



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Student Name: MASILAMANI SHARAN RATHINASAMY SETHUPATHY

Student Number: 2334206

Course Name: Financial management

Lecturer Name: Kalam

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Unilever In Financial Management



Part A: Introduction

Unilever was formed on 2nd September 1929 by the Lever and Margarine Unie brothers, who signed an agreement to create Unilever (Monem 2021). Initially, the Unilever business operation dealt with margarine production and soap interests, but the owners decided to amalgamate. In 1938, Unilever enriched its operations by creating brands that boost the enrichment of the margarine business (Prodöhl 2023). In 1940, Unilever increased the local focus on the market operations and formed a corporate structure of the business operations by having a corporate structure. In 1941, Unilever introduced a lifebuoy soap, offering a more needed washing facility. Unilever brands include Persil, LUX, PG Tips, Marmite, Colman's, and Lipton (Smit 2023).

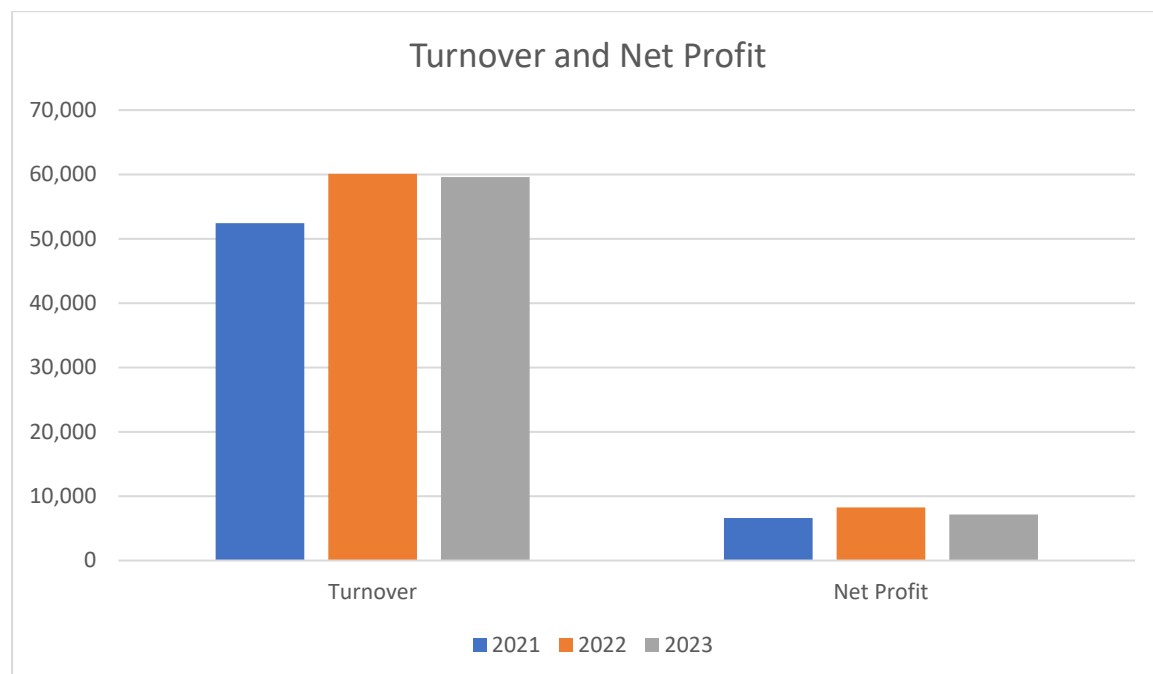


Unilever PLC produces consumer goods, headquartered in the United Kingdom (UK). Unilever has subsidiaries that manufacture and sell products in the following categories: beauty and wellness, home care, ice cream, home care, and personal care products (Kpoku 2021). Unilever has over 400 brands whose operations are in over 190 countries, and some of the renowned brands are Sunlight, Lipton, Dove, Vaseline, Hellmann's, Seventh Generation, and Ben &

Jerry's (Shaoping 2023). Unilever's business model is to sell high-quality products to withstand high competition and obtain customer trust. The business model for Unilever is achieving the organizational performance of the organizational structure, industry-leading expertise, and knowledge of the industry operations (Iglesias et al. 2023). The major competitors of Unilever include PepsiCo Inc., Johnson & Johnson, Procter & Gamble Co., Colgate-Palmolive Co., and Switzerland-based Nestle S.A.

Market share

Unilever PLC has over 4.4 million stores and distributes its products to emerging markets. Unilever's market share in the emerging market was 58%, whereas, in 2023, the turnover was £59.6 billion. Unilever PLC has employed 128,000 people worldwide (Williams 2022). Unilever's turnover was as follows: £52,444m, £60,073m, and £59,604m for 2021, 2022, and 2023. The net profit margin for Unilever PLC was as follows: £6,621m, £8,269m, and £7,140m for 2021, 2022, and 2023, respectively.



Climate transition action plan

Unilever is committed to gaining access to sustainability business operations in 2023 in making products and services that promote environmental conservation (Hu and Zeng 2024). Unilever is committed to achieving sustainability in the operation of the company on the basis of achieving the following objectives: plastics, livelihoods, climate, and nature. Unilever is making progress towards achieving sustainability and delivering better performance in company operations. Unilever Climate Transition Action Plan (CTAP) involves the reduction of GHG emissions in the business operations and in the business value chain in order to achieve zero emissions by 2039 (Baragiola and Mauri 2021). Unilever in Indonesia and Vietnam collected more plastics and processed them more than they sold them towards the reduction of the plastics in the environment.

Increased Innovation

Over recent years, Unilever has increased its investment in new technological processes in production. The new technology has been directed to growth and market share development strategies in the market (Jafari-Sadeghi et al. 2021). The increased market share has been directed to leveraging and achieving strong science and platforms. Exploring the impact of digital transformation on technology entrepreneurship and technological market expansion: The role of technology readiness, exploration and exploitation.

Part two

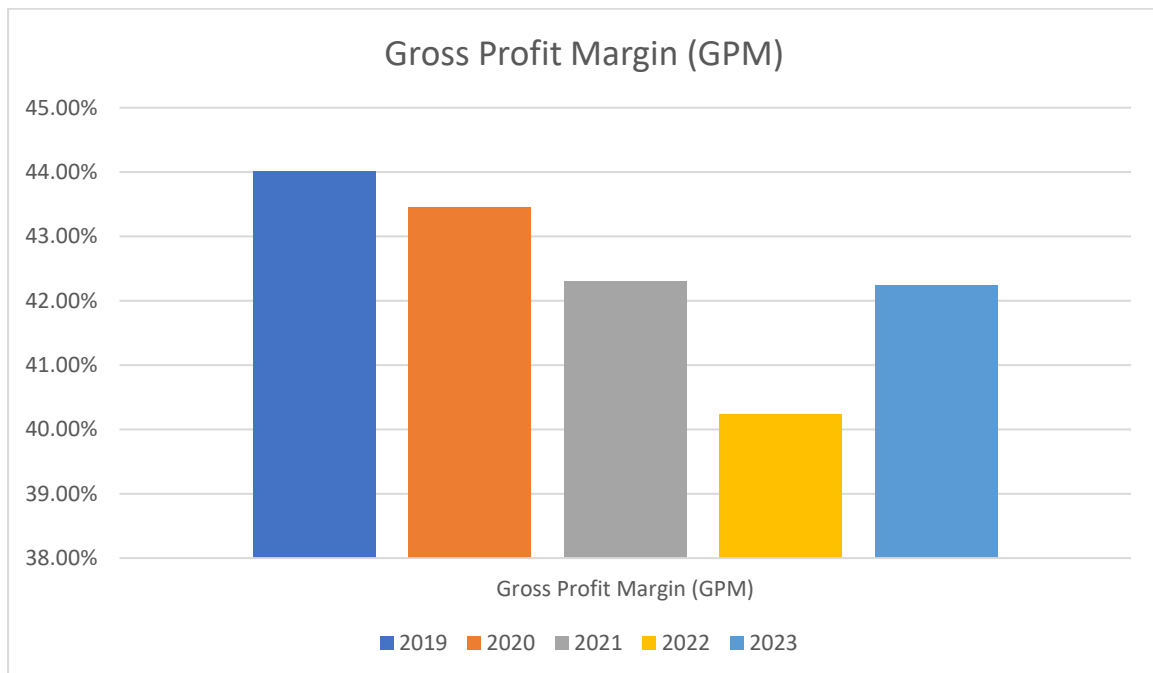
Profitability Ratios

Gross Profit Margin (GPM)

The ratio measures the ability of the company to the direct expenses of the company incurred in the company operations, such as direct materials and direct costs, among others (Hasibuan et al. 2020).

$$\text{Formula} = \frac{\text{Gross Profit}}{\text{Revenue}} * 100\%$$

Year	2019	2020	2021	2022	2023
Gross Profit	22,878	22,040	22,185	24,167	25,175
Revenue	51,980	50,724	52,444	60,073	59,604
Gross Profit Margin (GPM)	$= \frac{22,878}{51,980} *$ 100% = 44.01%	$= \frac{22,040}{50,724} *$ 100% = 43.45%	$= \frac{22,185}{52,444} *$ 100% = 42.30%	$= \frac{24,167}{60,073} *$ 100% = 40.23%	$= \frac{25,175}{59,604} *$ 100% = 42.24%



