = \frac{(90\,000 + 60\,000 + 55\,000) - (55\,000)}{(60\,000 + 50\,000)}$$

$$\text{Acid text (quick) ratio} = 1.36$$

Calculate is an AO4 level command term that requires numerical answers showing the relevant stages in the working.

- One mark is given for the correct answer.
- One mark is given for showing appropriate working.

Question 3

Student view

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The current ratio is a liquidity ratio that calculates the business's current assets relative to its current liabilities. The acid test (quick) ratio also measures this but removes stock, which is a relatively non-liquid form of current asset. The value for the current ratio for Chowdary Mills is 1.86, which is considered a prudent ratio for a business. The acid test (quick) ratio is lower at 1.36, and may be too low. It means that the business may have difficulty covering its short-term liabilities, particularly in the unpredictable environment created by the COVID-19 pandemic.

Comment on is an AO2 level command term that requires breaking down ideas into simpler parts to see how the parts relate with accurate application to the case study.

- One mark is given for recognising that the GPM decreased because the cost of sales increased more rapidly.
- One mark is given for using data to support the response.
- Other responses may be possible and, if appropriately commented on and applied in context, may access full marks.

Evaluation of ratio analysis

Ratio analyses provide useful data on the business for stakeholders (Subtopic 1.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36525/)) who are directly interested in the business's financial performance. Profitability and efficiency ratios help stakeholders make decisions by assessing the strengths and weaknesses of the business's finances. These ratios would likely be part of a SWOT analysis for the internal strengths and weaknesses of a business. **Table 4** outlines some of the uses of ratio analyses for various stakeholders.

Table 4. Uses of ratio analyses.

Stakeholders	Uses of ratio analysis
Employees and managers	Employees can use financial ratios to anticipate any future pay increase and job security. Managers may be able to anticipate future bonuses.
Suppliers	Suppliers may have greater security that bills will be paid if the business has positive liquidity ratios.
Shareholders	Shareholders may use financial ratios to anticipate their returns on investment.
Banks	Banks use liquidity ratios to see if the business will be able to pay back loans.
Local community	Local communities might also use ratios to anticipate new job opportunities in the business.

Student view

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However, like all quantitative data, ratio analyses have limitations and cannot be used alone to make business decisions. **Table 5** outlines some of the limitations of ratio analyses.

Table 5. Limitations of ratio analyses.

Limitation	Explanation
Incomplete picture of current and future finances	Ratios are historical financial figures. They do not show the current or future financial situation of the business.
External influences	External changes (Section 1.1.5 (/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/)) can influence the financial ratios of the business unexpectedly.
Qualitative factors ignored	Qualitative factors are not taken into account. Customer satisfaction, quality of goods, staff motivation are important factors in addition to quantitative data for business decisions.
Different interpretation by social enterprises	Social enterprises may interpret ratios differently from commercial enterprises. Social enterprises are likely distributing more value to a wider variety of stakeholders. Their financial ratios may be lower than other for-profit commercial enterprises, and this might actually be an indicator of success.

Exam tip

When answering extended response questions related to ratio analysis, it is important to examine factors other than the quantitative financial data. Businesses make decisions on strategy by examining both qualitative and quantitative data.

Table 6. Summary of ratio analysis.

Type	Ratio	Formula
Profitability ratios	Gross profit margin	$\frac{\text{gross profit}}{\text{sales revenue}} \times 100$
	Profit margin	$\frac{\text{profit before interest and tax}}{\text{sales revenue}} \times 100$
	Return on capital employed	$\frac{\text{profit before interest and tax}}{\text{capital employed}} \times 100$
Liquidity ratios	Current ratio	$\frac{\text{current assets}}{\text{current liabilities}}$
	Acid test (quick) ratio	$\frac{(\text{current assets} - \text{stock})}{\text{current liabilities}}$

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3 section questions

Question 1

Liquidity ratios are measures of the company's ability to cover its short-term debt obligations. The two types of liquidity ratios are the 1 Current ✓ ratio and the acid test (quick) ratio.

Accepted answers and explanation

#1 Current

Question 2

Which of the following is excluded from the current ratio calculation, but included in the acid test (quick) ratio?

1 Stock ✓

2 Current assets

3 Current liabilities

4 Short-term liabilities

Explanation

Stock is excluded from the acid test (quick) ratio because stock is considered a relatively non-liquid form of current asset. Thus the acid test (quick) ratio gives a narrower and more precise view of the liquidity of the business.

Question 3

Which of the following is a limitation of ratio analysis?

1 External changes can influence the financial ratios of the business without any change in the performance of the business. ✓

2 Ratio analysis is important for trade creditors (suppliers), who should be convinced that the business has enough working capital to repay its loans.

3 Shareholders use financial ratios to anticipate their returns on investment.

4 Employees can use ratio analysis to judge the stability of the business and anticipate future pay increases.

Explanation

Student view

External changes, such as those associated with the STEEPLE factors, can influence the financial ratios of the business without any change in the performance of the business. All the other responses are uses of ratio analysis.

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3. Finance and accounts / 3.5 Profitability and liquidity ratio analysis

Terminology exercise

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/terminology-exercise-id-39309/print/) Assign

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

The term refers to quantitative expressions of the relationship between variables in the final accounts. They are used by stakeholders to evaluate the performance of a business.

Various ratios show the profit of a business in relation to other financial data. For example, they might show the ratio of profits to the sales revenue.

The margin indicates the gross profit relative to the sales revenue. The margin shows the profit before interest and tax as a percentage of sales revenue.

The term refers to the ability of a business to convert its current assets into cash. A business's ability to pay short-term liabilities is measured using .

The ratio is a liquidity ratio that calculates the value of a business's short-term assets relative to its short-term liabilities. The is also a liquidity ratio, but it removes stock from the calculation to make the liquidity assessment more precise.

acid test | liquidity | current | liquidity ratios | gross profit | financial ratios | profitability | profit

Check

Interactive 1. Understanding Profitability and Liquidity Ratio Analysis.

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Checklist

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/checklist-id-39310/print/) Assign

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
  - profitability ratio
  - liquidity ratio
  - gross profit margin
  - profit margin
  - return on capital employed
  - capital employed
  - liquidity
  - current ratio
  - acid test (quick) ratio
- explain and calculate profitability ratios: gross profit margin, profit margin and return on capital employed (AO2, AO4)
- discuss possible strategies to improve profitability ratios (AO3)
- explain and calculate liquidity ratios: current ratio and acid (quick) test ratio (AO2, AO4)
- discuss possible strategies to improve liquidity ratios (AO3)

Reflection

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/reflection-id-48323/print/) Assign

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Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	**Concept:** Sustainability
2	**Learner profile:** Inquirers
3	**Learner profile:** Open-minded

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.

Reflection

In this subtopic you learned about profitability and liquidity ratio analysis.

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.

1. Since profit and loss accounts are published annually, it is often tempting for publicly held companies to do everything in their power to report profits for their shareholders. What can be a drawback of being only driven by profits in the short term?
2. How would the way social enterprises approach profit differ from other for-profit businesses?
3. Financial performance analysis appears objective as it involves numbers and calculations. What are some of the assumptions or biases that can make these less objective?

⚠ Once you submit your response, you won't be able to edit it.

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0/2000

Submit

Rate subtopic 3.5 Profitability and liquidity ratio analysis

Help us improve the content and user experience.

Student view