

## **Chapter 5**

### ***Level I***

#### **E5.6** *Time allowed – 60 minutes*

Small plc and Big plc are two companies that operate in the same market sector, retailing. The profit and loss accounts for the year ended 30 September 2001 and the balance sheets as at 30 September 2001 are shown below for both companies.

**You are required to**

- (i) calculate the appropriate profitability and efficiency ratios for the two companies**
- (ii) comment on each company's performance, and their similarities and differences.**

#### **Profit and loss account for the year ended 30 September 2001**

	<b>Small plc</b>		<b>Big plc</b>	
	<b>£000</b>		<b>£000</b>	
<b>Sales</b>		1,140		150,000
Cost of sales				
Opening stoc	180		20,000	
Purchases	<u>760</u>		<u>118,000</u>	
	940		138,000	
Closing stock	<u>200</u>	<u>740</u>	<u>24,000</u>	<u>114,000</u>
<b>Gross profit</b>		400		36,000
Distribution costs	120		13,000	
Administrative expenses	<u>60</u>		<u>6,000</u>	
		<u>180</u>		<u>19,000</u>
<b>Operating profit</b>		220		17,000
Interest payable		<u>74</u>		<u>1,000</u>
<b>Profit before taxation</b>		146		16,000
Taxation		<u>52</u>		<u>5,600</u>
<b>Net profit after taxation</b>		94		10,400
Dividend		<u>50</u>		<u>3,997</u>
<b>Retained profit for the year</b>		<u>44</u>		<u>6,403</u>
<b>Dividend per share</b>		11.40p per share		5.71p per share

**Balance sheet as at 30 September 2001**

	<b>Small plc</b>	<b>Big plc</b>
	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>		
Land and buildings	920	46,000
Fixtures and fittings	580	44,000
Motor vehicles	<u>120</u>	<u>24,000</u>
	1,620	114,000
<b>Current assets</b>		
Stocks	300	24,000
Debtors	440	26,000
Cash at bank	<u>0</u>	<u>2,000</u>
	<u>740</u>	<u>52,000</u>
<b>Current liabilities</b>		
Overdraft	120	4,000
Trade creditors	360	20,000
Accruals	40	2,000
Taxation	52	5,600
Dividends	<u>50</u>	<u>3,997</u>
	<u>622</u>	<u>35,597</u>
<b>Net current assets</b>	<u>118</u>	<u>16,397</u>
<b>Total assets less current liabilities</b>	1,738	130,397
<b>Long term liabilities</b>		
10% Debentures	<u>740</u>	<u>10,000</u>
<b>Net assets</b>	<u>998</u>	<u>120,397</u>
<b>Capital and reserves</b>		
Share capital	440	70,000
Share premium	80	14,000
Profit and loss account	<u>474</u>	<u>36,397</u>
	<u>998</u>	<u>120,397</u>
<b>Nominal value of shares</b>	£1.00	£1.00
<b>Number of shares</b>	440,000	70,000,000
<b>Market value of ordinary shares</b>	£4.07	£3.05

**E5.7** *Time allowed – 60 minutes*

Using the financial information for Small plc and Big plc from Exercise E5.6 you are required to

- (i) calculate the appropriate liquidity and investment ratios for the two companies
- (ii) comment on each company's performance, and their similarities and differences.