INVESTMENT ANALYSIS I
BEAM011

Tutorial 3:
Financial Ratio Analysis: Thunderbird plc

Thunderbird plc

The attached financial statements for Thunderbird plc (a fictitious firm) are a slightly simplified set of published accounts. Thunderbird plc is an engineering firm, which developed a new range of products in 2002; these now account for 60% of turnover.

1. Assume that you are an individual who owns 10% of the issued share capital of Thunderbird plc. Calculate financial ratios for the years 2003 and 2004 and interpret and evaluate the results to help you to assess the performance of Thunderbird plc. Your analysis will focus on the following aspects of business performance:

(a) Profitability;

(b) Efficiency;

(c) Liquidity;

(d) Gearing;

(e) Investment ratios.

2. On the basis of your ratio analysis, do you consider Thunderbird plc to be a ‘healthy’ firm to invest in? Explain your answer.

Thunderbird plc

Profit and loss account for the year ended 31 March 2004

	notes	2004 £000	2003 £000
Turnover		11,205	7,003
Cost of sales		(5,809)	(3,748)
Gross profit		5,396	3,255
Operating expenses	1	(3,087)	(2,205)
Operating profit		2,309	1,050
Interest payable		(456)	(216)
Profit before taxation		1,853	834
Taxation		(390)	(210)
Profit after taxation		1,463	624
Dividends		(400)	(300)
Retained profit for the year		1,063	324
Retained profit brought forward		685	361
Retained profit carried forward		1,748	685

Thunderbird plc

Balance sheet as at 31 March 2004

	notes	£000	2004 £000	£000	2003 £000
Fixed assets					
Intangible assets	2	700			
Tangible assets	3	7,535		4,300	
			8,235		4,300
Current assets					
Stocks		2,410		1,209	
Trade debtors		1,372		807	
Other debtors		201		134	
Cash		4		28	
		3,987		2,178	
Creditors: Amounts falling due within one year					
Trade creditors		1,306		607	
Other creditors		201		124	
Taxation		390		210	
Dividends		400		300	
Overdraft		1,625			
		3,922		1,241	
Net current assets			65		937
Creditors: Amounts falling due after more than one year					
Bank loan			(3,800)		(1,800)
			4,500		3,437

Share capital	4	1,800	1,800
Share premium		600	600
Capital reserve		352	352
Retained profits		1,748	685
		4,500	3,437

Thunderbird plc

Notes to the accounts

1 Operating costs include the following items:

	£000
Exceptional items	503
Depreciation	1,251
Administrative expenses	527
Marketing expenses	785

2 Intangible assets represents the amounts paid for the goodwill of another engineering business acquired during the year.

3 The movements in tangible assets during the year are set out below.

	Land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
At 1 April 2003	4,500	3,850	2,120	10,470
Additions		2,970	1,608	4,578
Disposals		(365)	(216)	(581)
At 31 March 2004	4,500	6,455	3,512	14,467
Depreciation				
At 1 April 2003	1,275	3,080	1,815	6,170
Charge for year	225	745	281	1,251
Disposals		(305)	(184)	(489)
At 31 March 2004	1,500	3,520	1,912	6,932
Net book value at 31 March 2004	3,000	2,935	1,600	7,535

Proceeds from the sale of fixed assets in the year ended 31 March 2004 amounted to £54,000.

4 Share capital comprises 3,600,000 fully paid shares of 50p each.