

## Practice Question: Interpreting Financial Statements

The summarised financial statements of Renada Limited at 31 October 2002 and 31 October 2003 are given below:

### Balance sheets for year ended 31<sup>st</sup> October

	2002		2003	
	£	£	£	£
Fixed assets (net book value)		1,000,000		1,800,000
Current assets				
Stock	600,000		1,600,000	
Debtors	1,270,000		1,800,000	
Cash	140,000	2,010,000	–	3,400,000
Creditors: amounts falling due within one year				
Bank overdraft	–		260,000	
Taxation	120,000		40,000	
Trade creditors	1,050,000	(1,170,000)	2,100,000	(2,400,000)
		1,840,000		2,800,000
Capital and reserves				
Ordinary share capital		500,000		600,000
Share premium account	420,000		820,000	
Revaluation reserve	–		300,000	
Profit and loss account	920,000	1,340,000	1,080,000	2,200,000
		1,840,000		2,800,000

### Income Statements

	2002	2003
	£	£
Sales Revenue (all on credit)	8,400,000	9,000,000
Cost of sales	(6,300,000)	(7,200,000)
Gross profit	2,100,000	1,800,000
Operating expenses	(1,500,000)	(1,600,000)
Profit before taxation	600,000	200,000
Taxation	(120,000)	(40,000)
Profit for the financial year	480,000	160,000

**Required:**

(a) Calculate in **DAYS** for the two years shown, the following (use closing figures for all three calculations):

(i) Stock holding period;

(ii) Average period of credit granted to customers;

(iii) Average period of credit allowed by suppliers. **(3 marks)**

(b) (i) Comment briefly on the changes in the position of the company revealed by the changes in these ratios between the two years. **(3 marks)**

(ii) Briefly explain how two factors shown in the financial statements and/or the notes may have contributed to the decline in the company's pre-tax return on capital employed, which is down from 32.6 per cent in 2002 to 7.1 per cent in 2003. **(4 marks)**

**(Total: 10 marks)**