

What the numbers say: ratio analysis

A Level 10.2 Liquidity · profitability · efficiency · gearing · investor ratios

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Running case: Wahat Foods · 60 minutes

How this topic is examined

Paper 3 · Decision-making · 60 marks · 1 h 45

Calculate ROCE, gearing, acid test [2]–[4]

Calculate dividend cover, yield, P/E [2]–[4]

Analyse ways to improve a ratio [8]

Evaluate usefulness of ratio analysis [12]

Paper 4 · Business strategy · 40 marks · 1 h 15

Evaluate data for an investor [20]

Advise on improving gearing or returns [20]

Use the ratio table over time

Link ratios to strategy

Typical questions on this topic

Calculate the return on capital employed (ROCE). [3]

Calculate the gearing ratio if the expansion is financed by a loan. [4]

Calculate the dividend cover for 2024. [4]

Evaluate the usefulness of ratio analysis when making business decisions. [12]

Evaluate whether [business] should increase dividends to shareholders. [12]

By the end of this lecture you can...

- 1 Calculate and interpret current and acid test ratios.
- 2 Calculate and interpret ROCE, gross profit and profit margins.
- 3 Calculate inventory turnover, receivables and payables days.
- 4 Calculate and interpret the gearing ratio.
- 5 Calculate dividend yield, dividend cover and P/E.
- 6 Evaluate ways to improve each ratio, and the limits of ratios.

END OF PREVIEW

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