

3.5 Final Accounts: Assessment



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3.5 PROFITABILITY AND LIQUIDITY RATIO ANALYSIS: ASSESSMENT

Read the case study below and answer the questions that follow.

EASYJET



easyJet is a popular low cost airline. It is based in London Luton Airport and provides cheap 'no-frills' flights to a wide range of European destinations. Since the company was launched by Sir Stelios Haji-loannou in 1995 it has grown from strength to strength. Some of the key business highlights for 2014 were as follows:

- Record profit before tax of £129 million, up 56 per cent from £83 million in 2014.
- Passenger numbers rose by 11.5 per cent to 33 million.
- Passenger revenues increased by 5.9 per cent or £2.13 per seat, driven by strong summer trading.
- Additional revenues improved significantly in all areas, rising by 34 per cent or £0.86 per seat.
- Unit costs excluding fuel fell by 1.5 per cent or £0.42 per seat from £28.78 to £28.36.
- Unit fuel costs increased by 33 per cent to £2.48 per seat.
- 58 new routes and 11 new destinations were launched, expanding the network to 262 routes and 74 airports in 21 countries.
- The fleet grew to 122 aircraft with an average of 2.2 year, making it one of the most modern and environmentally friendly fleets in Europe.

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- The balance sheet remains strong with cash of £861 million and gearing at 31 per cent.

The table below shows some financial information for easyJet extracted from the income statement and balance sheet in in 2014.

	2014 £m	2013 £m
Revenue	1 619.70	1 314.40
Profit *	117.8	66.2
Capital employed†	1 614.60	1 215.30
Net assets	982.90	863.40
Current assets	1 087.20	890.90
Current liabilities	509	414.50
* earnings before interest and tax		
† Long-term capital employed (equity + non-current liabilities)		

Source: www.BusinessManagementIB.com

25 MARKS, 45 MINUTES

1. Explain how ratio analysis can be used to interpret accounts from the perspective of **two** stakeholders. **[5 marks]**
2. Calculate the following financial ratios for 2014 **and** 2013:
 - i. Net profit margin
 - ii. Current ratio
 - iii. Return on capital employed (ROCE) **[6 marks]**
3. Interpret the figure you obtained for easyJet's current ratio in 2014 (question 2i above). **[6 marks]**
4. To what extent do the results in Question 2 support the view that easyJet has “grown from strength to strength”? **[8 marks]**