

The CEO has contacted you as a performance management consultant to advise her on Gaddon's deteriorating financial position, and whether the business is at risk of corporate failure. You have decided to calculate the 'G score' for Gaddon to help with your work.

The G score is a quantitative model for predicting corporate failure for companies listed in Jayland. It was created by a group of academics at the JSB. It is based on the statistical correlations between a company's key financial ratios and the success or failure of the company within two years of the sample data. It is derived from statistical analysis of the published accounts of all companies on the small Jayland stock exchange.

### **Calculation of the G score**

The G score is calculated by applying the following weighting factors to four key financial ratios and adding these weighted elements together.

$$\text{G score} = 3G_1 + 4G_2 + 1.5G_3 + 1.2G_4$$

Where:

$G_1$  = Current assets/total assets

$G_2$  = Earnings before interest, tax, depreciation and amortisation/total assets

$G_3$  = Revenue/total assets

$G_4$  = Total assets/non-current liabilities

Companies with a G score of less than 4 are in danger of corporate failure, whereas companies with a score of 6 or more are not in danger of failure. Those companies with a G score of between 4 and 6 need further analysis to determine whether they are at risk of corporate failure.

Extracts from Gaddon's 20X3 and 20X4 accounts are given in Appendix 1.