



Ffion Limited

Financial Analysis

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Introduction

The purpose of this report is to undertake a financial analysis of the Ffion Limited, a company included in the hospitality industry. The financial analysis comes together with the spreadsheet which offers the details and formulas needed in order to have a better understanding of the meaning of the ratio analysis. The elements which will be looked upon are constituted by the profitability and its factors, liquidity and gearing. In the end, it will be a discussion upon the analysis between the two year data and how effective is to use this analysis in order for the managers and decision takers to identify the issues sooner to ensure a smooth running of the organization. More, there will be drawn conclusions and recommendations to make sure that the contextual findings are understood and that there are answers for the raised-issues.

Even though there is insufficient data to draw a clear lane because there are only two years given and a seasonality cannot be generated, nor a trend, some part of the analysis could be done to reach out the important aspects which are affected by some internal problems. More, the macro environmental aspect which could lead the path of company within an industry are important, however, the purpose of this report is to only analyse the financial spreadsheet given for the period of two years, 2017 and 2018.

The hospitality industry is leading and it is important that companies within this wider range of sub-industries to understand the concept and to understand the competitive advantages in a meaning of comparing the data of two organizations of the same sub-sector.

Financial analysis

	2017	2018
Gross profit	$(2100/9000)*100 = 23.3$	$(1850/9500)*100 = 19.47$
Net profit	$(623/9000)*100 = 6.92$	$(307/9500)*100 = 3.23$
ROCE	$(623+10)/2684*100 = 25.58$	$(307+9)/3014*100 = 10.48$
Total Assets Turnover	$9000/2684 = 3.35 \text{ times}$	$9500/3014 = 3.15 \text{ times}$
Working Capital Turnover	$9000/984 = 9.15$	$9500/1264 = 7.52$
Current ratio	$1839/855 = 2.15$	$2152/888 = 1.58$
Quick ratio	$(1839-700)/855 = 2.15$	$(2152-750)/888 = 1.58$
Debtor days	$(649*365)/9000 = 26.32$	$(870*365)/9500 = 33.43$
Creditor days	$(660*365)/6500 = 37.06$	$(690*365)/7700 = 32.71$
Debt ratio	$(855+150)/(1839+1700) = 0.28$	$(888+150)/(2152+1750) = 0.27$
Interest cover	$(623+10)/10 = 63.3$	$(307+9)/9 = 35.1$

Financial analysis trends

Profitability

The profitability term refers generically to how much profit could a company generate from its day-to-day operations. The ability to generate profits of a company comes from the managerial operations. In order to calculate the profitability, there are factors to be taken into considerations: expenses and revenues. The efficiency of the resources needs to be at a high level in order to show a raised level of profitability. (Myaccountingcourse, n.d.) Thus, for an optimal performance within this industry, the structural elements of the profitability needs to run in a smooth manner. The aid in the decision making is that the financial data shows a fall of the profitability in the second year, 2018, than in the first one due to several issues which are to be explored. A heterogeneity of the elements is expected in order to provide higher results of the profitability. "Profitability is an economic category of expressing business financial performance. Achieving profitability is, in fact, reaching the first level of performance of a business." (Bondoc & Dumitru, 2018, p. 169) The aim of each and every company is to ultimately achieve a bigger profitability ratio year by year.

The gross profit is, basically, lower in the second year as said before and the net profit is expected to have a fall as well since both of them are interconnected. The formula for the gross profit percentage is represented by the gross profit divided by the sales. So, in 2017 there was a 2100 gross profit with a 9000 sales, in 2018 the sales were 9500 and a gross profit of 1850. As a noticeable information, the sales have increased in the 2018, but the level of gross profit was lower than the previous year with 250. The gross profit of a company is the total sales of the firm minus the total cost of the goods sold.

The net profit, in difference from the gross profit, is the profit after taxes, interests, other expenses are subtracted from the gross profit. When having a small business, the net profit is needed to be known because of the financial health which is checked by the investors. (PatriotSoftware, 2018) The difference of the net profit in percentages of the two years is represented by a fall of 3.69% from 2017 to 2018. Basically, the net profit is represented by the money available after everything has been paid.