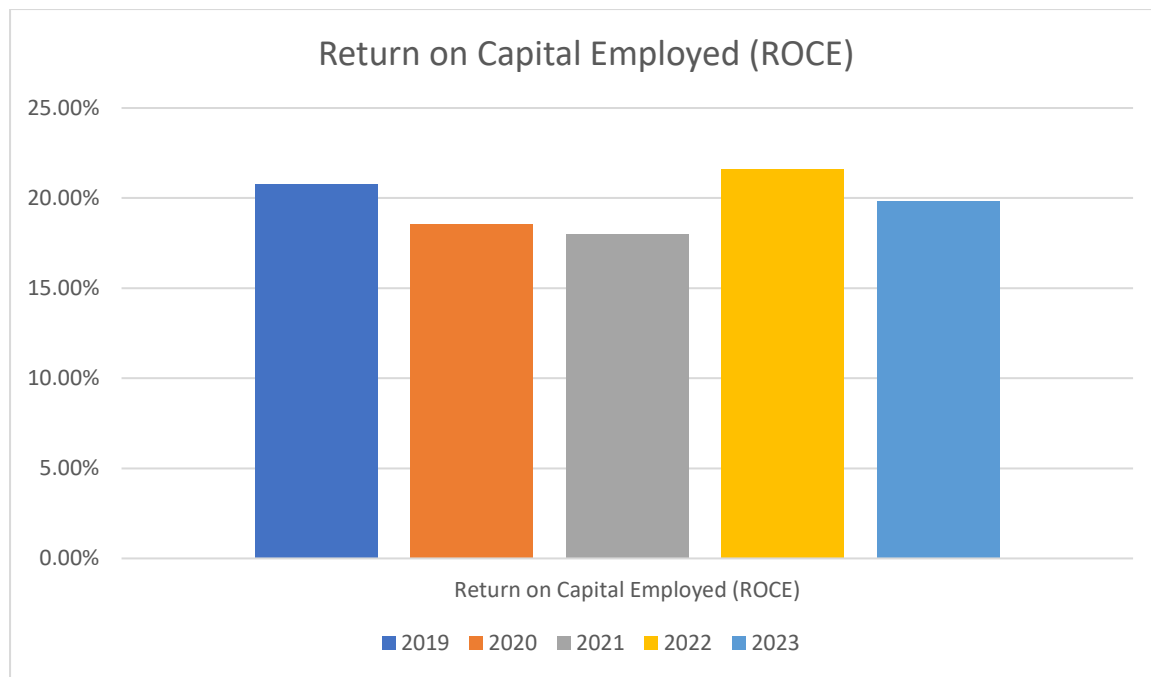
GPM for Unilever company was as follows: 44.01%, 43.45%, 42.30%, 40.23%, and 42.24% for the years 2019, 2020, 2021, 2022, and 2023, respectively. GPM for Unilever company is relative, which implies it has better control over the cost of sales. Gross profit margin is important to the management of Unilever as it tells more about the company's profitability in their operations in relation to managing the cost of sales (Shaikat 2020). Unilever can improve the GPM by increasing prices within the range that is affordable to customers and increasing the efficiency of the customer's operations.

Return on Capital Employed (ROCE)

It measures how efficient a company is in relation to the use of capital in generating profit before interest and taxes (Darsani and Sukartha 2021). A higher ratio indicates that the company is more efficient in using capital to generate profits.

$$\text{Formula} = \frac{\text{Operating Profit}}{\text{Revenue}} * 100\%$$

Year	2019	2020	2021	2022	2023
Profit before tax (PBT)	8,289	7,996	8,556	10,337	9,339
Add: Interest	<u>821</u>	<u>728</u>	<u>491</u>	<u>818</u>	<u>1,038</u>
Profit before interest and tax (PBIT)	8,289+821 = 9,110	7,996 + 728 = 8,724	8,556 + 491 = 9,047	10,337 + 818 = 11,155	9,339 + 1,038 = 10,377
Total assets	64,806	67,659	75,095	77,095	75,821
Less; Current liabilities	<u>(20,978)</u>	<u>(20,592)</u>	<u>(24,778)</u>	<u>(25,427)</u>	<u>(23,507)</u>
Capital Employed	64,806 – 20,978 = 43,828	67,659 – 20,592 = 47,067	75,095 – 24,778 =50,317	77,095 – 25,427 = 51,668	75,821 – 23,507 = 52,314
Return on capital employed (ROCE)	$= \frac{9,110}{43,828} *$ 100% = 20.79%	$= \frac{8,724}{47,067} *$ 100% = 18.54%	$= \frac{9,047}{50,317} *$ 100% = 17.98%	$= \frac{11,155}{51,668} *$ 100% = 21.59%	$= \frac{10,377}{52,314} *$ 100% = 19.84%



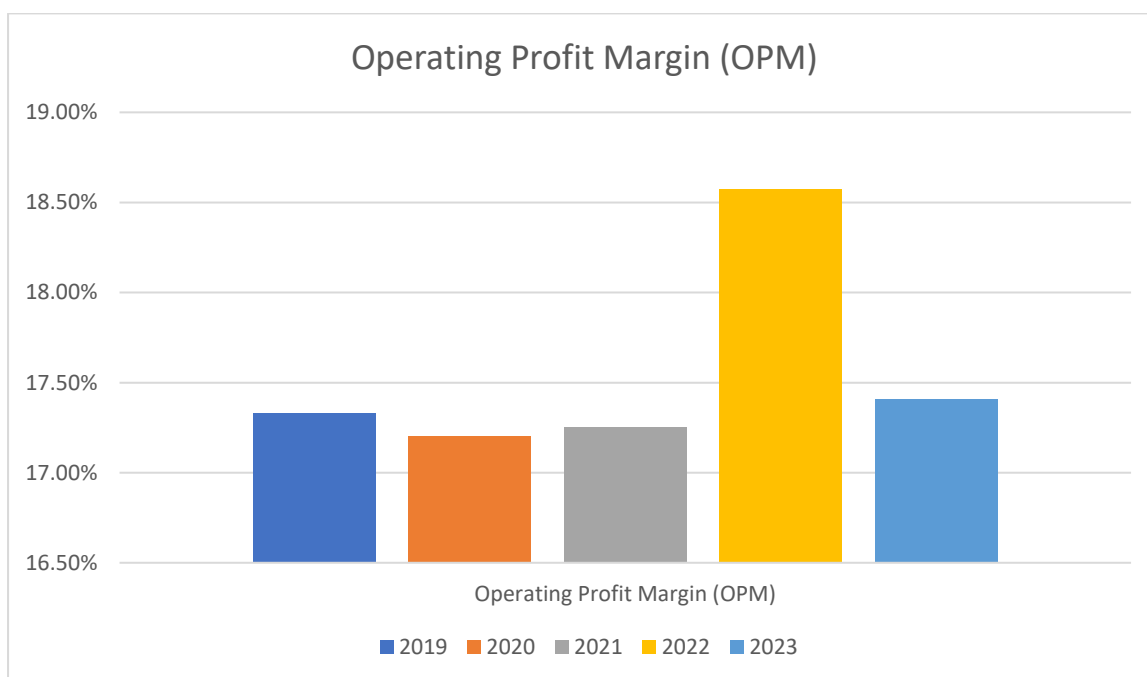
ROCE for Unilever company was as follows: 20.79%, 18.54%, 17.98%, 21.59%, and 19.84% for the years 2019, 2020, 2021, 2022, and 2023, respectively. The ratio implies the company has a higher generation of returns to business. The shareholders of the company use ROCE to evaluate to evaluate to evaluate how well the company uses capital in the generation of returns (Ghosh and Aithal 2022). ROCE for Unilever shows the company has better utilization of dollars invested in the generation of returns before interest and tax. ROCE can be improved in the company by increasing operational efficiency, such as reducing the operational costs of the organization through improving productivity, automating productivity, process improvement, and use of lean practices.

Operating Profit Margin (OPM)

It is a measure of profitability in the business performance, which reflects the percentage of profit generated by a company before deducting interest and taxes (Adefunke and Usiomon 2022). OPM is calculated by dividing the profit before interest and tax or operating profit by the revenue generated by the business.

$$\text{Formula} = \frac{\text{Operating profit}}{\text{Revenue}} * 100\%$$

Year	2019	2020	2021	2022	2023
Profit before tax (PBT)	8,189	7,996	8,556	10,337	9,339
Add: Interest	821	728	491	818	1,038
Profit before interest and tax (PBIT)	8,189 + 821 = 9,010	7,996 + 728 = 8,724	8,556 + 491 = 9,047	10,337 + 818 = 11,155	9,339 + 1,038 = 10,377
Revenue	51,980	50,724	52,444	60,073	59,604
Operating profit margin	$= \frac{9,010}{51,980} *$ 100% = 17.33%	$= \frac{8,724}{50,724} *$ 100% = 17.20%	$= \frac{9,047}{52,444} *$ 100% = 17.25%	$= \frac{11,155}{60,073} *$ 100% = 18.57%	$= \frac{10,377}{59,604} *$ 100% = 17.41%



The operating profit margin for Unilever was 17.33% and 17.20%, respectively. 17.25%, 18.57%, and 17.41% for the years 2019, 2020, 2021, 2022, and 2023, respectively. Operating profit margin is expressed as a percentage of revenue generated by the company where for every £1 of revenue, the following operating profit was as follows: £0.1733, £0.1720, £0.1725,

£0.1857 and £0.1741 for the year 2019, 2020, 2021, 2022 and 2023 respectively. The operating profit margin for Unilever company indicates good management of the operating expenses such as salaries, cost of sales, rent, and other variable costs, excluding the fixed expenses such as interest charges and taxes. Operating profit margin is seen as a superior measure of profitability because it considers the operating expenses, which comprise controllable costs such as costs such cost of production and choice of the equipment to be used on the depreciation that will be charged in the income statement as compared to less superior ratios such as gross profit margin and net profit margin (Tolzmann et al. 2024). The ratio can be improved by reducing the overall cost incurred on the operating expenses of the company operations, such as materials, wages, utilities, and office space.

