BRENTWOOD
OPEN LEARNING COLLEGE

Assignment Cover Sheet

Student Name:	MARJORIE T. FRANCISCO
Student Number:	2151
Course:	DIPLOMA IN ACCOUNTING AND FINANCE
Assignment NO:	8

Marking Criteria:

We expect the learners to write minimum one well expressed point in three lines against each allocated mark. This means one needs to write 15 lines with 5 well expressed points to get high grades for a 5 marks question.

For high grades use examples and illustrations where appropriate.

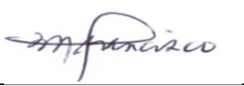
1. **A. Management –** They are the one who foresee the everyday life of the business and encounter mostly the problems and possibilities in the business. They are interested in different ratio to analyze the performance of the business concerning in cost of goods sold, gross margin analysis, profit or income analysis, contribution analysis, working capital analysis and operating income analysis. These ratios will help the management to solve any problem or make more improvements in the business.
   B. Owners – They are interested to know the different ratio to analyze their investment if growing or not. Ratio will help the owners to decide if they will expand, borrow more capital or close the business. Owners concern on ratio\\\\s dealing with net profit and net worth, the net profit available and equity share capital, cash flow per share, equity per share, earnings per share and dividends per share.
   C. Lenders – They are interested to know the different ratio to evaluate the borrower or the company if they have the capacity to pay in certain period of time. Lenders needs to know important ratio of the company concerning to current assets as a ratio of current liabilities, quick assets to current liabilities, total debt to total assets, long-term debt to net assets, total debt to net worth, long term debt to net assets, long-term debt to net worth and profit before interest and tax (NBIT) to interest.
2. A. Management
   A.1.Cost of Goods Sold – it measures the gross margin, which provides a relationship between price, volume and costs. Example, the cost of goods sold for making bags is $5,000 and the company has total net sales of $7,500 and ratio of COGS is $5000/$7500=.67 or 67% of the income goes to materials in making the bag. The management is interested on this ratio because it will show how much capital they spend in making the product. With this ratio, management will work to source out for cheaper but good quality raw materials
   A.2. Gross Margin Analysis – connected to the example of the cost of goods sold, the gross margin is $7500-5000/$7500=.33 or 33% is the remaining to be use in other operating expenses. In here, the management interested to make a decision to improve their sales as business lives in making profit so the higher the gross margin the better.
   A.3 Net Margin – deals with the management's ability to conduct business operations, settle all expenses and liability including interest, taxes, depreciation and compensate the owners. For the example, the net profit is $1500/net sales $7500=.2 or 20% net margin, shows that the management needs to improve the business more, maybe by advertising or resourcing more supplier to choose better material

B. Owners
B.1 Net sales and net worth – the owners are interested into this ratio as it defines the result of the business for a certain accounting period.
B.2. Cash flow per share – the owners are interested to know how much expenses has been use per share. Example, in $100 per share, $40 use for expenses on each share. Meaning 40% of each share has been use in business expenses.
B.3. Dividends per share – the owners are interested to know how the annual performance of the company that makes the shareholder be happy and keep investing to his company.
C. Lenders
C.1. Current assets as a ratio of current liabilities – the lender will be interested into this ratio to analyze if the borrower has capacity to pay in short term debt. If the liquidity of the company is strong or not. This will indicate him if he will lend the money to the borrower
C.2.Total debt to total assets – this shows that the lender if the borrower has too much obligation or not. And how is the capacity of the borrower to attend all his obligations.
C.3 Total debt to total net worth – the lender can analyze the borrower's company capacity if the total net worth is greater than to his obligations, it means that the borrower has capacity to pay.

3. Liquidity Ratio – under this ratio is Current Ratio which involves current asset to current liabilities. This ratio explains the firm's ability to fulfill its short-term debt obligations. Example of current ratio, current asset $1000 /current liabilities 400 = 2.5% it indicates that the company has strong financial performance
   Profitability Ratio – under this ratio is Gross Profit Margin, this ratio assess the profitability of a company as indicated by returns on sale and investment. In other words, how much the company generate profit in a certain accounting period. Example is Gross Profit Margin = gross profit $1500/sales revenue $4000 = .38 or 38%, if the ratio shows higher percentage the better.
   Activity Ratio – under this ratio is Average Collection Period, this ratio indicates the average length of time (in days) a business must wait before it receives payments from the customers who buy on credit. For example, Average Collection Period = Ave. Receivables $2000 / 10000 Sales * 365 days = 73 days is the average collection period.

Student Statement:

By submitting this assignment, I confirm that this is my own work.

Student Signature		Date	19 March 2018

For Tutor / Assessor Use Only

Total Marks	
Marks Obtained	
Percentage / Grade	