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**Interpreting data - suggested response**

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| **Specification points requiring interpretation of data/results.**  | **Factors to consider to help with interpreting data/results.**  |
| Interpret demand and supply diagrams | **Limited interpretation*** Has the result increased or decreased?
* How much has the result changed by? (Absolute and percentage change).
* Is the result positive or negative?
* What is the problem? (e.g. negative cash flow balance).

**Good / excellent interpretation** * What might have caused the change?
* What impact might the result have on a business/stakeholders?
* Who might be most affected by the change?
* Has business performance strengthened of weakened?
* Where does the data come from? Is it reliable?
* How much data is available (e.g. 2 years for comparison or 3+ years for a trend)? Is more data needed?
* Is anything missing from the information you have that would lead to a better understanding?
* Is the change in the result significant or insignificant?
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| Interpret revenue, costs and profit calculations |
| Interpret break-even charts including ‘what if’ analysis |
| Interpret cash flow forecasts |
| Interpret gross and net profit margins |
| Interpret labour productivity and labour turnover |
| Interpret capacity utilisation |
| Interpret stock control diagrams |
| Interpret numerical values of price and income elasticity of demand |
| Interpret information from time-series analysis  |
| Interpret and analyse a balance sheet Interpret return on capital employed (ROCE) Interpret the current ratio and acid test ratio Interpret the gearing ratio (long-term liabilities/capital employed) |
| Interpret and evaluate the results of decision trees |
| Interpret and evaluate the results of CPA diagrams |
| Interpret investment appraisal results (payback in years and months, ARR and NPV).  |

**Specification points requiring candidates to interpret data/information/results**

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| Example - Change in net profit margin. |
| ABC Ltd achieved a net profit margin of 5.4%. In 2019, the company had sales revenue of £170 000 and a net profit of £8 500. Calculate the net profit for 2019. Interpret the change to the net profit margin between 2018 and 2019. Comment on the value of the information provided. Evaluate the impact of the change on the business. Indicative content: * Net profit margin for 2019 is 5% [(£8 500/£170 000) x 100]
* Net profit margin has decreased from 5.4% to 5%, a change of 0.4%.
* The change indicates a decrease in efficiency of converting sales into net profit, maybe as a result of not being able to manage costs as well.
* The change is only slight and the result may not be worrying by itself, but no information is provided about earlier results, so the data is of limited value.
* No information is given about the target that ABC wanted to achieve or of industry/sector averages.
* The owners/shareholders may be concerned about the decrease in the profitability ratio.
* The impact may not be significant in the short term, but much depends on whether the owners anticipated the fall to occur or foresaw changes in the internal/environment.
* The impact is likely to be slightly negative since there is a decrease in the profitability ratio. This is likely to be of concern to owners/shareholders and could affect the return given to shareholders.
* In general, a NPM of 5% might be considered low and if NPM continues to fall in the future then the survival of the business might be threatened.
* Knowing that NPM is falling gives management/owners information to make changes to improve performance in the future.
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