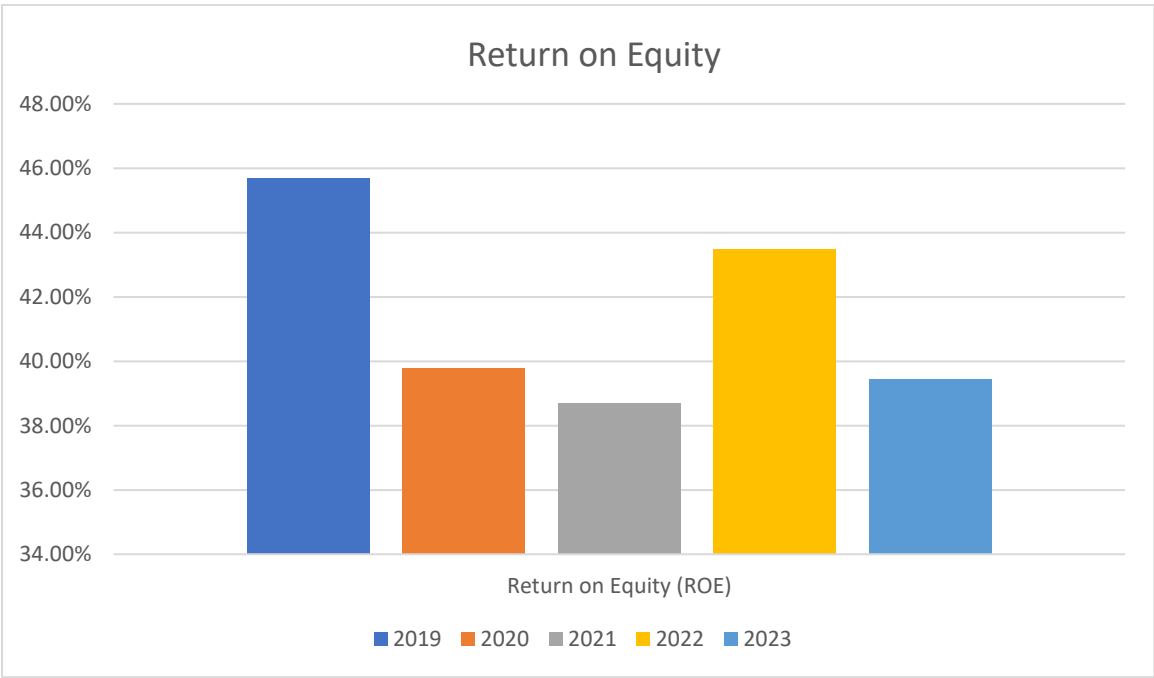
The operating profit margin can be increased or improved based on the pricing strategy used by the company in the production process, such as having a higher charge on the products and services without increasing prices to a point that will adversely affect the demand for goods and services. The prices of the products and services can be improved without compromising the overall demand. Unilever should implement a pricing strategy that is competitive with its rivals while offering quality products and services to customers (Oluwatayo 2022). Cost control for the products and services needs to take charge of the overall costs of products and ensure the overall costs have been reduced. Unilever needs to cut off products and services concerning how profitable products are. The underperforming products should be cut off while the more profitable products should be invested in more.

Return on Equity (ROE)

Return on equity refers to the measure of the company's profitability by its ability to generate net income relative to the shareholder's equity (Choiriyah et al. 2024). It measures the corporation's profitability in relation to how efficient the organization is in generating profits. A high return on equity indicates the company is more productive and profitable in using equity finance to generate profits.

Formula = $\frac{\text{Net Income}}{\text{Shareholders Equity}} * 100\%$

Year	2019	2020	2021	2022	2023
Net Income	6,026	6,073	6,621	8,269	7,140
Shareholders' equity	13,192	15,266	17,107	19,021	18,102
Return on equity (ROE)	$= \frac{6,026}{13,192} *$ 100% = 45.68%	$= \frac{6,073}{15,266} *$ 100% = 39.78%	$= \frac{6,621}{17,107} *$ 100% = 38.70%	$= \frac{8,269}{19,021} *$ 100% = 43.47%	$= \frac{7,140}{18,102} *$ 100% = 39.44%



The operating profit margin for Unilever company was as follows: 45.68%, 39.78%, 38.78%, 43.47%, and 39.44% for the years 2019, 2020, 2021, 2022, and 2023, respectively. The return on equity for Unilever is high, which indicates that the company uses equity finance in a better way to convert the equity finance into profits. The return on equity of Unilever is more than 18%, which implies the ratio is greater, thus implying a higher profitability of the company operation in conversion of the equity finance to the profits. The return on equity on the Unilever company operations indicates a good performance, which will increase and influence the dividend and stock growth rates (Kayode et al. 2022). Unilever has a high return on equity, which implies that the company is efficient in the generation of profits.

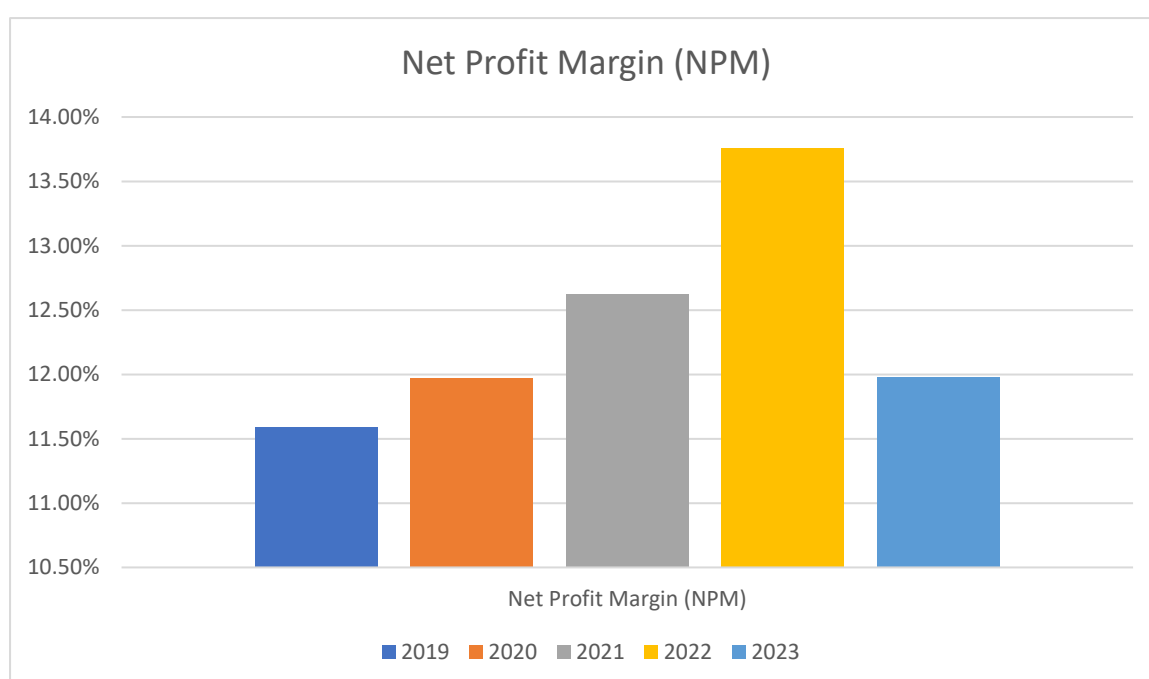
Unilever can increase the net profit margin by increasing the profitability of the business operations as the increase in revenue leads to a rise in the company's profitability, thus making it more accessible for the company to control and oversee operating expenses. The most effective way to increase the net profit margin is by increasing revenue and reducing operating and sales costs (Mahdi and Khaddafi 2020). Unilever can increase the business's profitability by using the most cost-effective stores and reducing the cost of sales. Unilever can contact cost-effective suppliers and supply high-quality products at a lower price. The resultant production costs should be reduced by compromising the products' overall quality.

Net Profit Margin (NPM)

It measures how much of the profit or net income the business has generated as expressed by the revenue (Nariswari and Nugraha 2020).

$$\text{Formula} = \frac{\text{Net Profit}}{\text{Revenue}} * 100\%$$

Year	2019	2020	2021	2022	2023
Net profit	6,026	6,073	6,621	8,269	7,140
Revenue	51,980	50,724	52,444	60,073	59,604
Net Profit Margin	$= \frac{6,026}{51,980} *$	$= \frac{6,073}{50,724} *$	$= \frac{6,621}{52,444} *$	$= \frac{8,269}{60,073} *$	$= \frac{7,140}{59,604} *$
(NPM)	100% = 11.59%	100% = 11.97%	100% = 12.62%	100% = 13.76%	100% = 11.98%



The net profit margin for Unilever Company was as follows: 11.59%, 11.97%, 12.62%, 13.76%, and 11.98% for the years 2019, 2020, 2021, 2022, and 2023, respectively. The ratio indicates that for every £1 of revenue, the company earns a net profit of £0.1159, £0.1197, £0.1262, £0.1376, and £.1198 for the years 2019, 2020, 2021, 2022, and 2023, respectively. The net profit margin of the company is above 10%, which implies that Unilever company is able to control the operating expenses in the business operating, which comprises the cost of production, taxes, interest charges, wages, rent, utilities, and other operating expenses (Nkpodot and Emenyi 2023). The net profit margin for Unilever indicates that the company is

