

Financial Management for Jurys Inn

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Executive Summary

Main focus of this report will be to conduct ratio analysis for Jurys Inn. This report is conducted such analysis and concluded that the financial performance of the company is not as per their expectation. This is due to the fact that profitability of the company has decreased over the period of 12 months. One of the primary reasons might be that it is not been able to control its caused due to covid-19 pandemic. Overall size of the organization has increased but company has not been able to maintain their gross profitability and network stability ratio in 2020.

Contents

Executive Summary	2
Introduction	4
Financial analysis	5
Financial analysis- Trend	6
Profitability ratio analysis	6
Liquidity ratio analysis.....	8
Gearing ratio.....	9
Knowledge from ratio analysis	10
Benefits and limitations of ratio analysis.....	10
Conclusion	11
References	12

Introduction

Main objective of this report would be to conduct financial analysis for Jurys Inn. Financial analysis is an essential part of conducting performance review. Performance analysis is required to be conducted by an organization on a regular interval of time to identify whether they are operating in accordance with their expectation (Elly, 2018). Performance review helps in organization to identify the efficiency with which a particular resource operating and whether such resource will be beneficial in future or not. This report will use ratio analysis for the purpose of conducting financial analysis. All of the ratios have been divided into three major categories i.e., profitability ratio, liquidity ratio and gearing ratio. This report will also provide a detailed information about the methodology with which ratio analysis can be helpful for a company (Wen and Zhu, 2019). It will provide the benefits and drawbacks of using ratio analysis for the purpose of financial analysis.

Financial analysis

Detailed ratio analysis is provided with the help of following table-

Profitability ratios	Formula	2019	2020
Gross profit ratio	Gross Profit/ Sales*100	92	86
Net profit ratio	Net Profit/ Sales*100	73	68
Return on capital employed	Net profit+ loan interest/ Total Assets- Current liabilities*100	65	65
Asset turnover ratio	Sales/ Total Assets- Current liabilities	0.88 days	0.95 days
Working capital turnover ratio	Sales/ Net Current Assets	3.18	3.69
Liquidity ratio			
Current ratio	Current Assets/ Current Liabilities	2.28	2.00
Quick ratio	Current Assets-stock/ Current Liabilities	1.20	1.12
Debtor days	Debtor/ Sales* 365	106.18	109.50
Creditor days	Creditor/ Purchases* 365	584	373.59
Gearing ratio		2019	2020
Debt days	(Total current liabilities+ Bank loan)/ Total Current assets+ Fixed assets	0.19	0.22
Interest coverage ratio	Net profit + cash in hand/ Interest payment	200.40	226.28

Before initiating with ratio analysis, it is essential for an organization to conduct trend analysis for the company. Trend analysis helps an organization to identify its growth over a period of 12 month (Jurakulovna, 2021). For example, it can be analysed that to overall growth profitability of the company has improved in quantitative terms. This is due to the fact that grows profitability of the company has improved from 5050 to 5150 over the period of 12 months. This time can also be analysed in case of total sales as there is a growth of 500 in the same period of time. Combination of ratio analysis and trend analysis

should be used as it will provide a detailed picture of the financial performance of any company. This can be explained with the help of considering example of gross profit ratio and increasing trend in gross profitability (Easton et.al, 2018).

It can be analysed at gross profit ratio of the company has decreased to irrespective of the fact that there is an increase in overall gross profitability. This is due to the fact that the rate of growth in case of gross profitability is significantly lower as compared to growth rate in sales. This indicates that the company has not been able to maintain a similar trend of gross profit in comparison with its sales.

Trend analysis can also be undertaken for the company's assets. It is essential for an organization to ensure that their assets are increasing over the period of time as it will reflect in their growth perspective. Overall operating assets of the company has increased by 3% over the period of 12 months which is not to be significant (Haralayya, 2021). Company should increase investment in operating assets as it will reflect in their efficiency.

