

TAVUA COLLEGE
YEAR 13 ACCOUNTING
WEEKLY HOME STUDY PACKAGE – WEEK 5 (02/08/21 – 06/08/21)
SOLUTION

Ratio /Formula	Bruce Mart Ltd	York Mart Ltd
Rate of return on assets ratio = $\frac{\text{Net Profit Before Tax}}{\text{Average Total Assets}}$	<u>198 000</u> 540 000 = 0.37:1	<u>210 000</u> 624 000 = 0.34 : 1
Rate of return on shareholders' equity = $\frac{\text{NP after tax – Pref Dividends}}{\text{Av. Shareholders' Funds}} \times 100$	$\frac{191\ 000}{335\ 000} \times 100$ =57.01%	$\frac{198\ 000}{412\ 000} \times 100$ = 48.06%
(½ mark for each correct formula)	(1 mark for each correct final answer)	(1 mark for each correct final answer)

(5 marks)

i. **Rate of return on assets ratio**

In Bruce Mart Ltd every dollar of asset investment generated 37 cents of net profit while in York Mart Ltd every dollar of asset invested generated 34 cents net profit. For both businesses the return on asset is adequate and shows that assets are utilized efficiently.

(1 mark)

Rate of return on shareholders' equity

For Bruce Mart Ltd for every dollar invested, the shareholders receive 57 cents return while in York Mart Ltd the shareholders receive 48 cents in return for every dollar invested in the company. The shareholders receive sound returns on their investment in both companies however they can always compare these returns with other investment options.

(1 mark)

ii. **Rate of return on assets ratio**

- measures how efficiently the assets are utilized to generate revenue in the business.

(1 mark)

Rate of return on shareholders' equity

- measures the rate of return the shareholders receive on their investment in the company.

(1 mark)