

Finance Management & Planning

Refresh and Exercises

- This Week
 - Student Representation
 - Refresh
 - Exercises

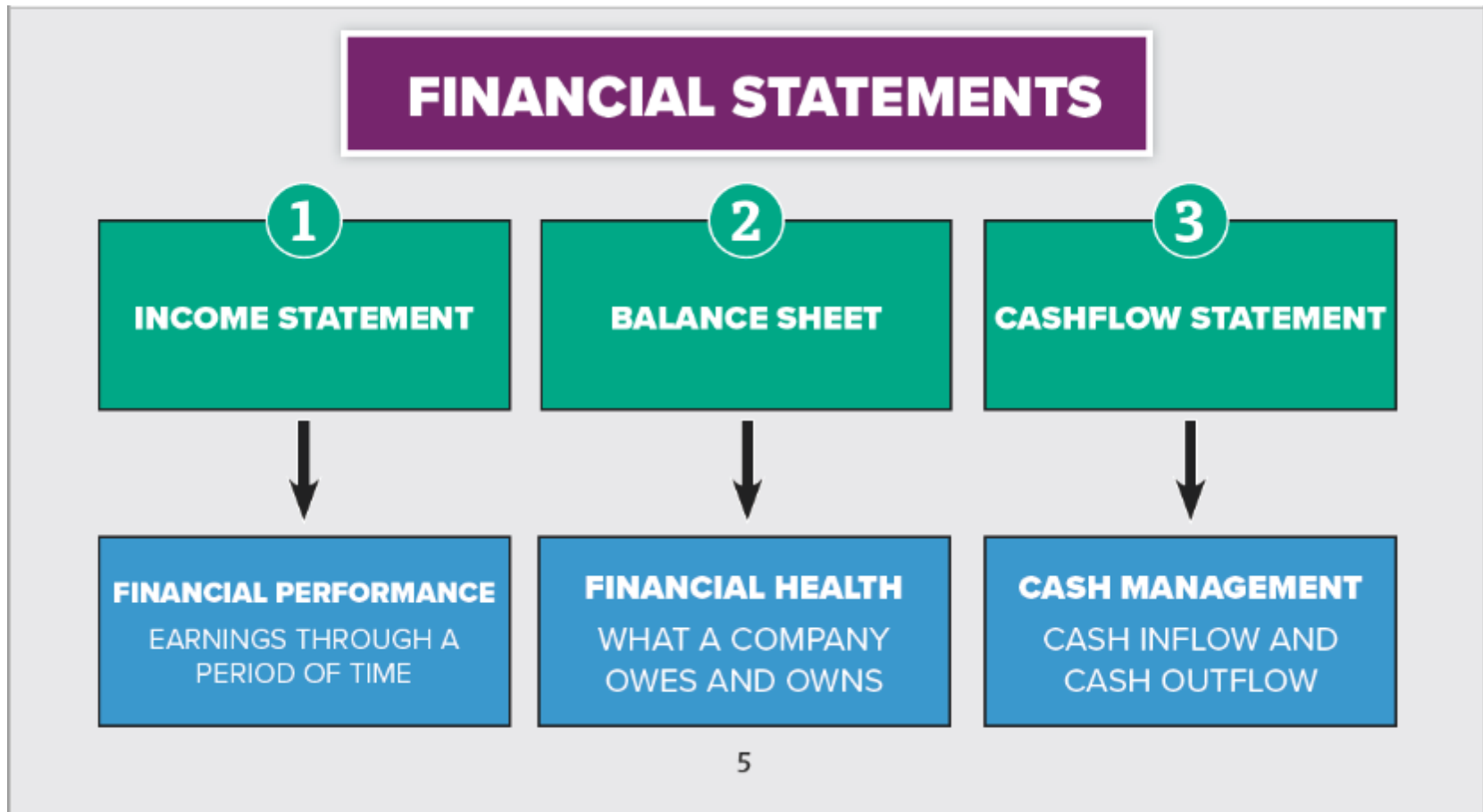
- Alternative Terms
 - Revenue / Turnover / Sales
 - COGS / Stock consumed
 - Gross Margin / Gross Profit
 - Operating costs / Admin Costs / Overheads
 - Operating Profit / Operating Margin
 - Net Income / Net Profit / Net Margin
 - Fixed Assets / Long Term Assets / Non Current Assets
 - Debtors / Accounts Receivable / Trade and other receivables
 - Stock / Inventory / Good Held
 - Creditors / Accounts Payables / Trade and other Payables
 - Fixed Assets / Non Current Assets
 - Long Term Liabilities / Non Current Liabilities

Finance Management & Planning

Refresh to date

The Financial Statements

Financial statements measure the financial health of the organisation:



- Grouped into categories relating to a particular aspect of financial performance or position.
 - Profitability
 - Efficiency
 - Liquidity
 - Financial Gearing
 - Investment (of more interest to external stakeholders)
- Atrill & McLaney chapter: 6
 - Analysing and interpreting financial statements

Profitability Ratios Formula

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}} \times 100$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales}} \times 100$$

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Assets}} \times 100$$

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Liquidity Ratios

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Ratios (or Acid Test Ratio)} = \frac{\text{Current Assets Less Stock}}{\text{Current Liabilities}}$$