Financial analysis- Trend

Profitability ratio analysis

Profitability ratios are the ratios that analyse profits of the organization over period of time. in the given scenario gross profitability, net profitability, return on capital employed, total assets turnover and working capital turnover ratios has been used to identify profitability for Jurys Inn. Trend analysis will be undertaken for each of the ratio in order to make conclusions about the analysed movement.

Gross profitability ratio

Gross profit ratio for the organization has decreased from 92 % to 86% over the period of 12 months. It has been analysed that company has been able to increase its gross profit and its revenue for the period under consideration (Alkadmani & Nobanee, 2020). It is also concluded that the rate of growth in case of sales is 9% whereas growth rate in case of gross profitability is only 2%. This is the reason that companies not been able to

maintain gross profitability similar to that of 2019 in 2020. It can be said that company has not been able to maintain efficiency of operations which is resulting in higher cost of raw material. Excessive wastage of raw material can also be one of the primary reasons of decreased gross profitability.

Net profitability ratio

Net profitability ratio of the company is also decreased from 73 % to 68 % over the period of 12 months. This trend is similar to that of gross profitability in the year 2020. It can be said the company is not been able to implement cost controlling strategies that will reduce the cost of operation (Rashid, 2018). It is important for a company to ensure that the indirect cost of operation is reduced to its minimum as it is very difficult for a company to control its direct cost. Direct cost is entirely dependent on the cost of raw material and influence of business environment on such cost (Musallam, 2018). Inability of organization to control is in that cost you will definitely have a negative impact on its ability to sell product in market. Higher selling prices will have a negative impact on demand of products.

Return on capital employed

Capital employed can be defined as the capital invested by organisation in order to generate profits. Return on capital employed ratio will help in determining whether company is efficiently able to convert its capital into profit or not. Uses of this ratio will help an organisation to identify whether they are able to the reinvest their capital in the business for long term growth and development (Singh and Yadav, 2013). Return on investment for the organization has not changed over the period of 12 months. Company has been able to maintain ROCE of 65% in both of the financial years. It can be said that company has not been able to improve its internal efficiency over the period of last 12 months.

Asset turnover ratio

Asset turnover ratio indicates ability of organisation to use its total assets for generating revenue. Ability of organisation to generate revenues in dependent on its resources which

is reflected through assets on the balance sheet (Shrotriya, 2019). Overall asset turnover ratio has increased from 0.88 to 0.95 which is a positive indicator for internal efficiency of the company. It indicates the deficiency of resources used for generating revenue is improving.

Working capital turnover ratio

Working capital turnover ratio indicates efficiency of company to use its working capital for generating revenue. Working capital is also referred to the capital that is used in the day-to-day basis i.e., internal capital of the company (Mohd, 2018). This ratio also indicate that company's capital efficiency is improving as it has increased from 3.18 times to 3.69 times in the period of 12 months. Company will not be required to acquire funds from outside the organisation for their day-to-day operations.

Liquidity ratio analysis

Liquidity ratio analysis helps an organization to identify its ability to pay off short term liabilities. Short-term liabilities are liabilities that are required to be paid to creditors in the next 12 months. This liability is compared with internal resources of the company in form of current assets. It means that liquid portion of an organization will be strong if they have sufficient current assets for payment of current liabilities (Baafi et.al, 2020). Otherwise, company will have to acquire funds from external sources for payment of liabilities. Current ratio and quick ratio are used in order to make the conclusion.

Current Ratio

Current ratio is the ratio that helps in comparing current assets with current liabilities. It is considered that a company with a current ratio of two or more is considered to be highly liquid. On the other hand, quick assets help in identifying immediate liability of the company. It means that whether an organization will be able to make payments with respect to their current liabilities if it goes under liquidation immediately (Myšková & Hájek, 2017). Value of inventory and prepaid assets are excluded in the calculation of quick assets as they are not easily convertible into cash.

