

Financial Analysis of Jurys Inn

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Abstract

This report gives an overview of accounting and financial management research and development, with a focus on the contributions of basic and applied research to the hotel industry. The findings show that, while there has been coverage of subject material covering several significant advancements, some of the research defined, with weak methodology and shallow conclusions, adding nothing to the discipline's general body of knowledge. The contributions to hospitality accounting and the larger accounting discipline might be considerably improved with a more in-depth approach to study and increased collaborative efforts among tourism and other scholars.

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Introduction

A company's financial statements capture crucial financial data on all aspects of a business's operations. As a result, they may be assessed based on past, present, and anticipated performance. The balance sheet, income statement, and cash flow statement are used by businesses to manage their operations and to give transparency to their stakeholders. All three assertions are linked and produce diverse perspectives on a company's actions and performance. Companies keep financial accounts on a daily basis and utilize them internally for business management. Internal and external stakeholders, in general, employ the same corporate finance approaches to sustain business operations and evaluate overall financial performance. (*Kenton, 2019*). Depending on the topic, financial analysis can be a beneficial alternative to or addition to the traditional broad variety of disciplines found in literature linked to a financial theory or accounting practice. As a result, students may get a more in-depth grasp of the operations and prospects of the organizations that have become such an important element of today's society. The financial report and ratio analysis are explained in the following report using the financial data from Jury's Inn as an example.

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Financial analysis

Financial analysis is the process of evaluating a company's performance about its industry and economic environment to make a decision or suggestion. Financial analysts frequently discuss judgments and suggestions about supplying money to companies—specifically, whether to invest in the company's debt or equity instruments and at what price. A debt security investor is concerned about the company's capacity to pay interest and return the amount owed. An investor in equity securities is a shareholder who is worried about the company's capacity to pay dividends and the chance that its share price will rise. (*Introduction to Financial Statement Analysis*, n.d.)

Gross Profit Ratio

The gross profit margin is used to examine financial health by measuring the amount of money left over after deducting costs from product sales or service income. The gross profit margin, also known as the gross margin ratio, is typically represented as a percentage of sales. (*Bloomenthal, 2020*)

The money earned by a company's commercial activities or operations is referred to as "operating income." When applied to non-financial organizations, it includes net sales, commissions, and other comparable things; when applied to financial firms, it includes the return earned, profits, revenue from the trading of shares, and other such items. The Gross Margin Ratio is the most significant indicator to compute when determining a company's efficiency. As a price comparison, this ratio may be compared to those from prior years or to those from other businesses to evaluate

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and examine the business's productivity. Higher Gross Profit Ratios are thus preferred since they enable a larger margin to be utilized to pay operating expenditures and create backups.

Gross Profit Ratio		
	2020	2019
Gross Profit	5,150	5050
Sales	6000	5500
Profit Ratio	85.8333	91.8182

According to the foregoing computation, the year 2019 has a higher gross profit ratio than the year 2020, which is 5.98 percent lower. However, both ratios are in extremely good shape because a 50 percent to 70 percent gross profit ratio is considered to be a great ratio.

Net Profit Ratio:

It expresses the relationship between net profit and net sales as a percentage of net profit (Mao and Gu, 2020). The amount of Net Profit earned as a percentage of the company's total income is indicated. The Net Profit Ratio is a measure of a company's total operational efficiency. The higher the company's Net Profit Ratio, the more profitable it is. A rise in the ratio relative to the previous year demonstrates progress in operational excellence.

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Net Profit Ratio		
	2020	2019
Profit	4,073	4008
Sales	6000	5500
Profit Ratio	67.8833	72.8727

The accompanying graph shows that both years generate extremely high net profits, meaning that the company can easily cover all of its operating expenditures.

Liquidity Ratio

A corporation must have access to liquid money if it agrees to satisfy its short-term obligations. Liquidity refers to a company's ability to pay a payment owed to its stakeholders once it becomes due. As a result, we must create Liquidity Ratios to determine liquidity. The essence of these ratios is their speed. Lenders are constantly interested in the business's liquidity condition because of their financial involvement in it. When a corporation is unable to satisfy its short-term obligations, it damages its reputation, especially its credit rating. Insolvency or dissolution may also arise as a result of this. It is critical to know that both excess and insufficient liquidity are damaging to the organization's operations.

