



Example Answer

Overall the business is performing better in year 1 than year 2. However in both years the business is actually making a profit, so it could be argued that it is successful. In year 1 Bee is making a gross profit margin of 55% and a net profit margin of 20%, however by year 2 this has fallen to 30% and 10% respectively. This is a 25% decrease in the gross profit margin and a 10% decrease in the net profit margin.

The fall in the gross profit margin is concerning as this is most likely due to a decrease in the selling price of each item sold. This is because the operating costs accounts for 35% in year 1, however by year 2 they have decreased to only 20% of the business. This is a real improvement and proves that the business is effective in reducing costs, without this the business would have made a loss if these had stayed at the 35% range. There is also proof of this reduction in the selling price with the fall in the mark up by 150% between the years, this could be a sign that the business is struggling and in a competitive market.

As a result of this you would be expecting the levels of stock to decrease in the business, however this does not appear to be the case, the amount of stock that is being held in year 2 has actually increased, however despite this the liquid capital ratio has improved from 0.6:1 to 0.8:1, this is now within the industry standard figure of 0.75-1 and when combined with the current ratio this suggests the organisation is easily able to pay all of its current liabilities. There has also been an increase in the current ratio, from 1.3 to 1.7 which actually suggests again that the company is performing strongly when it comes to assessing the liquidity position of the organisation.

However the ROCE is not performing as well, for example this has dropped from 12% to 6% over the year. This now suggests that investing in the organisation could be deemed to be risky, as even though the best savings rate could be 3% in the bank, investors could question if investing in this organisation is now deemed wise. If the trend of the net margin and ROCE halving continues, then in year three this figure could be then at a figure which would be no longer appealing to investors.

Overall in my opinion I feel that the organisation is performing better in Year 1 than Year 2. There are aspects of year 2 which suggest better performance such as the reduction in operating costs and the liquidity positions, however the profitability of the organisation was better in year 1 and this will ultimately attract more potential future investors, which the capital could be used to grow the business.

