Solutions

2.1

- Gross margin = (182,000 − 78,300)/182,000 = 103,700/182,000 = 57.0%.
- Operating margin = 30,100/182,000 = 16.5%.
- Gearing = 10,000/(10,000 + 58,470) = 14.6%.

2.2

- Receivable days = 12,000/182,000 × 365 = 24.1 days.
- Inventory days = 4,400/78,300 × 365 = 20.5 days.
- 24.1 against a 24-day term: collection is on target – the ratio checked against its own definition answers its question.

2.3

- Product mix and definition: is that margin on the same cost contents?
- Peers and price position: premium retail vs wholesale changes what margin means.
- Time: one year or five? A trend beats a level.

3.1

- Gross margin = (124,000 − 52,080)/124,000 = 58.0%.
- Operating margin = 21,440/124,000 = 17.3%.
- Current ratio = (20,000 + 8,200 + 3,100)/5,200 = 6.0.
- Receivable days = 8,200/124,000 × 365 = 24.1 days.
- Inventory days = 3,100/52,080 × 365 = 21.7 days.
- ROE = 21,440/48,000 = 44.7%.
- Most distorted by a single year: ROE – profit is one year, equity is five years of retained earnings; average equity or a multi-year return is the honest read.

3.2

- Year 1's 11.5 was not strength: £64,000 of current assets against £5,550 of bills meant raised-but-idle cash.
- The fall to 6.4 reflects cash being USED (dividend 20,000, loan repaid 5,000) while receivables rose – the balance moved toward working assets.
- Supported reading: liquidity normalised from abnormal; watch receivable days (24.1, on term) as the real credit signal.

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