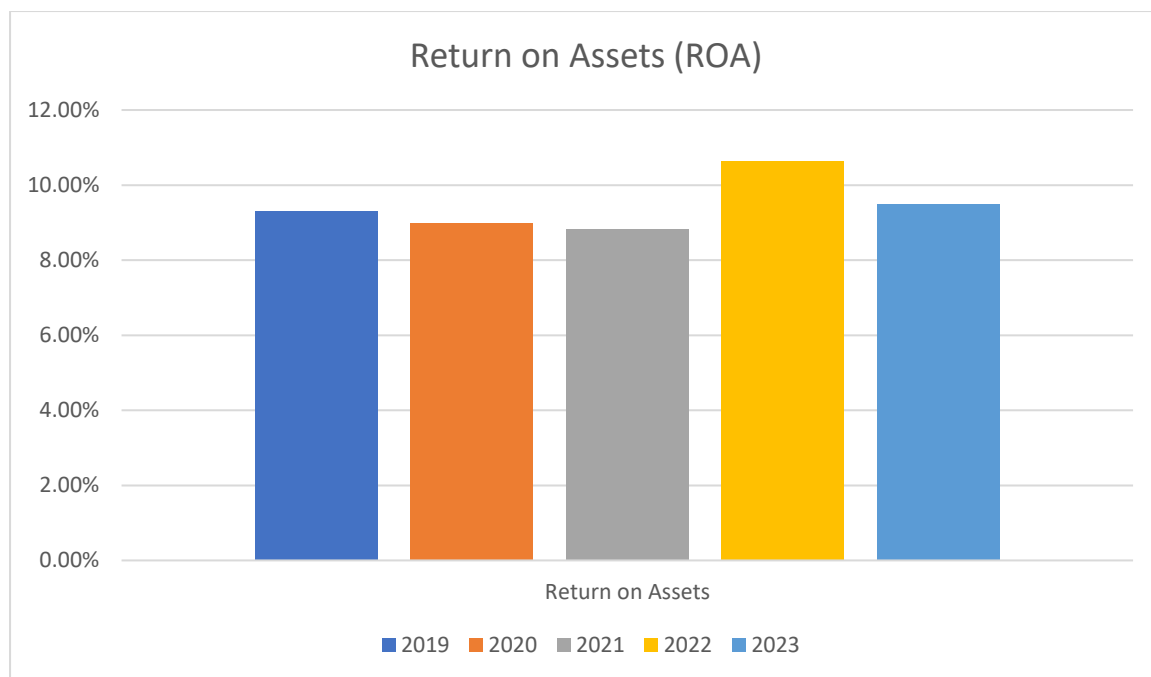
in good financial health. The net operating profit for Unilever indicates the company has good control over the operating expenses, thus contributing to its profitability.

Return on Assets (ROA)

It measures the company's profitability relative to its total assets used in operations and indicates its profit relative to the net assets invested in the business (Hasanuddin et al. 2021).

A higher percentage suggests that the company efficiently uses assets to generate profits. On the other hand, a lower ratio implies that the company is less efficient in generating profit using assets.

Year	2019	2020	2021	2022	2023
Net Income	6,026	6,073	6,621	8,269	7,140
Total Assets	64,806	67,659	75,095	77,821	75,266
Return on assets (ROA)	$= \frac{6,026}{64,806} *$ $100\% =$ 9.30%	$= \frac{6,073}{67,659} *$ $100\% =$ 8.98%	$= \frac{6,621}{75,095} *$ $100\% =$ 8.82%	$= \frac{8,269}{77,821} *$ $100\% =$ 10.63%	$= \frac{7,140}{75,266} *$ $100\% =$ 9.49%



The return on assets for Unilever company was 8.98%, 8.82%, 10.63%, and 9.49% for 2019, 2020, 2022, and 2023, respectively. Return on assets is relative, which implies the company is less efficient in using total assets to generate return in terms of profitability. The ratio can be improved by increasing the resultant income and controlling the operating expenses of the company in their operations such as negotiating with business suppliers on the cost of the purchases, implementing increased sales strategies such as exploring new markets and implementing measures that aim to reduce the resultant operating expenses (Edeh et al. 2020).

Liquidity ratios

These are ratios that show the company's ability to settle its current obligations from assets that can be easily converted to cash (Dirman 2020). The ratio indicates how quickly the company can convert current assets to cash to settle current liabilities. A higher ratio indicates the company is able to settle current liabilities as and when they fall due.

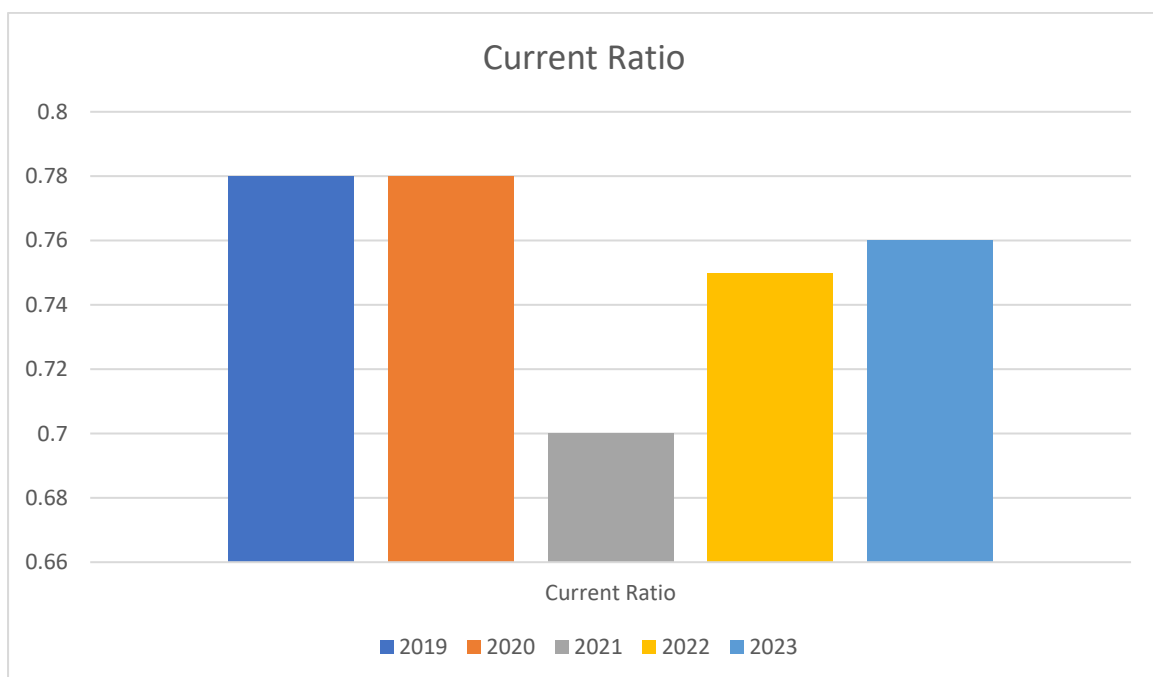
Current ratio

It measures the ability of the business to settle its current obligations as and when they fall due using short-term assets (Mavlutova et al. 2021). A current ratio greater than one implies that

the company is able to settle its current obligations as and when they fall due. In contrast, a current ratio below one means that the company is unable to settle its current obligations as and when they fall due.

$$\text{Formula} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Year	2019	2020	2021	2022	2023
Current Assets	16,430	16,157	17,401	19,157	17,902
Current liabilities	20,978	20,592	24,778	25,427	23,507
Current ratio	$= \frac{16,430}{20,978} =$ 0.78	$= \frac{16,157}{20,592} =$ 0.78	$= \frac{17,401}{24,778} =$ 0.70	$= \frac{19,157}{25,427} =$ 0.75	$= \frac{17,902}{23,507} =$ 0.76



The current ratio for Unilever company was as follows: 0.78, 0.78, 0.70, 0.75, and 0.76 for the years 2019, 2020, 2021, 2022, and 2023, respectively. Unilever's current ratio is less than one, which indicates the company is unable to settle the company's current liabilities as and when

they fall due (Carvalho 2020). The current ratio of the company can be increased by investing more in the company's current assets and reducing the company's current liabilities in order to improve and boost the working capital and, consequently, the liquidity position of the company. The Unilever company can increase the current ratio by delaying investment in capital projects, which ensures the company can have some cash that provides a sound liquidity position. Unilever can improve the amount of short-term loans, increasing the company's liquidity position in its operations.

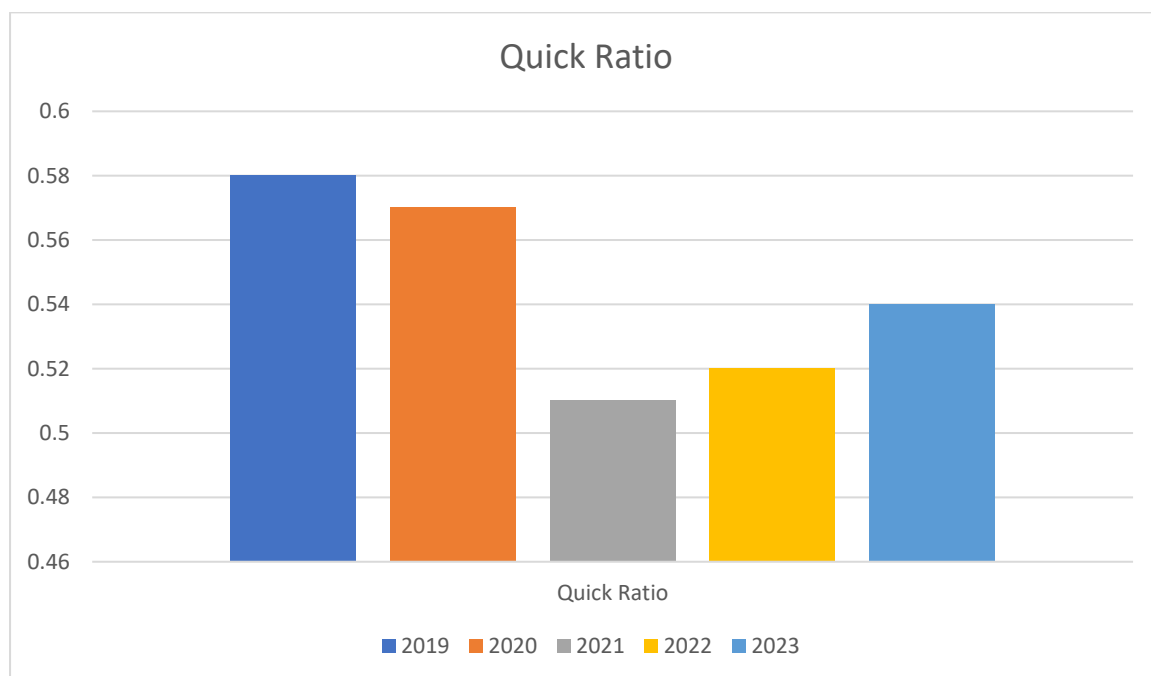
Unilever can increase its overall working capital by selling non-current assets, which are not non-revenue earning assets. Unilever can increase the company's liquidity by reducing its current obligations in its business operations. Unilever can increase debt collection from credit customers in business operations. Unilever can increase the liquidity position of a company by increasing the optimization of inventory, which is not easily convertible to cash, by applying techniques such as just in time (JIT) policy in the company operations (Gleason 2021). The company can increase its revenue by exploring new markets and introducing new products.

