

---

# Bank Manager

---

---

## Interpretation of Accounts (Ratios)

---

---

## Template

---

---

## Part B - Comments

---

<b>BANK MANAGER COMMENTS</b>
------------------------------

Remember to use the following headings and ratios when commenting on part B. These will be used from a **bank managers point of view**

Performance		State of Affairs			Prospectus	
Profitability	Dividend Policy	Liquidity	Gearing	Security	Sector	Purpose of the Loan
1. ROCE	1. Dividend Cover	1. Acid Test	1. Gearing	1. Tangible Fixed Assets	1. Sector	See the Question
	2. Dividend Pay out		2. Interest Cover	2. Investments		
				3. Debenture Debts		
				4. Intangible Assets		

**NOTE**

You might have to calculate some ratios still for part B - calculate them quickly using your calculator and make a record of the figure (You will be awarded 2 marks for each additional ratio that is calculated outside of the ratios from Part A)

Remember a bank manager is interested in assessing the company's ability to repay the loan

**Exam Tip**

Each comment should have the following parts

1. Compared to two years (this year and last year or projected year)
2. Must say if it is an **improvement** or **disimprovement** and a **positive** or **negative** trend
3. Would the party (shareholder, bank manager or debenture holder) be **satisfied** or **dissatisfied** and why
4. Must include the phrases that are in bold in this document - don't paraphrase as these are the common phrases used in the marking schemes.

## PERFORMANCE

## PROFITABILITY

ROCEQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Say if the company is profitable - compare to risk free investments
4. Compare to debenture & preference rates
5. Would bank manager be satisfied/dissatisfied?

Template

1. In \_\_\_\_\_ the ROCE is \_\_\_\_ %. In \_\_\_\_\_ the ROCE was \_\_\_\_%
2. This is an *improvement / dis-improvement* of \_\_\_\_ % and is a *positive / negative trend*
3. The company is *profitable / not profitable* as the return is *lower / higher* than risk free investment of 0-2%
4. The company is borrowing at a rate of \_\_\_\_% (debenture) and getting a return *higher / below* this - (*why borrow at a rate higher than the return*). The company *is / is not* making effective use of resources. *Above / below* preference share capital rate of \_\_\_\_%
5. The bank manager would be *satisfied / dissatisfied* with this as the retained profit for \_\_\_\_\_ is *enough / not enough* to cover the interest for the new loan.

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggest Solution (2022 - Watson PLC)

1. In 2022 the ROCE is **6.8** %. in 2020 the ROCE was **4.56** %
2. This is an improvement of **2.25** % and is a *positive trend*
3. The company is *profitable* as the return is *higher* than risk free investment of 0-2%
4. The company is borrowing at a rate of **7** % (debenture) and getting a return *below* this - (*why borrow at a rate higher than the return*). *Above* Preference share capital rate of 6%
5. The bank manager would be *dissatisfied* with this as the retained profit for *2021* is *not enough* to cover the interest for the new loan

**Tip** – MUST include the text that is in bold

<b>DIVIDEND POLICY</b>
------------------------

Dividend CoverQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Should the dividend cover be increase / decreased.
4. Is there enough there to cover dividends.

Template

1. In \_\_\_\_\_ the Dividend cover is \_\_\_\_\_ times in \_\_\_\_\_  
the Dividend cover was \_\_\_\_\_ times
2. This is an *improvement / dis - improvement* of \_\_\_\_\_ times and is a *positive / negative* trend. It means *more / less* profit is being retained for expansion purpose and repayment of loans
3. The dividend cover should be *increased / decreased* considering the profit is *high / Low*
4. The bank manager would be *satisfied /dissatisfied* with this as the Dividend Cover is *low / high*. Ther is *not enough / enough* of earnings are retained. This would *jeopardise / not jeopardise* the repayment of the loan

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested solution (2022 - Watson PLC)

1. In 2021 the Dividend cover is 3.56 times, In 2020 the Dividend cover was 4.2 times
2. This is an *dis-improvement* of 1.36 times and is a *negative* trend. It means *less* profit is being retained for expansion purpose and repayment of loans
3. The dividend cover should be *increased* considering the profit is *low*.
4. The bank manager would be *dissatisfied* as the dividend Cover is *low*. There is *not enough* of earnings are retained. This would *jeopardise* the repayment of the loan.

**Tip** – MUST include the text that is in bold

Dividend Pay-outQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would bank manager would be satisfied/dissatisfied?

