# Exercise 5 : CE & ROCE

- The company achieved 186.7 million $ Sales and 10.4 million $ EBIT.
- Based on the economic balance sheet provided in exercise 4, compute the ROCE

# EXAMPLE: CE & ROCE

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| **ECONOMIC BALANCE SHEET** | | | |
|---|---|---|---|
| | **2018** | | **2018** |
| Accounts receivable | 18,5 | Long-term debt | 99,9 |
| Inventories | 15,3 | Capital lease obligations | 7.6 |
| Other current assets | 2 | | |
| Accounts payable | -29,2 | Current maturities of long-term debt | 13,3 |
| Other current liabilities | -2 | Short term debt | 3,5 |
| **WCR** | **4,6** | Cash | -21,2 |
| | | **NET FINANCIAL DEBT** | **103,1** |
| | | | |
| **Total long-term assets** | **150,7** | **Stockholders' equity** | **52,2** |
| | | | |
| **CAPITAL EMPLOYED** | **155,3** | **FINANCIAL RESOURCES** | **155,3** |

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**ROCE before tax = EBIT / CE**

**ROCE = 10.4 / 155.3 = 6,7%**

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**ROCE = EBIT / Sales x Sales / CE**

**EBIT / Sales = 10.4 / 186.7 = 5,57%**

**Sales / CE = 186.7 / 155.3 = 1.2**

**ROCE = 5.57% X 1.2 = 6.7%**

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**REMINDER**

**ROCE before tax = EBIT / CE**

**ROCE = 10.4 / 155.3 = 6.7%**

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**ROCE aft tax = EBIT x (1-tax) / CE**

**7.28 / 155.3 = 4.68%**

**ROCE aft tax = EBIT x(1-tax) / Sales x Sales / CE**

**EBIT x (1-Tax) = 10.4 x (1-30%) = 7.28**

**EBIT x (1-Tax) / Sales = 7.28 / 186.7 = 3.89%**

**Sales / CE = 186.7 / 155.3 = 1.2**

**ROCE after tax = 3.89% X 1.2 = 4.68%**