

## FINANCIAL POSITION OF C.A.T LIMITED

On analysis of the accounts of last years operations the following things were discovered.

Return on capital employed (ROLE)

$$\text{PRIMARY RATIO} = \frac{\text{profit before interest + Tax}}{\text{Capital employed}} \times 100$$

$$2856 / 5475.59 \times 100$$

$$= 52.15\%$$

This means that of all the capital/money that is in the business 52% is from profits. This means that the original investment has doubled and been put back into the business with in the year.

$$\text{PROFIT MARGIN} = \frac{\text{operating profit}}{\text{Sales revenue}} \times 100$$

$$2856 / 17856 \times 100$$

$$= 15.99 \%$$

This tells us that 16% of the sales revenue/turnover of C.A.T is profit. The business is therefore doing well in percentage wise of compared to say a long term savings account where the ARR would be 5 to 7% depending on the bank or building society. Therefore it is safe to say the business is making money.

$$\text{STOCK TURNOVER} = \frac{\text{sales revenue}}{\text{Average stocks}}$$

$$17856 / 2000$$

$$= 8.93 \text{ times}$$

The stock held/stored at the current office of C.A.T is sold and refilled about 9 times every year. This shows that C.A.T have saved money on stock holding, as the stocks could be stored in a warehouse and more could be purchased from suppliers, which would lead to a lesser stock turnover. However the business could be losing out on benefit s of external economies of scale such as bulk buying as they are buying on a smaller scale, as the more one buys from suppliers the cheaper these goods will become.

$$\text{CURRENT RATIO} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$4305.59 / 250$$

$$= 17.2\%$$

This is strikingly high! This means that there is room for further investment into the business but just how much is not for certain yet as outside finance still may need to be required.

$$\text{ACID TEST} = \frac{\text{Current assets-stock}}{\text{Current liabilities}}$$

$$4305.59 - 2000 / 250$$

$$= 9.2\%$$

This ratio in comparison to the current ratio can be used to see how much of the current assets are liquid (cash) and how well this can compensate for the current liabilities i.e. if there are any evident cash flow problems. With C.A.T its assets outweigh its liabilities 9 times dis-including stock, as this is relatively illiquid. It again underlines the fact that it is possible to use some of this spare liquid capital to invest into new asset.

From examining the accounts of C.A.T it is also clear that no sums were deducted from the profits to go towards share earnings this is probable because Tony is the only share holder and he wished to not take any funds for himself but retain all profits for the business.

From the balance sheet it is now clear to me just how much the business can afford to reinvest. An estimate of £2000 could be invested into new fixed assets such as a new office and delivery Van. This suggestion comes from just looking at the working capital in comparison to the net assets. And also taking into consideration the acid test which shows that not too much of the current assets are taken up by stock. Also the stock levels in the balance sheet of £2000 is its limit I'm told as this is the average amount the old office can store. Meaning that stocks won't have to be bought for a while which leaves the £2305.59 in cash to play with until then.