Template

1. In \_\_\_\_ the dividend pay-out is \_\_\_\_%. In \_\_\_\_ the dividend pay-out was \_\_\_\_%
2. This is an *improvement / dis-improvement* for the shareholders but would be a *concern /not a concern* for the bank manager as *not enough / enough* money is being retained
3. The bank manager would *satisfied / dissatisfied* as there is *more / less* money retained by the business

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2022 – Watson PLC)

1. In 2021 the Dividend pay-out is 28.16 %. In 2020 the dividend pay-out was 23.81 %
2. This is an *improvement* for the shareholders but would be a *concern* for the bank manager as *not enough* money is being retained
3. The bank manager would be *dissatisfied* and would like *more* money retained by the business

**Tip** – MUST include the text that is in bold

Note - This can also be included under Profitability

**Note - Dividend Pay-Out**

1. Dividend pay-out should be less than 50% for Debenture holders to be satisfied.
1. If above 50% - they are paying out too much dividend - this means that debenture holders will not be happy as the company is not retaining enough money for expansion and paying interest.
2. If below 50% - Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
3. The formula to calculate Dividend payout is =  $DPS/EPS \times 100/1 = \%$

## STATE OF AFFAIRS

## LIQUIDITY

Quick ratio (Acid Test Ratio)Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend (compare to recommended ratio)
3. Does it have a liquidity problem - can they pay debts in the short term
4. How much money is tied up in debtors
5. What is the current Ratio

Template

1. In \_\_\_\_\_ the acid test ratio was \_\_\_\_\_. In \_\_\_\_\_ the acid test ratio was \_\_\_\_\_
2. This is an *improvement / dis-improvement* of \_\_\_\_\_c and is *above / below* the recommended ratio of 1:1
3. \_\_\_\_\_ PLC *does / does not* have a liquidity problem and are *able / not able* to pay their debts as they fall due in the short term. This is because they have €\_\_\_\_\_ in liquid assets for every euro it owes in the short term
4. \_\_\_\_\_ PLC has *too much / too little* capital tied up in Debtors and unavailable for other purposes
5. The Current Ratio is *safe / not safe* at \_\_\_\_\_ : 1

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

**Tip** – MUST include the text that is in bold

Suggested Solution (2022 - Watson PLC)

1. In 2021 the acid test ratio was 2.97:1. In 2020 the acid test ratio was 2.3:1
2. This is an *improvement* / of 67 c and is *above* the recommended ratio of 1:1
3. Watson PLC *does not* have a liquidity problem and are able to pay their debts as they fall due in the short term. This is because they have €2.97 in liquid assets for every euro it owes in the short term
4. Watson PLC has *too much* capital tied up in Debtors and unavailable for other purposes
5. The Current Ratio is *safe* at 3.43 : 1

**Exam Tip** – The Current ratio may only be for this year 1 marks might be awarded

## GEARING

GearingQuestions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend and is the company a lowly/highly geared company.
3. Does it depend on outside borrowing
4. Would the bank manager be satisfied/dis-satisfied

Template

1. In \_\_\_\_ the gearing ratio is \_\_\_\_%. In \_\_\_\_ the gearing ratio was \_\_\_\_%
2. This is an *improvement / dis - improvement* and is a *positive / negative trend*. The company is a *Lowly / highly geared company*
3. This means the company is *dependent / less dependent* on outside borrowing and would appear to be *less / more* of a risk from outside investors. The loan would have an *impact / no impact* on the gearing (\_\_\_\_ %)
4. The bank manager would be *satisfied / dis-satisfied* with this and granting the loan would make the gearing *worse / better*. The business is financed more by *debt / equity* than by *equity / debt* finance. Granting the loan would make the gearing *worse / better*.

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2022 - Watson PLC)

1. In 2021 the gearing ratio is 58.24%. In 2020 the gearing ratio was 60 %
2. This is an *improvement* and is a *positive trend*. The company is still a *highly geared company*
3. This means the company is *dependent* on outside borrowing and would appear to be a *more* of a risk from outside investors. The loan would have an *impact* on the gearing (71.16%)
4. The bank manager would be *dis-satisfied* with this and granting the loan would make the gearing *worse*. The business is financed more by *debt* than by *equity*. Granting the loan would make the gearing *worse*.

**Tip** – MUST include the text that is in bold

5.

**Exam Tip** – Calculate the new gearing ratio including the new loan in the formula

Interest Cover

## Questions to answer

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend. (Compare to recommend ration of 3:1)
3. What does it mean - making repayment and is there enough money for expansion, paying dividends and interest
4. What will happen interest cover is the loan is granted - what ill the inters on the loan be
5. Would the bank manager be satisfied / dissatisfied

## Template

1. In \_\_\_\_ the Interest Cover is \_\_\_\_ times. In \_\_\_\_ the interest cover was \_\_\_\_ times
2. This is an *improvement / dis-improvement* and is a *positive / negative trend* and is *above / below* the recommended ratio of 3:1
3. This means the firm *could have / could not have* trouble making their interest payment on existing and new loans. The business is *likely / unlikely* to have money available for expansion, paying dividends and paying interest/loans.
4. The interest cover will *improve / dis-improve* if the loan of €\_\_\_\_\_ is granted and the interest on the loan would be €\_\_\_\_\_
5. The bank manager would be *satisfied / dissatisfied* as the company will *be able / not able* to repay back the interest.