In the given scenario, current ratio of the organization has decreased from 2.28 to 2.00 over the period of 12 months. It means that the equity portion of the company has decreased but still it is 2 which is an optimum current ratio. It means that organization has current assets that can be used for payment of current liabilities in the next 12 months. Company will not be required to acquire funds from external sources for such payment (Möller, Schäffer and Verbeeten, 2020).

Quick Ratio

It can be analysed that quick ratio of the company is also very strong i.e., 1.21 and 1.13 in 2019 and 2020. It means that the company has sufficient quick assets to cover its current liability if company goes under liquidation immediately. It is important for an organization to ensure that they are investing efficiently in marketable security (Rashid, 2018). Jurys Inn has invested in marketable security and other current assets for maintaining effectively liquidity.

Debtor and Creditor ratio

Debtor pay ratio indicates the time allotted to debtors of the organization for payment of their dues to the company. It reflects upon the cash collection policy of an organization. Company in the given scenario has provided 106 and 109 days for payment of dues to debtors on an average. It shows a poor performance of the company in collecting cash and it should be improved by making strict collection policies (Ameen, Ahmed and Abd Hafez, 2018). On the other hand, creditor pay ratio indicated the credit period provided by the organisation to the company for payment against provided material and services. Credit period allowed by the creditors is very high in both years i.e., 373 days and 584 days 2020 and 2019 respectively. It is in favour of the organization as they will not be required to make payment against raw material immediately.

Gearing ratio

Gearing ratio helps in comparing different components of capital. In the given scenario of debt ratio and interest coverage ratio has been used to identify the combination of capital used to and its efficiency (BANSAL and KUKKAR, 2019). Jurys Inn has equity centric

capital which is very common for large scale companies. This due to the fact that overall cost of equity capital is significantly lower as compared to debt capital in long run (Eldenburg et.al, 2020).

Debt ratio for the organization is 0.22 which indicates the value of total assets financed with the help of debt shares. 19% and 22% of the total assets in Jurys Inn are financed with the help of equity capital in 2019 and 2020 respectively. Interest coverage ratio of the company is very high i.e., 226.28 which indicates that the value of interest paid on debt is significantly lower as compared to total profit generated by the company. Company will not have any problem in payment of interest over the period of time.

Knowledge from ratio analysis

On the basis of the ratio analysis, it can be said that the company has not perform to its full potential in the year 2020. Profitability of the company has decreased over the period of time which is not a good performance indicator in long run. It clearly indicates that the company requires to rearrange their resources in order to maximize their potential (Shah and Shah, 2019). Detailed analysis of internal resources should be undertaken by the company to identify resources that are not being used to their full potential. For example, company should conduct performance analysis of their employees that will help them to identify employees that not working to their full potential and replacements can be made accordingly (Hasanaj & Kuqi, 2019).

Benefits and limitations of ratio analysis

Benefits

One of the primary benefits is that it helps in comparing internal efficiency of company. This can be done by comparing financial performance of a company in a particular accounting period with its previous accounting periods (Errandonea Ochoa de Zabalegui, 2020). This will provide a better picture as compared to comparing performance indicators in quantitative terms. For example, increasing profitability does not mean that an organization has been performing well in comparison to its previous year. Company will be required to compare the rate of growth in profitability and rate of growth in sales for the year (Shamuratova, Alibekova and Amalbekova, 2019).

Limitation

One of the primary limitations of using ratio analysis is that it only focuses on financial indicators. Non-financial indicators such as efficiency of employee's labour, turnover, motivation level of employees, etc. are not considered in such analysis (Baran, Pastýr & Baranová, 2016).

Conclusion

On an overall conclusion of this report, it can be said that ratio analysis can be very helpful in comparing internal strength of the company. It can also be used in comparing financial performance of the company with other competitors in market to identify market standing. Financial performance of Jurys Inn has not been very efficient to in the year 2020 as compared to 2019. Profitability of the company has decreased and define measures are required to be taken to increase profitability in 2021. One of the primaries focuses of the organization should be to control indirect cost of operation and manage their suppliers. This will have a positive impact on net profitability and gross profitability respectively.

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