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Activity Ratios

$$\text{Days Sales Outstanding (DSO)} = \frac{\text{Accounts Receivable (i.e. Debtors)}}{\text{Average Revenue per Day}}$$

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Days Payable Outstanding (DPO)} = \frac{\text{Accounts Payable (i.e. Creditors)}}{\text{Average COGS per day}}$$

Leverage Ratios

$$\text{Debt / Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Stockholders Equity}}$$

$$\text{Interest Coverage} = \frac{\text{EBITDA}}{\text{Interest Charge}}$$

Shown as a percentage so multiple by 100

Investor Ratios

$$\text{Earnings Per Ordinary Share} = \frac{\text{Net Income (Profit after Tax)}}{\text{No of Shares}}$$

$$\text{Dividend cover} = \frac{\text{EPS}}{\text{Dividend per Share}} \times 100\%$$

$$\text{Price per Earnings Ratio} = \frac{\text{Market Value per Share}}{\text{EPS}}$$

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per Share}}{\text{EPS}} \times 100\%$$

Finance Management & Planning

Annual Report Exercise

Exercise

- **Tesco Annual Report**
- **3 Key Messages**
- **Calculate the following Ratios after exceptional items for the 2 years within the report**
 - **Gross Margin %**
 - **Operating Margin %**
 - **Net Income %**
 - **Current Ratio**
 - **Quick Ratio %**
 - **Debtor Days**
 - **Creditor Days**
 - **Debt / Equity Ratio**
 - **Interest Coverage**
- **What is Tesco's EPS as stated in the report for each year?**

Annual Report



Tesco Annual Report

Income Statement		
Year	2020	2021
Revenue	58,091	57,887
COGS	53,993	53,922
Gross Profit	4,098	3,965
SG&A	1,892	2,229
Operating Profit	2,206	1,736
Interest	16	4
Other Finance Costs	921	1,166
Tax	290	104
Profit / loss from Discont	-235	-5,426
Net Income	1,214	5,888

Balance Sheet		
Year	2020	2021
Debtors	166	170
Fixed Assets	39,254	34,971
Stock	2,433	2,069
Cash and Cash Equivalents	4,137	2,510
Debtors	1,396	1,263
Other Current Assets	5,927	4,965
Current Assets	13,893	10,807
Total Assets	53,147	45,778

Creditors	8,922	8,399
Borrowings	1,080	2,219
Other	8,654	5,379
Current Liabilities	18,656	15,997
Other Liabilities	14,825	11,281
Creditors	109	170
Borrowings	6,188	6,005
Long Term Liabilities	21,122	17,456
Total Liabilities	39,778	33,453

Net Assets	13,369	12,325
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Ordinary Shares	490	490
Share Premium	5,165	5,165
Reserves	3,658	3,183
Retained Earnings	4,055	3,487
Shareholders Equity	13,368	12,325

Ratios		
	2020	2021
Gross Margin %	7.05%	6.85%
Operating Profit %	3.80%	3.00%
Net Profit %	2.09%	10.17%
Return on Assets	2.28%	12.86%
Return on Shareholder Equity	9.1%	47.8%
Current Ratio	0.74	0.68
Quick Ratio	0.61	0.55
Days Sales Outstanding	9.81	9.04
Inventory Turns	22.19	23.95
Days Payable Outstanding	61.05	58.00
Debt / Equity Ratio	54%	67%
Interest Coverage	13788%	43400%

Exercise

ZZZZ Ltd

Year	2019	2020
Revenue	750,000	1,000,000
COGS	600,000	840,000
Gross Profit	150,000	160,000
SG&A	50,000	80,000
Operating Profit	100,000	80,000
Interest	10,000	20,000
Tax	19,800	13,200
Net Income	70,200	46,800

Balance Sheet

Year	2019	2020
Fixed Assets	150,000	250,000
Stock	90,000	200,000
Cash and Cash Equivalents	0	10,000
Debtors	125,000	250,000
Other Current Assets	10,000	2,000
Current Assets	225,000	462,000

Total Assets	375,000	712,000
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Cash and Cash Equivalents	14,800	0
Creditors	120,000	300,000
Accruals	10,000	15,000
Current Liabilities	144,800	315,000
Long Term Liabilities	100,000	170,000
Total Liabilities	244,800	485,000

Net Assets	130,200	227,000
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Ordinary Shares	60,000	110,000
Retained Earnings	70,200	117,000
Shareholders Equity	130,200	227,000

Calculate the following Ratios

Profitability

Liquidity

Activity / Efficiency

Leverage Ratios

Gross Margin %
Operating Profit %
Net Profit %
Return on Assets
Return on Shareholder Equity
Current Ratio
Quick Ratio
Days Sales Outstanding
Inventory Turns
Days Payable Outstanding
Debt / Equity Ratio
Interest Coverage

Exercise

Gross Margin %	20.0%	16.0%
Operating Profit %	13.3%	8.0%
Net Profit %	9.4%	4.7%
Return on Assets	18.7%	6.6%
Return on Shareholder Equity	53.9%	20.6%
Current Ratio	1.55	1.47
Quick Ratio	0.93	0.83
Days Sales Outstanding	60.83	91.25
Inventory Turns	6.67	5.79
Days Payable Outstanding	73.00	130.36
Debt / Equity Ratio	77%	75%
Interest Coverage	1000%	400%

Any areas of concern ?