

### 17. Spielgeist Games (HL)

Spielgeist Games is a video gaming corporation that develops a wide range of video games for computers and smartphones, with purchases made through its online store. Revenues in the industry have consistently grown by more than 10% per year, and it is not uncommon for companies to post net profit margins of over 20%. Money has been pouring into the industry as investors anticipate that mergers and acquisitions will result in a few large firms using their financial strength to solidify their positions.

Over the last five years, Spielgeist has acquired two smaller businesses in the gaming industry who were known for highly skilled employees. Spielgeist is also exploring the idea of merging with a video streaming business and combining their services. Fully merging the two systems would be very costly and time consuming, but it could result in them being able to offer a subscription to the widest range of movies, TV shows, and games of any firm in the industry. Interest rates in the economy are still below their historical averages, though climbing quickly.

**Below are selected financial ratios for 2021:**

Gross profit margin	75.13%
Profit margin	25.14%
Current ratio	1.48:1
Return on capital employed	9.67%
Debtor days	37.96 days
Creditor days	204.06 days
Gearing ratio	11.18%

***Final accounts for 2022 are shown on the following page.***

<b>Spielgeist Statement of profit or loss for period ended 31 Dec 2022</b>		<b>Spielgeist Statement of financial position as at 31 Dec 2022</b>		
	<b>\$m</b>	<b>Non-current assets</b>	<b>\$m</b>	<b>\$m</b>
Revenue	6294	Property, plant, and equipment	1505	
Cost of sales	1610	Intangibles	9512	
<b>Gross profit</b>	4684	Accumulated depreciation	245	
Expenses	3502	<b>Non-current assets</b>		10772
<b>Profit before interest and tax</b>	1182	<b>Current assets</b>		
Interest	51	Cash	4230	
<b>Profit before tax</b>	1131	Debtors	583	
Tax	215	<b>Current assets</b>		4813
<b>Profit for period</b>	916	<b>Total Assets</b>		15585
Dividends	300	<b>Current Liabilities</b>		
Retained profit	616	Bank overdraft	80	
		Trade creditors	703	
		Other short term loans	2210	
		<b>Current liabilities</b>		2993
		<b>Non-current Liabilities</b>		
		Borrowings - long term	1261	
		<b>Non-current Liabilities</b>		1261
		<b>Total Liabilities</b>		4254
		<b>Net assets</b>		11331
		<b>Equity</b>		
		Share capital	6798	
		Retained earnings	4533	
		<b>Total equity</b>		11331

Question	Marks
Section 3.5	
A. Calculate the change in gross profit margin for Spielgeist from 2021 to 2022.	2
B. Calculate the change in profit margin for Spielgeist from 2021 to 2022.	2
C. Calculate the change in return on capital employed for Spielgeist from 2021 to 2022.	2
D. Calculate the change in current ratio for Spielgeist from 2021 to 2022.	2
E. Explain two reasons that Spielgeist may want to have a large amount of liquidity.	4
F. Explain why keeping track of the quick ratio would not be useful to investors for a digital gaming company such as Spielgest.	4
G. With the use of financial information, examine Spielgeist's financial performance from 2021 to 2022.	10
H. Discuss the merits of Spielgeist merging with a video streaming company.	10
Section 3.6 [HL]	
I. Calculate the change in debtor days for Spielgeist from 2021 to 2022.	2
J. Calculate the change in creditor days for Spielgeist from 2021 to 2022.	2
K. Calculate the change in gearing ratio for Spielgeist from 2021 to 2022.	2
L. Analyze Spielgeist's efficiency based on its efficiency ratios.	6
M. Discuss the merits of Spielgeist merging with a video streaming company.	10

