

17. Spielgeist Games (SL)

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%

Final accounts for 2022 are shown on the following page.

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

