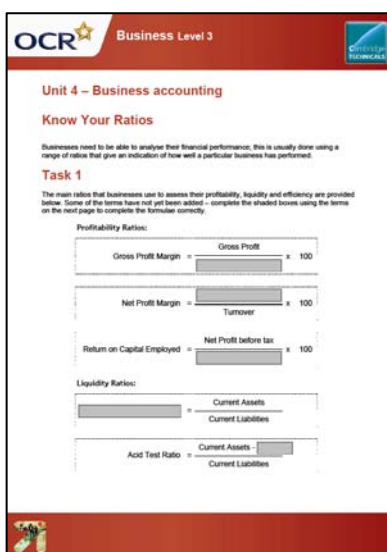


Unit 4 – Business accounting

Know Your Ratios

Instructions and answers for Teachers

These instructions should accompany the OCR resource 'Know Your Ratios', which supports the OCR Level 3 Cambridge Technical Certificate in Business Unit 4 – Business accounting



Associated Files:
Know Your Ratios

Expected Duration:
Task 1 approx 5 minutes
Task 2 approx 10 minutes

Businesses need to be able to analyse their financial performance; this is usually done using a range of ratios that give an indication of how well a particular business has performed.

This task is designed to reinforce the ratios that are used to carry out a financial analysis. The task has been provided in two formats. The first format requires learners to correctly complete the ratios using the terms provided; this can then be used as a useful reference sheet once correctly completed.

As an alternative, the second format is a pairs game, where learners are required to match the correct cards. This could be completed individually, in small groups, or as a whole group activity where learners are given one card and must find the matching card to make up the correct formula.



Task 1

The main ratios that businesses use to assess their profitability, liquidity and efficiency are provided below. The answers to the missing words are provided in the shaded boxes.

Profitability Ratios:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Turnover}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Turnover}} \times 100$$

$$\text{Return on Capital Employed} = \frac{\text{Net Profit before tax}}{\text{Capital Employed}} \times 100$$

Liquidity Ratios:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$$

Efficiency Ratios:

$$\text{Debtor Collection Period} = \frac{\text{Debtors}}{\text{Turnover}} \times 365$$

$$\text{Creditor Payment Period} = \frac{\text{Creditors}}{\text{Turnover}} \times 365$$

$$\text{Stock Turnover} = \frac{\text{Stocks}}{\text{Cost of Sales}} \times 365$$



Task 2

The main ratios that businesses use to assess their profitability, liquidity and efficiency are provided below. The corresponding cards are listed next to each other.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Turnover}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Turnover}} \times 100$$

$$\text{Return on Capital Employed} = \frac{\text{Net Profit before tax}}{\text{Capital Employed}} \times 100$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$$

$$\text{Debtor Collection Period} = \frac{\text{Debtors}}{\text{Turnover}} \times 365$$

$$\text{Creditor Payment Period} = \frac{\text{Creditors}}{\text{Turnover}} \times 365$$

$$\text{Stock Turnover} = \frac{\text{Stocks}}{\text{Cost of Sales}} \times 365$$





These activities offer an opportunity for English and maths skills development.

LESSON *Elements*

The building blocks you need to construct informative and engaging lessons

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