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

Suggested Solution (2022 - Watson PLC)

1. In 2021 the Interest Cover is 2.17 times. In 2020 the interest cover was 1.9 times
2. This is an *improvement* and is a *positive trend* but is *below* the recommend ratio of 3:1
3. This means the firms *could have* trouble making their interest payment on existing and new loans. The business is *unlikely* to have money available for expansion, paying dividends and paying interest/loans
4. The interest cover will *dis-improve* if the loan of €500,000 is granted and the interest on the loan would be €40,000

**Tip** – MUST include the text that is in bold



5. The bank manager would be *dissatisfied* with this as the company is at risk of *not able* to repay the interest

## SECURITY

### Security

#### Questions to answer

1. Say what the fixed assets value is and the depreciation policy should be questioned
2. Look at the investment have they improve / dis-improved
3. Is there an existing loan, does the value of the tangible asset cover the value. Is there security for a new loan
4. Are tangible assets are high they should be questioned
5. Would the bank manager be satisfied / dissatisfied as the loan would make the situation better / worse

#### Template

1. **Tangible fixed assets including investment are valued at €\_\_\_\_\_.** The depreciation policy should be questions to ascertain the true value of tangible assets
2. The investment cost €\_\_\_\_\_ but now have a value of €\_\_\_\_\_. This shows *inefficient / efficient* use of resource by management
3. There is an existing loan of €\_\_\_\_\_ to be repaid in \_\_\_\_\_. The value of the tangible assets is *adequate / not adequate* to cover this loan (€\_\_\_\_\_). There *is / is no* security for a new loan
4. The intangible assets figure should be questioned as they are not generating income for a high amount (Only included if the intangible figure is high)
5. The bank manager would be *satisfied / dissatisfied* as the situation will get *better / worse* with a new loan being granted

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment

#### Suggested Solution (2022 - Watson PLC)

1. **Tangible fixed assets including investment are valued at €737,000.** The depreciation policy should be questions to ascertain the true value of tangible assets

**Tip** – MUST include the text that is in bold

2. The investment cost €250,000 but now have a value of €270,000. This shows *efficient* use of resource by management
3. There is an existing loan of €500,000 to be repaid in 2028. The value of the tangible assets is *not adequate* to cover this loan (€487,000). There *is no* security for a new loan
4. The intangible assets figure should be questioned as they are not generating income for a high amount
5. The bank manager would be *dissatisfied* as the situation will get worse with a new loan being granted

## PROSPECTS

## SECTOR

SectorQuestions to answer

1. Say what sector the business is
2. Say what the short-term goals are
3. Say what the long-term goals are

**Exam Tip** – MUST have a short and long term prospects is and why. Examples include – war, fuel, Brexit, inflation. It can be negative or positive

Template

1. \_\_\_\_\_ plc is in the \_\_\_\_\_ sector / industry.
2. In the short term this industry is *growing / not growing* as more \_\_\_\_\_  
\_\_\_\_\_
3. In the long term this industry is *growing / not growing* as more \_\_\_\_\_  
\_\_\_\_\_

**Tip** – That the industry / sector from the question

Suggested Solution (2022 - Watson PLC)

1. *Watson* plc is in the *confectionary* Sector
2. In the short term this industry is *growing* as the global economy recovers from the pandemic. However, consumer are now looking for healthier options such as low calorie and healthy snacks
3. In the long term this industry *is growing* and the firm is likely to face competition and will have to conduct research to meet the needs of the consumer

**Tip** – MUST include the text that is in bold

**Exam Tip** – Make sure to a have a one positive or negative for each (short term and long term prospectives)

**PURPOSE OF THE LOAN**Purpose of the LoanQuestions to answer

1. What is the loan for
2. The loan needs to be more specific
3. Will the loan generate a high level of income

Template

1. **The loan is to finance the firms**

**Tip** – That this information from the question

2. **The plan is specific enough / needs to be more specific as to what the money will be spent on and how profit will be generated**
3. **It is clear / unclear if the profits generated will be enough to service the loan**

Suggested Solution (2022 - Watson PLC)

1. **The loan is to finance the firm expansion into the European market**
2. **The plan needs to be more specific as to what the money will be spent on and how profit will be generated**
3. **It is unclear if the profits generated will be enough to service the loan**

**Tip** – MUST include the text that is in bold

**OVERALL****Questions to answer**

1. Should the bank manager grant the loan
2. Is the company profitable, what is their dividend policy like and are profit retained
3. Is the company highly / lowly geared
4. Would the firm benefits from the loan being granted

**Template**

1. **The Bank manager** *should / should not grant the loan*
2. **The company is** *profitable / not profitable, has a generous / not a generous dividend policy but enough / not enough profits are retained to expand the business and pay interest on loans*
3. **The company is** *highly / lowly geared making it vulnerable / not vulnerable to outside investors and a small change in profitability (negatively / positively) could mean interest repayments will / will not be meet*
4. **The firm is** *solvent / barely solvent and could benefit / be insolvent if the loan is granted*

**Tip** – Fill in the blank as per your workings and use the correct statement to complete your comment.

**Suggested Solution (2022 - Watson PLC)**

1. **The Bank manager** *should not grant the loan*
2. **The company is** *profitable and has a generous dividend policy, but not enough profits are retained to expand the business and pay interest on loans*
3. **The company is** *highly geared making it vulnerable to outside investors and a small change in profitability (negatively) could mean interest repayments will not be meet*
4. **The firm is** *barely solvent and could be insolvent if the loan is granted*

**Tip** – MUST include the text that is in bold