Quick ratio/ Acid test ratio

The ratio shows the ability of the company to settle the current obligations using short-term assets, excluding inventory, which implies that the ratio demonstrates the ability to pay current liabilities from more liquid assets (Vásquez Villanueva et al. 2021). A ratio of more than one means that the company is able to settle the current liabilities as and when they fall due. In contrast, a ratio of less than one indicates the company is unable to pay the current obligations.

$$\text{Formula} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

Year	2019	2020	2021	2022	2023
Current assets	16,430	16,157	17,401	19,157	17,902
Less; Inventory	<u>(4,164)</u>	<u>(4,462)</u>	<u>(4,683)</u>	<u>(5,931)</u>	<u>(5,119)</u>
Current assets net of inventory	16,430 – 4,164 = 12,266	16,157–4,462 = 11,695	17,401 – 4,683 = 12,718	19,157 – 5,931 = 13,226	17,902 – 5,119 = 12,783
Current liabilities	20,978	20,592	24,778	25,427	23,507
Acid test ratio	$= \frac{12,266}{20,978} = 0.58$	$= \frac{11,695}{20,592} = 0.57$	$= \frac{12,718}{24,778} = 0.51$	$= \frac{13,226}{25,427} = 0.52$	$= \frac{12,783}{23,507} = 0.54$



Unilever's quick ratio is as follows: 0.58, 0.57, 0.51, 0.52, and 0.54 for the years 2019, 2020, 2021, 2022, and 2023, respectively. The current ratio for Unilever is less than one, which implies the company is unable to settle current liabilities as and when they fall due to more

liquid assets (Shaikat 2020). The acid test ratio can be improved by investing more in the more liquid assets in the company, excluding inventory, which is used to settle the company's current obligations as and when they fall due.

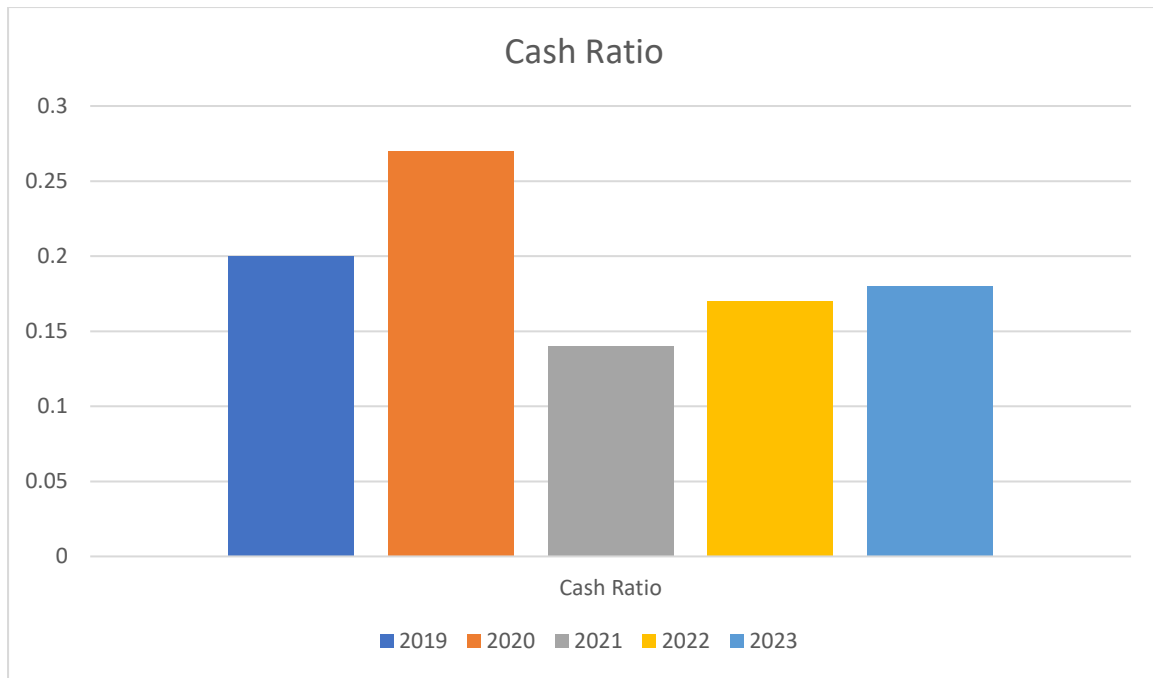
The quick ratio can be improved by negotiating with suppliers for a more extended credit period, which allows the company's suppliers to defer cash outflows. Unilever can also enhance the quick ratio by restructuring some current liabilities into non-current ones to extend the time to repay the suppliers and other short-term liabilities for the business. Unilever can also reduce unnecessary expenses for the company's business operations (Muhammed 2022). Controlling the necessary expenditures in the organization enables the organization to have some cash by avoiding unnecessary cash outflows.

Cash Ratio

It measures the company's ability to settle current obligations using cash and cash equivalents (Ball and Nikolaev 2022). A higher ratio implies the company is in a good position to resolve its current obligations as and when they fall due, while a lower ratio means the company is unable to pay current liabilities from more liquid assets.

$$\text{Formula} = \frac{\text{Cash and Cash equivalents}}{\text{Current liabilities}}$$

Year	2019	2020	2021	20220.	2023
Cash and cash equivalents	4,185	5,548	3,415	4,326	4,159
Current liabilities	20,978	20,592	24,778	25,427	23,507
Cash ratio	$= \frac{4,185}{20,978} =$ 0.20	$= \frac{5,548}{20,592} =$ 0.27	$= \frac{3,415}{24,778} =$ 0.14	$= \frac{4,326}{25,427} =$ 0.17	$= \frac{4,159}{23,507} =$ 0.18



The cash ratio for Unilever was 0.20, 0.27, 0.14, 0.17, and 0.18 for the years 2019, 2020, 2021, 2022, and 2023, respectively. The cash ratio implies that the company is unable to settle its current obligations as and when they fall due (Okeke et al. 2021). The cash ratio can be improved by investing more in cash and cash equivalents and short-term marketable securities.

Efficiency Ratios

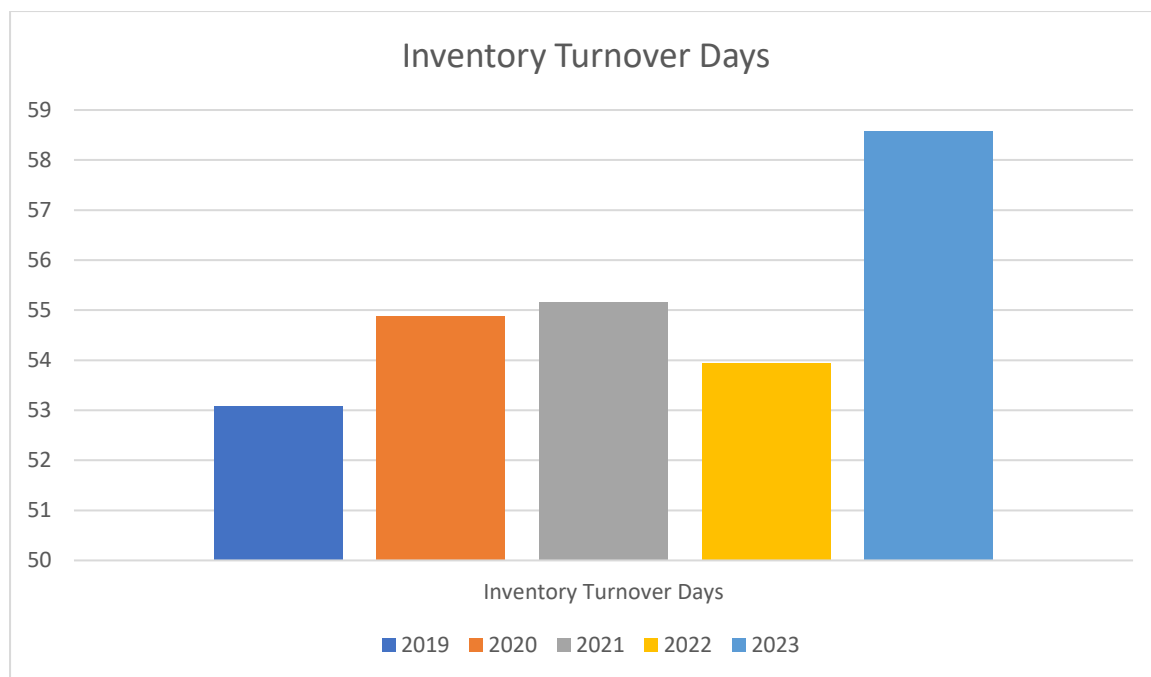
Inventory Turnover days

It refers to the time taken by the company from the point of purchase of a good to the point of sale (Martínez et al. 2020). The lower the inventory turnover days, the better since it implies the company takes a shorter period between the purchase and the point of sale.

