

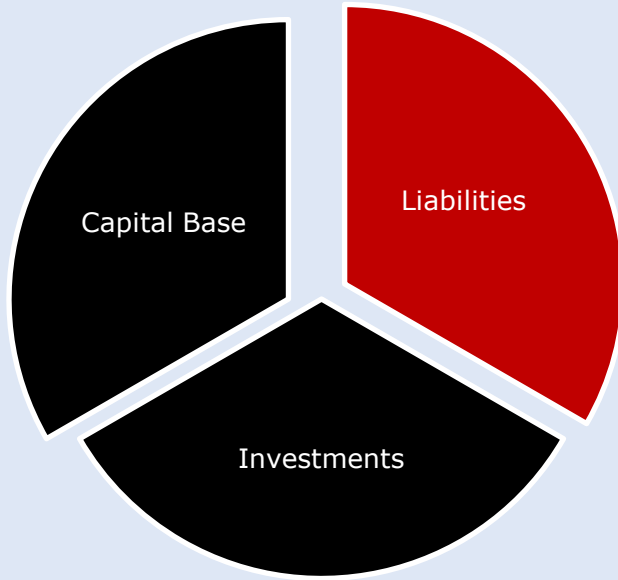
ENGINEUITY TUTORIAL



Gearing Ratio



Gearing Ratio



The **gearing ratio** is the ratio of the company's liabilities, when the cash account is overdrawn, to its assets, and indicates the **debt burden** of the company.

- 0 indicates no liabilities (debt)
- 1 indicates serious debt problems



Gearing Ratio

Financial Performance

Navigate to "Main menu/Measuring performance/Assessing performance/Financial analysis"

Management consultants report Graphical analysis

OPERATIONAL

SHAREHOLDERS

INVESTMENTS

Summary

Assets and liabilities

Per	Status	Year/qtr	Cash account			Capital base			Investments			Gearing ratio	Company value		
			Start period	% change	End period	Start period	% change	End period	Start period	% change	End period		Start period	% change	End period
1	History	2024 (Q1)	1,000,000	-12.91 %	870,920	4,000,000	-0.63 %	3,975,000	0	0.00 %	0	0.000	5,000,000	-3.08 %	4,845,920
2	History	2024 (Q2)	870,920	-18.22 %	712,275	3,975,000	-0.63 %	3,950,156	0	0.00 %	0	0.000	4,845,920	-3.79 %	4,662,431
3	History	2024 (Q3)	712,275	-28.96 %	506,028	3,950,156	-0.62 %	3,925,468	0	100.00 %	102,700	0.000	4,662,431	-2.75 %	4,534,196
4	History	2024 (Q4)	506,028	-114.42 %	-72,961	3,925,468	5.34 %	4,134,990	102,700	600.84 %	719,762	0.015	4,534,196	5.46 %	4,781,791
5	Early Years	2025 (Q1)	-72,961	-701.86 %	-585,048	4,134,990	6.33 %	4,396,786	719,762	13.76 %	818,831	0.112	4,781,791	-3.16 %	4,630,569
6	Early Years	2025 (Q2)	-585,048	31.39 %	-401,393	4,396,786	1.18 %	4,448,806	818,831	-18.15 %	670,251	0.078	4,630,569	1.88 %	4,717,664
7	Early Years	2025 (Q3)	-401,393	50.96 %	-196,858	4,448,806	0.49 %	4,470,688	670,251	7.98 %	723,710	0.038	4,717,664	5.93 %	4,997,540
8	Early Years	2025 (Q4)	-196,858	-13.66 %	-223,755	4,470,688	1.71 %	4,547,090	723,710	15.58 %	836,496	0.042	4,997,540	3.25 %	5,159,831

In the example shown, at the end of period 8, the gearing ratio is the :-

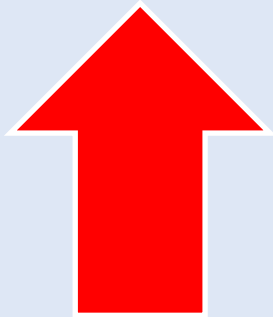
$$\begin{aligned} & \text{Absolute value of the Cash Account} / (\text{Capital Base} + \text{Investments}) \\ & 223,755 / (4,547,090 + 836,496) \\ & = 0.042 \end{aligned}$$

How does the gearing ratio affect the company ?



Gearing Ratio

INCREASES



The company will be viewed as being vulnerable to both interest rate rises, and its ability to service its debts from its future profit flows. Consequently, this will have a **depressing affect on the company share price**.

REDUCES



Conversely, if the gearing ratio decreases then the company will be viewed as being more financially sound, and the **company share price will increase**.



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- During periods 5 and 8 the increasing gearing ratio had a **negative affect on the company share price, reducing it**
- During periods 6 and 7 the falling gearing ratio had a **positive affect on the company share price, increasing it**

KEY POINTS

Whilst the company is growing a **certain level of gearing is usually necessary** to make full use of the cash account overdraft to expand the capital base and diversify through investments.