

Specification Topic: Ratio analysis (1)

Q4	Calculation time! Based on the selected financial information for Sleaford Yachts Ltd, calculate the following for both years and comment on the results...		
		This year £'000	Last year £'000
	Operating profit	58	70
	Non-current liabilities	190	100
	Total equity	180	200
	4.1 Return on capital employed (ROCE)		
		This Year	Last Year
	Calculation: (show your workings)		
	Comment:		
	4.2 Gearing		
		This Year	Last Year
	Calculation: (show your workings)		
	Comment:		

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Q5	Identify whether the statements below are a benefit, problem or cause of high gearing			
		Benefit	Problem	Cause
	5.1 The company can benefit from a cheap source of finance when interest rates are low			
	5.2 A sudden rise in interest rates can cause problems with making repayments			
	5.3 The firm is undertaking rapid expansion			
	5.4 When profits are high, interest payments are likely to be lower than shareholder dividend requests			
	5.5 The firm has taken over another business			
	5.6 Fewer shareholders enables the existing owners to keep more control			
	5.7 High interest rates could lead to much higher expenses, thus lowering profit			
	5.8 It could be difficult to convince a bank to provide further lending			