Formula

$$\text{Inventory turnover days} = \frac{\text{Average inventory}}{\text{Cost of sales}} * 365 \text{ days}$$

Year	2019	2020	2021	2022	2023
Opening inventory	4,301	4,164	4,462	4,683	5,931
Closing inventory	4,164	4,462	4,683	5,931	5,119
Average inventory	$(4,301+4,164)/2 = 4,232.5$	$(4,164+4,462)/2 = 4,313$	$(4,462+4,683)/2 = 4,572.5$	$(4,683+5,931)/2 = 5,307$	$(5,931+5,119)/2 = 5,525$
Cost of sales	29,102	28,684	30,259	35,906	34,429
Inventory turnover days	$= \frac{4,232.5}{29,102} * 365 \text{ days} = 53.08 \text{ days}$	$= \frac{4,313}{28,684} * 365 \text{ days} = 54.88 \text{ days}$	$= \frac{4,572.5}{30,259} * 365 \text{ days} = 55.16 \text{ days}$	$= \frac{5,307}{35,906} * 365 \text{ days} = 53.95 \text{ days}$	$= \frac{5,525}{34,429} * 365 \text{ days} = 58.57 \text{ days}$

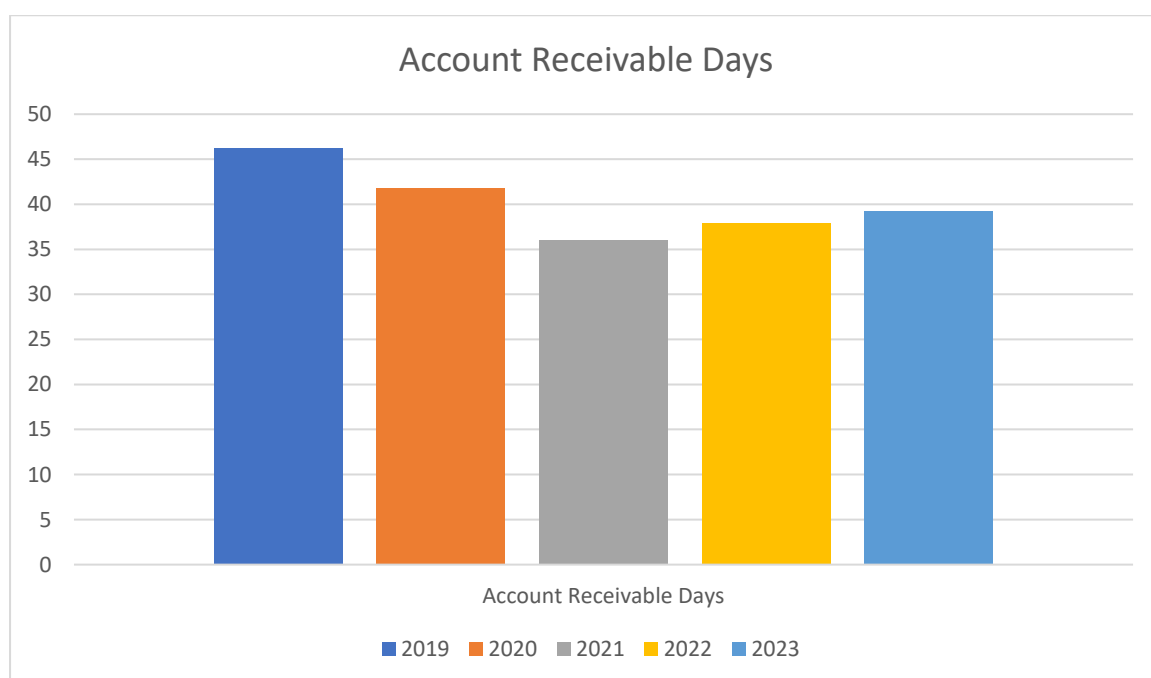


Unilever PLC's inventory turnover days were as follows: 53.08 days, 54.88 days, 55.16 days, 53.95 days, and 58.57 days for the years 2019, 2020, 2021, 2022, and 2023, respectively. Unilever's inventory turnover days are longer, which implies the company takes longer to convert the purchases into sales. Unilever is less efficient in the conversion of purchases into sales. Unilever Plc can reduce inventory turnover days by using inventory techniques such as just-in-time (JIT) for the stores that are close to suppliers in order to reduce high inventory levels. Unilever can use modern technology, such as software and automation, to reduce inventory, which allows businesses to maintain lower inventory levels.

Account Receivable days

It shows the number of days taken by the organization to collect cash from the credit sales of the business operations (Mullins 2020). A lower account receivable day implies the company takes less time to collect cash from credit sales, which implies efficient management.

Year	2019	2020	2021	2022	2023
Opening account receivables	6,482	6,695	4,939	5,422	7,056
Closing account receivables	6,695	4,939	5,422	7,056	5,775
Average account receivables	$(6,482+6,695)/2$ = 6,588.5	$(6,695+4,939)/2$ = 5,817	$(4,939+5,422)/2$ = 5,180.5	$(5,422+7,056)/2$ = 6,239	$(7,056+5,775)/2$ = 6,415.5
Revenue	51,980	50,724	52,444	60,073	59,604
Account receivables days	$= \frac{6,588.5}{51,980} *$ 365 days = 46.26 days	$= \frac{5,817}{50,724} *$ 365 days = 41.86 days	$= \frac{5,180.5}{52,444} *$ 365 days = 36.06 days	$= \frac{6,239}{60,073} *$ 365 days = 37.91 days	$= \frac{6,415.5}{59,604} *$ 365 days = 39.29 days



The account receivable days for Unilever Plc were as follows: 46.26 days, 41.86 days, 36.06 days, 37.91 days, and 39.29 days for the years 2019, 2020, 2021, 2022, and 2023, respectively.

Unilever Plc's account receivable days are more than 30 days, which indicates that Unilever takes a longer time to collect receivables from the credit sales. Unilever Plc can improve the collection of cash for credit customers by imposing a stricter credit policy and extra charges on late payments while reducing the possibility of bad debts (Smith 2022). Unilever Plc can offer incentives for customers who pay for credit sales early. The use of Global E-invoicing and payment software billing and payment can implement this.

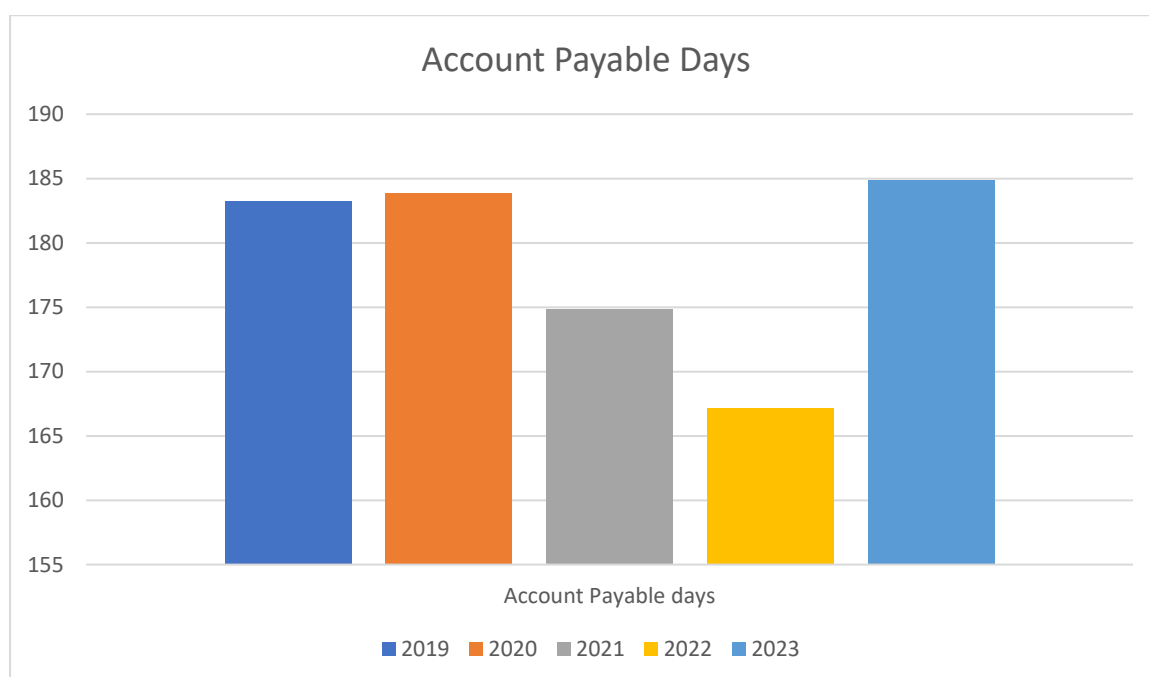
Account Payable Days

Account payable refers to the number of days a company takes to settle credit purchases from its creditors (Mashdurohatun and Kurnia 2020). A shorter account payable day indicates the company takes less time to pay credit purchases, which improves the business's reputation. On the other hand, a longer account payable day implies the company gets a form of credit during the period allowed by suppliers before repaying for credit purchases.

Formula

$$\text{Account payable days} = \frac{\text{Average Account Payables}}{\text{Credit sales}} * 365 \text{ days}$$

Year	2019	2020	2021	2022	2023
Opening account payables	14,457	14,768	14,132	14,861	18,023
Closing account payables	14,768	14,132	14,861	18,023	16,857
Average account payables	$(14,457 + 14,768) / 2 = 14,612.5$	$(14,768 + 14,132) / 2 = 14,450$	$(14,132 + 14,861) / 2 = 14,496.5$	$(14,861 + 18,023) / 2 = 16,442$	$(18,023 + 16,857) / 2 = 17,440$
Cost of sales	29,102	28,684	30,259	35,906	34,429
Account payable days	$= \frac{14,612.5}{29,102} * 365 \text{ days} = 183.27 \text{ days}$	$= \frac{14,450}{28,684} * 365 \text{ days} = 183.87 \text{ days}$	$= \frac{14,496.5}{30,259} * 365 \text{ days} = 174.86 \text{ days}$	$= \frac{16,442}{35,906} * 365 \text{ days} = 167.14 \text{ days}$	$= \frac{17,440}{34,429} * 365 \text{ days} = 184.89 \text{ days}$



Account payable days for Unilever Plc were as follows: 183.27 days, 183.87 days, 174.86 days, 167.14 days, and 184.89 days for the years 2019, 2020, 2021, 2022, and 2023, respectively. Unilever Plc takes a longer period to settle the credit purchases on the credit sales of the

company, which indicates the company accesses a shorter-term loan from creditors by trading with credit purchases (Chaput and Crack 2023). Unilever has a bad reputation with its suppliers since it takes a long time to repay them. Unilever can improve by reducing the number of days it takes to have better relationships with suppliers.