Current Ratio: This is one of the most often utilized ratios for determining a company's short-term liquidity. It is the link between current assets and current liabilities in financial terms. For want of a better expression, it determines if there are adequate current assets to pay down current

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liabilities while retaining a safety margin against potential losses in working capital realization. In general, a current-to-voltage ratio of 2:1 is ideal. The appropriate ratio, on the other hand, is decided by the nature of the business and the characteristics of the company's debtors.

Current Ratio		
	2020	2019
Current assets	3,240	3,065
current Liabilities	1,616	1,339
ratio	2.00495	2.28902

According to experts, a suitable current ratio is between 1.5 and 3. As a result, the Jury's Inn hospitality firm is unquestionably in an excellent position. However, it was in a better situation in 2019. In 2020, every part of its ratio has been written down and discussed.

The ratio of Net Working Capital to Total Assets

It is a statistic for calculating cash flow. This question should be answered in the positive. Lenders typically watch this ratio to evaluate whether or not a financial disaster is on the horizon. The working capital ratio is calculated by subtracting current assets from current liabilities (exclude short-term debt).

From the standpoint of our Jurys inn hospitality firm, the working capital ratio in 2019 is $(3065 - 1339) = 1726$, and the working capital ratio in 2020 is $(3240 - 1616) = 1624$.

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Gearing Ratio

The ratio of Gearing refers to the amount of debt a company uses to finance its operations about the amount of equity capital it possesses. Maintaining a decent gearing ratio shows that the company has a high debt to equity ratio, which may imply that it is more sensitive to financial disaster than other companies. Gearing is a measure of how much of a company's activity is supported by borrowed cash from lenders as contrasted to money obtained from investors to keep the company running. The best degree of gearing for a company is decided by the industry in which it operates. As a result, it is vital to compare an industry's gearing ratio to that of other similar firms.

Capital Gearing Ratio:

The Capital Gearing Ratio measures how much money a firm needs to invest to expand. It represents the proportion of fixed-income or payout-bearing assets to the overall amount of money owned by equity investors. Experts believe a firm is short geared when the money raised by equity owners surpasses the funds earned by fixed interest-bearing shareholders and vice versa.

Gross Profit Ratio		
	2020	2019
Debenture	145	150
Shareholder Equity	1420	1450
Profit Ratio	10.2113	10.3448

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According to the data shown above, the capital gearing ratio is low. It must be between 25% and 50%.

Debt-to-total-assets ratio:

It is a graphical depiction of the ratio of total assets to total debt. To put it differently, it indicates the total quantity of debt-financed assets. The higher the debt-to-total-assets ratio, the higher the risk of the undertaking. It is preferable to have a lower ratio. Total debt, also referred to as external debts, is made up of short- and long-term lines of credit from banks and institutions, as well as treasury bonds, securities, and other comparable instruments. It is vital to understand that if a search does not specify anything, companies will only consider long-term lines of credit in such a case.

$$\text{Debt to Total Asset Ratio} = \text{Total Debt} / \text{Total Asset}$$

$$\text{In 2020, } (145+1616) / (4650+1624) = 0.28$$

$$\text{In 2019, } (150+1339) / (4500+1726) = 0.24$$

In general, a debt-to-equity ratio of 0.4 or 40% or less is considered desirable. A debt-to-equity ratio larger than 0.6 is generally considered to be a poor ratio, indicating that the firm may not generate enough cash flow to pay its obligations in the future. In both situations, it is less than 0.4, which is excellent.

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Knowledge from Ratio Analysis

If a corporation wants to succeed in the ratio analysis process, its financial management must be first-rate. Ratio analysis is a critical management technique that assists executives in making effective business decisions. Ratio studies are done to identify a company's strengths and weaknesses. Managers are more likely to concentrate on the numerous issues that need to be addressed as a consequence of using ratio analysis. One disadvantage of ratio analysis is that it cannot account for asset prices changes.

Ratio studies have a variety of practical uses, including determining whether or not a firm is reliant on grant funding or other types of support. One of the numerous benefits of employing financial ratios is that they may highlight a company's problems as well as its strengths, and they can also condense a financial statement into a few basic figures that can be compared. Ratio studies may also be used to assess the performance of a company's asset utilization and revenue creation. Because there is no standard definition for a ratio, various companies may employ different formulae for the ratios, making comparing the performance of different enterprises difficult. Ratio analysis can help with stock valuation.