The ROCE symbolizes the return of capital employed. The capital of a company is measured within a company using the efficiency that it has and profitability of this. For example, the hotel is put under the question if it is using the material resources efficiently and at a maximum capacity. The holistic approach is that the capital should never be higher than the ROCE level. Therefore, as the ratio fell with over than 15% from 2017 to 2018, the managers of the hotel, thus, have not managed to use the capital in an efficient manner and the cost of it is higher than in the previous year. Therefore, too many investments were made with no positive effect. (Strategiccco, 2016)

The total assets is represented by the place that the hotel fully owns, the furniture etc. "This indicator is a financial performance ratio that measures a company's ability to generate sales from its assets. This variable also contributes to the explanation of the industry factor for the research model as each industry has a different total asset turnover." (Nguyen et al, 2019, p.311) In time, these assets could either lose their value or could gain more. The total assets turnover is represented by the number of sales divided by the total assets and less liabilities (net current assets + fixed assets).

The working capital turnover is represented, again, by the sales and net current assets. In other words, Ffion needs to search how assets are linked to the sales. A high percentage would represent that the management of assets is extremely efficient. As bigger are the sales, as bigger the percentage of the working capital turnover is bigger. "The working capital turnover ratio measures how well a company is utilizing its working capital to support a given level of sales." (Accounting Tools, 2019) A higher ratio indicates greater

efficiency. Generally, a high ratio can help the company's operations to run smoother and to limit the increase in funding. (Small business, n.d.)

Liquidity

The term of liquidity refers to the ability of the company to pay its own debts. "A liquidity ratio is a financial ratio that indicates whether a company's current assets will be sufficient to meet the company's obligations when they become due." (Accounting Coach, n.d.) The liquidity is represented by the current ratio and quick ratio. Both of them have the same formula with the only difference that the quick ratio subtracts the stocks from the current assets section. So, the total of the current assets is 1839 in 2017 and 2152 in 2018. These values are divided with the current liabilities to find how the company, Ffion Limited, can make use of their own assets to pay the debts represented by a bank overdraft, bigger accruals in 2018, bigger trade creditors numbers in 2018 as well. Therefore, it is conclusive that the liquidity will have a smaller ratio in 2018 than in 2017 because of the bigger liabilities the company have.

Gearing

"The principle of financial gearing is to use smaller equity stake by an investor to supplement a larger loan to enable the purchase of an investment, for example, 25 per cent of an asset's value is used to acquire a loan of the remaining 75 per cent. Gearing enables investors to gain exposure to a number of new investments by spreading available equity to supplement different loans." (2014) The gearing is represented by the debt ratio and interest cover. Even though the financial data might show contradictory results between the two ratios, Ffion Limited is responsible to take precautions decisions due to the fall of debt ratio and raise of interest cover. Thus, even though they are able to pay the debts faster, the interest is getting higher.

Knowledge from Ratio Analysis

It is important to understand the Ratio Analysis because the decision makers and managers who need to see the differences from a financial perspective, so they know what there is necessary to be changed. For example, the trends in a company could be analysed from the long period of time given, not only 2 years. More, even a slight fall could indicate that the company could straighten back their efforts into the right direction. Not being aware of the ratio between the costs and profits for example would express a higher spend into the costs rather than making a profit from the investments.

Benefits and Limitations

There are benefits as well as limitations when using a Ratio Analysis. Firstly, as a fact, there are benefits because as previously mentioned before, the whole analysis would suggest how the business is performing from a financial point of view. More, the analysts could easily identify how the business is affected by the external environment and which are the possibilities to be chosen in order to assure a smooth running of business operations and to generate bigger sales for a bigger profit.

There are some limitations as well if it comes to analysing through the financial data. Firstly, there is not taken into account the seasonality which influences the sales of an organization. For example, within a hospitality industry, there are differences in sales whether there are the holiday times or not. Especially during summer there are the bigger profits since the holidays are given. Another withdrawal would be represented by the fact that financial data does not include the macroenvironmental analysis. More, the external factors have a big influence upon any business (PESTLE analysis, Porter's 5 forces or even the internal analysis of SWOT could indicate the issues a company is facing).

Recommendations

Ffion Limited is needed to take investigation in the external and internal sector in order to further their development and for a healthy financial data as well. The data recorded shows a decrease in the efficiency of the assets on an overall perspective. The 2018 results are significantly lower than the 2017 ones which would lead to a bankruptcy of the company if there are not made any changes. The core idea of financial analysis is to discover how sales generated are made of. Furthermore, Ffion Limited needs to understand how the internal business operations are affecting the business and how they could be managed in order to be efficient from more point of views: financial, HR, time etc.

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