Gearing Ratios

Equity Ratio

It represents the proportion of the company assets which have been financed by equity finance (Nukala and Prasada Rao 2021). A high equity ratio implies the company is financed by more equity finance and less debt.

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total Assets}}$$

Year	2019	2020	2021	2022	2023
Equity	13,886	17,655	19,746	21,701	20,764
Total assets	64,806	67,659	75,095	77,821	75,266
Equity ratio	$= \frac{13,886}{64,806} =$ 0.21	$= \frac{17,655}{67,659} =$ 0.26	$= \frac{19,746}{75,095} =$ 0.26	$= \frac{21,701}{77,821} =$ 0.28	$= \frac{20,764}{75,266} =$ 0.28

The equity ratio is as follows: 0.21, 0.26, 0.26, 0.28 and 0.28 for 2020, 2021, 2022 and 2023 respectively. The equity ratio for Unilever is low which implies the company is less finance by equity on its assets. (Pronko et al. 2021).

Part C

Payback Period (PBP)

Payback period is period taken by a project in order to recoup initial outlay (Demirel et al. 2022). It is the point where the company can break even their operations in a particular project. The payback period is essential in project evaluations as it enables the management to decide whether to accept a project. A project with a shorter payback period is preferred since it has lower risk, and investors will take a shorter period to recover the initial investment. On the other side, a project with a high payback period is considered riskier since it takes investors longer to recoup the initial outlay.

Computation of payback period

Formula

$$\text{PBP} = \text{Number of years before full recovery} + \frac{\text{uncovered costs}}{\text{Cashflow in succeeding year}}$$

Project A		
Year	Cashflows	Accumulated cashflows
0	(80)	(80)
1	25	(55)
2	25	(30)
3	20	(10)
4	55	45

$$\text{PBP} = 3 + \frac{10}{55} = 3.182 \text{ Years}$$

Payback period for project A = 3 Years and 2.182 months

Project B

Project B

Year	Cashflows	Accumulated Cashflows
0	(75)	(75)
1	50	(25)
2	20	(5)
3	20	15
4	20	35

$$\text{Payback Period (PBP)} = 2 + \frac{5}{20} = 2.25 \text{ Years}$$

PBP = 2 Years and 0.25*12 months

PBP = 2 Years 3 months

Recommendations

Project B should be implemented since it has a lower payback period of 2 years and three months, while project A has a higher payback period of 3 years and 2.182 months. A shorter payback period implies that it takes less time for the investor or management to recoup the initial cash investment in the project.

Advantages of Payback period

The project's payback period is crucial for determining and assessing a business's liquidity position. The finance manager will be below when the project recoups the initial amount invested in the business. The finance manager will choose a project with a shorter payback period as it will take less time to recover the initial investment, thus promoting liquidity in the business. The calculation and interpretation of the payback period are easy to use and understand and, therefore, easily applicable for business purposes. The payback period is a crucial tool for the risk assessment of the project, where a project with a shorter payback period is considered less risky (Dai et al. 2022). In comparison, a project with a more extended payback period is supposed to be more dangerous. The payback period is critical in project

planning in the following ways: The payback period indicates the project's time to start earning profits, and it enables the business to do business in matters relating to asset allocation and crucial future investments.

Disadvantages

The payback period does not consider the cashflows that occur after the payback period, which implies that a project could be rejected because it has a long payback period but could be more profitable. The payback period does not consider the time value of money, which implies it assumes that cashflows are received at the same time as inflows (Cook 2021). Therefore, it is in line with the shareholder's wealth maximization principle. Determination of the maximum acceptable payback period is subjective and varies from one firm to another, which could be firms in the same industry.

Accounting Rate of Return (ARR)

It refers to the percentage average of the earnings of the company in comparison to the initial investment (Shahriar et al. 2021).

Formula

$$ARR = \frac{\text{Average profits}}{\text{Average investment}} * 100\%$$

Computation of Accounting rate of return (ARR)

Year	Project A
0	-80
1	25
2	25
3	20
4	55

$$\text{Accounting rate of return (ARR)} = \frac{\text{Average profits}}{\text{Average investment}} * 100\%$$

$$\text{Average profits} = \frac{25+25+20+55}{4} = \frac{125}{4} = 31.25$$

$$\text{Average investment} = \frac{80+0}{2} = 40$$

$$\text{Accounting rate of return} = \frac{31.25}{40} * 100\% = 78.125\%$$

Project B

Year	Project B
0	-75
1	50
2	20
3	20
4	20

$$\text{Average investment} = \frac{\text{Initial outlay} + \text{Scrap value}}{2}$$

$$\text{Average investment} = \frac{75+0}{2} = 37.5$$

$$\text{Average profits} = \frac{\text{Total Profits}}{\text{Number of years}}$$

$$\text{Average profits} = \frac{50+20+20+20}{4} = \frac{110}{4} = 27.5$$

$$\text{Accounting rate of return (ARR)} = \frac{27.5}{37.5} * 100\% = 73.33\%$$

Decision criteria

The accounting rate of return for Unilever for Project A was 78.125%, while for Project B was 73.33%. Both projects have high accounting rates of return, which implies both projects are profitable. Unilever's evaluation of the viability of the investment projects was based on the projects that were mutually exclusive, which means the implementation of one eliminates the other project from further consideration (Islam 2022). The project to be implemented for Unilever is Project A since it has a higher accounting rate of return, which implies the project

is more profitable. Implementing Project A means the company will earn a higher profit as a return on the investment.

Advantages

The accounting rate of return uses the profit on the financial statements of the company, which are easily accessible in the determination of the ARR. A company's accounting rate of return is easy to calculate and understand in terms of the project's useful life. ARR is a crucial appraisal technique used to measure the profitability of an investment appraisal technique, which enables the measurement of the performance of a project (Shahriar et al. 2021). Accounting rate of return is a better appraisal technique than payback since it considers all the cash flows of the entire project. Investors would use the accounting rate of return to determine the more frequently appraised investment decision. ARR is easy for decision-making by the investor of the company where a project with a higher ARR is accepted while a project with a lower ARR is disregarded.

Disadvantages

The accounting rate of return considers the accounting profits only, which implies it does not consider cashflows after tax, such as adjustments done in determining the cashflows on add-back depreciation, which is a non-cash expense. ARR cannot be applied for projects with unequal lives as used for comparative purposes in determining whether to accept or reject the project. ARR does not consider the time value of money in the business appraisal technique as used in determining the viability of a given project, thus not in line with the principle of shareholders' wealth maximization (Kipkirui and Kimunguni 2022). The computation of the accounting rate of return does not consider the lives of the project and thus does not produce accurate results for comparison purposes. The computation of ARR does not consider external factors, and if the calculation uses the return on investment, it produces different results.

Net Present value (NPV)

It refers to the difference between the present value of inflows and the present value of outflows. The net present value is the difference between the discounted inflow and the present value of project outflows over a given time (Peymankar and Ranjbar 2021). A positive net present value implies that the project impacts and increases the value of an investment and the shareholder's wealth. On the other hand, a negative net present value means that the company invests in a project that reduces the value of the shareholder's wealth.

Formula

Net present value (NPV) = Present value of inflows – Present value of outflows

$$\text{Formula} = \frac{\text{Cashflow}}{(1+i)^t} - \text{Initial investment}$$

Project A

Year	Cashflows	Discount factor 9.75%	Present value cashflows
0	(80)	1.0000	(80)
1	25	0.9112	22.78
2	25	0.8302	20.755
3	20	0.7565	15.13
4	55	0.6893	<u>37.9115</u>
Net Present Value (NPV)			<u>16.5765</u>

Project B

Year	Cashflow	Discount Factor	Present value cashflows

0	(75)	1.0000	(75)
1	50	0.9112	45.56
2	20	0.8302	16.604
3	20	0.7565	15.13
4	20	0.6893	<u>13.786</u>
Net Present Value (NPV)			<u>16.08</u>

Decision Criteria

The company's investment should be in project A since it has a higher net present value, which implies it adds more value to its shareholders. Both projects are viable for investment since they have a positive net present value, adding to the shareholders' wealth.

Advantages of net present value technique

Net present value considers time value, implying that the appraisal techniques align with the shareholders' wealth maximization. Net present value also considers the cost of capital incurred by the company in financing its operations. The appraisal technique is a simple way of delivering value to the shareholders, which is easy to compute when evaluating the value to determine the value of the business (Damodaran 2024). The computation of the net present value considers the discounting rate in valuing the investment dollar, which is relevant in wealth creation. The investment is computed using the net present value, considering the size of the project. The computation of the net present value uses the cashflows rather than earnings after tax, which implies the computation considers depreciation, which is a non-cash expense.

Disadvantages of net present value technique

The computation of the net present value assumes the discount is constant and does not change over time, but the discounting rate changes yearly. The comparison of projects with different valuable lives is impossible with the net present value technique. The computation of net present value uses the discounting rate, which is subjective to the company using it (Dobrowolski and Drozdowski 2022). The accuracy of the net present value technique heavily depends on the accuracy of the discounting rate of return of an investment project. The investor needs to be in a position of being able to determine the cash flow of the investment project correctly. The reliance on the net present value technique does not provide a good picture of the overall gain or loss associated with implementing the investment project.