Financial ratios give a common language for analysts and investors to analyze and describe a company's strengths and weaknesses. Ratio analysis is used in fundamental analysis to determine a company's relative strength. Aside from revealing the market's flaws, ratio analysis may reveal a company's capacity to increase its stock value over time as well as its profitability potential. In planning, ratio analysis is frequently employed. Ratios can assist businesses in developing business strategies for investors and lenders. Companies can develop objectives by contrasting them to industry best practices. The ratios themselves can often be difficult to compare. Many firms'

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financial statements employ a range of accounting concepts and procedures. Because accounting standards differ, it is hard to compare essential financial data.

The FIFO and LIFO inventory valuation algorithms are used in several accounting processes. Inventory valuation techniques differ, which is to blame. These approaches can affect current and acid-test ratios, as well as inventory and asset turnover. Differences in the depreciation and amortization methodologies utilized have an impact on ratio analysis. Total depreciation and total asset prices differ greatly when using the falling and straight-line methods to depreciation. Accounting and reporting standards must be used to compare two businesses that use different accounting and reporting standards.

Ratio Analysis's Advantages and Drawbacks

The use of ratio analysis is still prevalent today. Financial performance analysis consists of four steps and four components. Profitability, liquidity, debt-to-equity ratios, and operational effectiveness should all be taken into account. When these characteristics are compared to those of rivals, it reveals the latter's financial health, strengths, and flaws. One might weigh the benefits and drawbacks of a traditional approach to financial ratio analysis while also evaluating innovative concepts and approaches. The benefit of ratio analysis is that it examines a company's financial performance. Revenue, expenses, profit, and cash flow are all important aspects in determining a company's financial performance. Profitability is a metric that measures a company's capacity to create revenue. Every business aims to increase earnings and shareholder ownership. (*Tsai et al., 2011*)

When a firm fails to produce a profit, investors, creditors, and lenders risk losing money. Profitability may be estimated using gross margins, net income margins, ROI, and ROE, among

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other measures. Creditors and investors are both concerned. Concerned about the ability of a corporation to pay existing debts and dividends. To analyze a bank's liquidity, indicators such as the current ratio and acid-test ratio are routinely utilized.

Financial ratio analysis may demonstrate a company's potential to generate revenue by making optimal use of its assets and resources. Efficiency ratios can be used to assess a company's management. An efficiency study can aid in the establishment of stock and credit policies. Efficiency ratios exist for receivables, assets, and inventory. Another method for assessing a company's financial health is to use leverage. An organization's financial leverage — or debt management capabilities — may be analyzed using debt and debt-to-equity ratios.

Leverage ratios enable firms to take advantage of tax incentives while reducing the risk of failure and insolvency. Lenders' financing choices frequently include financial leverage. Financial ratio analysis provides yet another method for comparing firms in the same sector. Rather than assessing organizations simply on their financial results, the analyst needs ratio analysis to see all companies as being on an equal basis. An incomplete representation resulting from a simple business comparison based on raw financial information from a data sector. Firms are no longer assessed merely on sales revenue or equity, but on their capacity to produce profits, keep liquidity, and manage debt. The return on assets, return on equity, and net profit margin is all indicators of a company's efficiency and profitability. When investigating a problem, a ratio analysis might be beneficial.

Finance in the industry as new trends and financial standards emerge, companies within an industry can be examined using ratios. Small and medium-sized businesses (SMEs) utilize industry standards to evaluate their financial results to that of their competitors when developing business strategies. For socio-economic and industrial data, ratio analysis has limits. When inflation is high,

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accounting ratios are less prevalent. These ratios, however, may not truly represent the company's current value due to inflation and prior performance. (Harris & Brander Brown, 1998)

Accounting ratios may be influenced or misled as a result of inflationary impacts on certain variables. Accounting ratios that are not credible or accurate are used to make financial market investing and sources of financing. Accounting ratios must include the industry situation, economic conditions, business size, product diversity, and operational procedures that distinguish enterprises within another industry.

Conclusion

Ratios are helpful in financial reporting because they demonstrate critical relationships between various components (financial statements). One of its restrictions is the nature of ratios. The financial ratios are calculated using the data from the financial statements. It is possible to have approximations, errors, manipulation of data, and practice variations. Because of these concerns, ratios are meaningless when attempting to produce reliable results.

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