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Appendix

Ratio Analysis

Profitability ratios

Gross profit margin (GPM)

Year	2019	2020	2021	2022	2023
Gross Profit	22,878	22,040	22,185	24,167	25,175
Revenue	51,980	50,724	52,444	60,073	59,604
Gross Profit Margin (GPM)	$= \frac{22,878}{51,980} *$ 100% = 44.01%	$= \frac{22,040}{50,724} *$ 100% = 43.45%	$= \frac{22,185}{52,444} *$ 100% = 42.30%	$= \frac{24,167}{60,073} *$ 100% = 40.23%	$= \frac{25,175}{59,604} *$ 100% = 42.24%

Return on Capital Employed (ROCE)

Year	2019	2020	2021	2022	2023
Profit before tax (PBT)	8,289	7,996	8,556	10,337	9,339
Add: Interest	<u>821</u>	<u>728</u>	<u>491</u>	<u>818</u>	<u>1,038</u>
Profit before interest and tax (PBIT)	8,289+821 = 9,110	7,996 + 728 = 8,724	8,556 + 491 = 9,047	10,337 + 818 = 11,155	9,339 + 1,038 = 10,377
Total assets	64,806	67,659	75,095	77,095	75,821

Less; Current liabilities	(20,978)	(20,592)	(24,778)	(25,427)	(23,507)
Capital Employed	64,806 20,978 43,828	67,659 20,592 47,067	75,095 24,778 =50,317	77,095 25,427 51,668	75,821 23,507 52,314
Return on capital employed (ROCE)	= $\frac{9,110}{43,828} *$ 100% = 20.79%	= $\frac{8,724}{47,067} *$ 100% = 18.54%	= $\frac{9,047}{50,317} *$ 100% = 17.98%	= $\frac{11,155}{51,668} *$ 100% = 21.59%	= $\frac{10,377}{52,314} *$ 100% = 19.84%

Operating profit margin (OPM)

Year	2019	2020	2021	2022	2023
Profit before tax (PBT)	8,189	7,996	8,556	10,337	9,339
Add: Interest	821	728	491	818	1,038
Profit before interest and tax (PBIT)	8,189 + 821 = 9,010	7,996 + 728 = 8,724	8,556 + 491 = 9,047	10,337 + 818 = 11,155	9,339 + 1,038 = 10,377
Revenue	51,980	50,724	52,444	60,073	59,604
Operating profit margin	= $\frac{9,010}{51,980} *$ 100% = 17.33%	= $\frac{8,724}{50,724} *$ 100% = 17.20%	= $\frac{9,047}{52,444} *$ 100% = 17.25%	= $\frac{11,155}{60,073} *$ 100% = 18.57%	= $\frac{10,377}{59,604} *$ 100% = 17.41%

Return on Equity (ROE)

Year	2019	2020	2021	2022	2023
Net Income	6,026	6,073	6,621	8,269	7,140
Shareholders' equity	13,192	15,266	17,107	19,021	18,102
Return on equity (ROE)	$= \frac{6,026}{13,192} *$ 100% = 45.68%	$= \frac{6,073}{15,266} *$ 100% = 39.78%	$= \frac{6,621}{17,107} *$ 100% = 38.70%	$= \frac{8,269}{19,021} *$ 100% = 43.47%	$= \frac{7,140}{18,102} *$ 100% = 39.44%

Net Profit margin (NPM)

Year	2019	2020	2021	2022	2023
Net profit	6,026	6,073	6,621	8,269	7,140
Revenue	51,980	50,724	52,444	60,073	59,604
Net Profit Margin (NPM)	$= \frac{6,026}{51,980} *$ 100% = 11.59%	$= \frac{6,073}{50,724} *$ 100% = 11.97%	$= \frac{6,621}{52,444} *$ 100% = 12.62%	$= \frac{8,269}{60,073} *$ 100% = 13.76%	$= \frac{7,140}{59,604} *$ 100% = 11.98%

Return on Assets (ROA)

Year	2019	2020	2021	2022	2023
Net Income	6,026	6,073	6,621	8,269	7,140
Total Assets	64,806	67,659	75,095	77,821	75,266

Return on	= $\frac{6,026}{64,806} *$	= $\frac{6,073}{67,659} *$	= $\frac{6,621}{75,095} *$	= $\frac{8,269}{77,821} *$	= $\frac{7,140}{75,266} *$
assets	100% =	100% =	100% =	100% =	100% =
(ROA)	9.30%	8.98%	8.82%	10.63%	9.49%

Liquidity ratios

Current ratio

Formula = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

Year	2019	2020	2021	2022	2023
Current Assets	16,430	16,157	17,401	19,157	17,902
Current liabilities	20,978	20,592	24,778	25,427	23,507
Current ratio	= $\frac{16,430}{20,978} =$ 0.78	= $\frac{16,157}{20,592} =$ 0.78	= $\frac{17,401}{24,778} =$ 0.70	= $\frac{19,157}{25,427} =$ 0.75	= $\frac{17,902}{23,507} =$ 0.76

Quick Ratio/ Acid test Ratio

Formula = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

Year	2019	2020	2021	2022	2023
Current assets	16,430	16,157	17,401	19,157	17,902
Less; Inventory	(4,164)	(4,462)	(4,683)	(5,931)	(5,119)

Current assets net of inventory	16,430 – 4,164 = 12,266	16,157-4,462 = 11,695	17,401 – 4,683 = 12,718	19,157 – 5,931 = 13,226	17,902 – 5,119 = 12,783
Current liabilities	20,978	20,592	24,778	25,427	23,507
Acid test ratio	= $\frac{12,266}{20,978}$ = 0.58	= $\frac{11,695}{20,592}$ = 0.57	= $\frac{12,718}{24,778}$ = 0.51	= $\frac{13,226}{25,427}$ = 0.52	= $\frac{12,783}{23,507}$ = 0.54

Cash ratio

Formula = $\frac{\text{Cash and cash equivalents}}{\text{Current Liabilities}}$

Year	2019	2020	2021	20220.	2023
Cash and cash equivalents	4,185	5,548	3,415	4,326	4,159
Current liabilities	20,978	20,592	24,778	25,427	23,507
Cash ratio	= $\frac{4,185}{20,978}$ = 0.20	= $\frac{5,548}{20,592}$ = 0.27	= $\frac{3,415}{24,778}$ = 0.14	= $\frac{4,326}{25,427}$ = 0.17	= $\frac{4,159}{23,507}$ = 0.18

Efficiency ratios

Inventory turnover days

Formula = $\frac{\text{Inventory}}{\text{Cost of sales}} * 365 \text{ days}$

Year	2019	2020	2021	2022	2023
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Opening inventory	4,301	4,164	4,462	4,683	5,931
Closing inventory	4,164	4,462	4,683	5,931	5,119
Average inventory	(4,301+4,164) /2 = 4,232.5	(4,164+4,462) /2 = 4,313	(4,462+4,683) /2 = 4,572.5	(4,683+5,931) /2 = 5,307	(5,931+5,119) /2 = 5,525
Cost of sales	29,102	28,684	30,259	35,906	34,429
Inventory turnover days	= $\frac{4,232.5}{29,102} * 365 \text{ days}$ 53.08 days	= $\frac{4,313}{28,684} * 365 \text{ days}$ 54.88 days	= $\frac{4,572.5}{30,259} * 365 \text{ days}$ 55.16 days	= $\frac{5,307}{35,906} * 365 \text{ days}$ 53.95 days	= $\frac{5,525}{34,429} * 365 \text{ days}$ 58.57 days

Account receivables days

Formula = $\frac{\text{Average receivables}}{\text{Revenue}} * 365 \text{ days}$

Year	2019	2020	2021	2022	2023
Opening account receivables	6,482	6,695	4,939	5,422	7,056

Closing account receivables	6,695	4,939	5,422	7,056	5,775
Average account receivables	$(6,482+6,695)/2$ = 6,588.5	$(6,695+4,939)/2$ = 5,817	$(4,939+5,422)/2$ = 5,180.5	$(5,422+7,056)/2$ = 6,239	$(7,056+5,775)/2$ = 6,415.5
Revenue	51,980	50,724	52,444	60,073	59,604
Account receivables days	$= \frac{6,588.5}{51,980} * 365 \text{ days}$ = 46.26 days	$= \frac{5,817}{50,724} * 365 \text{ days}$ = 41.86 days	$= \frac{5,180.5}{52,444} * 365 \text{ days}$ = 36.06 days	$= \frac{6,239}{60,073} * 365 \text{ days}$ = 37.91 days	$= \frac{6,415.5}{59,604} * 365 \text{ days}$ = 39.29 days

Trade payable days

$$\text{Formula} = \frac{\text{Account payables}}{\text{Cost of sales}} * 365 \text{ days}$$

Year	2019	2020	2021	2022	2023
Opening account payables	14,457	14,768	14,132	14,861	18,023
Closing account payables	14,768	14,132	14,861	18,023	16,857
Average account payables	$(14,457+14,768)/2$ = 14,612.5	$(14,768+14,132)/2$ = 14,450	$(14,132+14,861)/2$ = 14,496.5	$(14,861+18,023)/2$ = 16,442	$(18,023+16,857)/2$ = 17,440
Cost of sales	29,102	28,684	30,259	35,906	34,429

Account	= $\frac{14,612.5}{29,102} *$	= $\frac{14,450}{28,684} *$	= $\frac{14,496.5}{30,259} *$	= $\frac{16,442}{35,906} *$	= $\frac{17,440}{34,429} *$
payable days	365 days =	365 days =	365 days =	365 days =	365 days =
	183.27 days	183.87 days	174.86 days	167.14 days	184.89 days



END....