

Finance Management & Planning

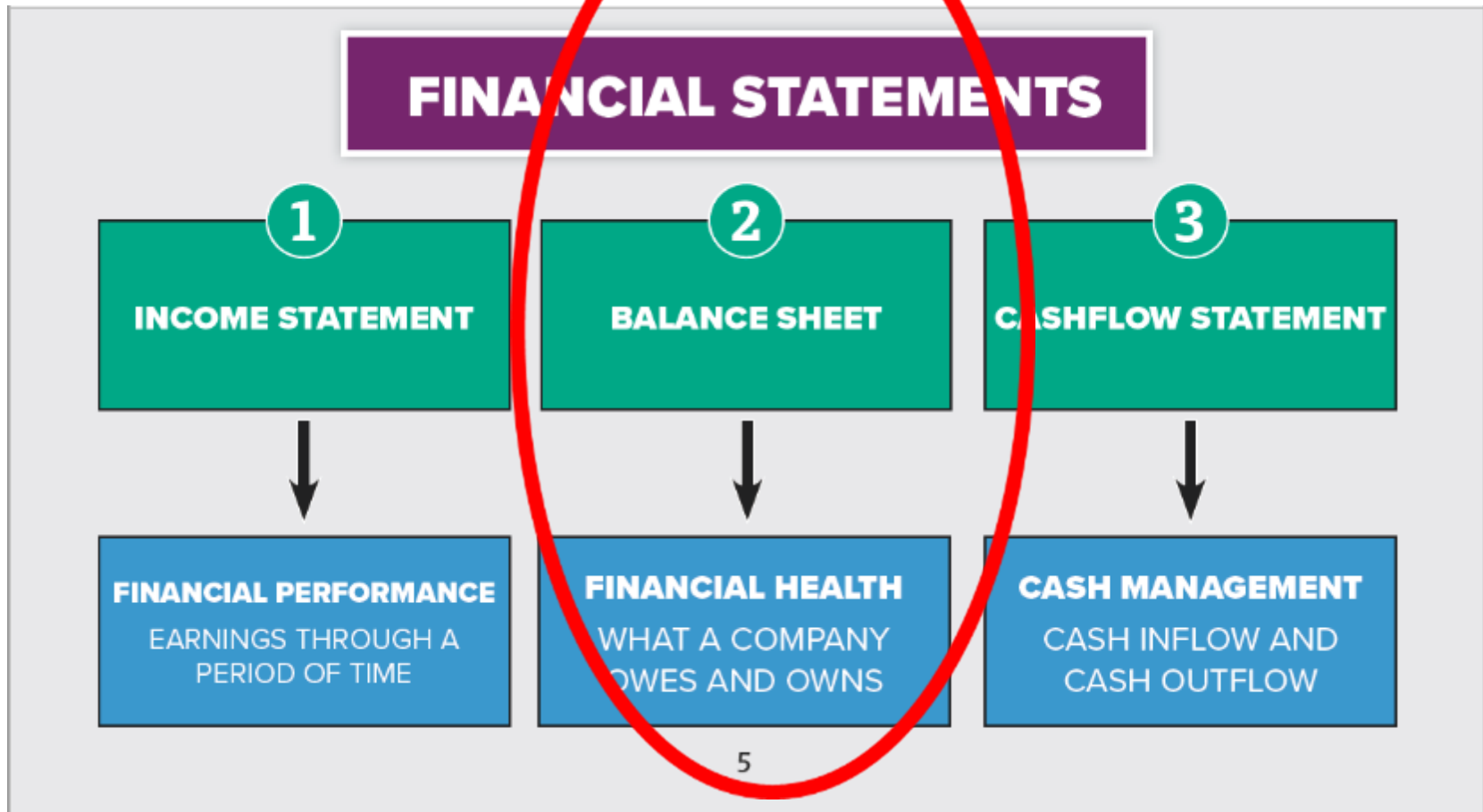
Financial Ratios – Continued

- 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
 - Long Term Liabilities / Non Current Liabilities
 - EBITDA (Earnings before Interest, Tax , Depreciation and Amortisation)

- Recap of Last week
 - Ratios – an introduction
 - Profitability Ratios
- This Week
 - Balance sheet review
 - Profitability Ratios
 - Liquidity Ratios

The Financial Statements

Financial statements measure the financial health of the organisation:

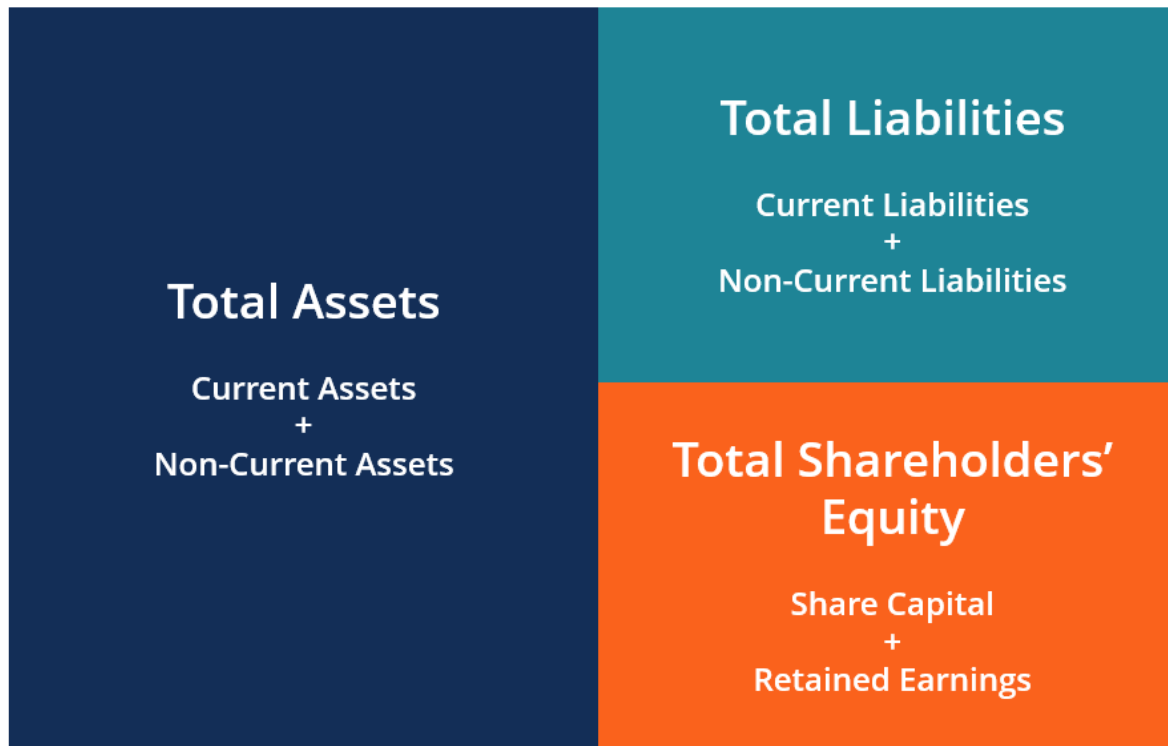


- The Balance Sheet is a statement of its financial position.
- The Balance sheet is a lists of the assets , liabilities and equity within its organisation.

It can highlight :

- The company's ability to meet its current obligations.
- Financial Health of an organisation.
- Why is it important ?
 - Short term Liquidity
 - Long Term Liquidity

A Simple Balance Sheet



<https://corporatefinanceinstitute.com/resources/accounting/balance-sheet/>

What is an asset within a business ?

‘A resource held by a business’

All 4 conditions must apply to be an ‘asset’

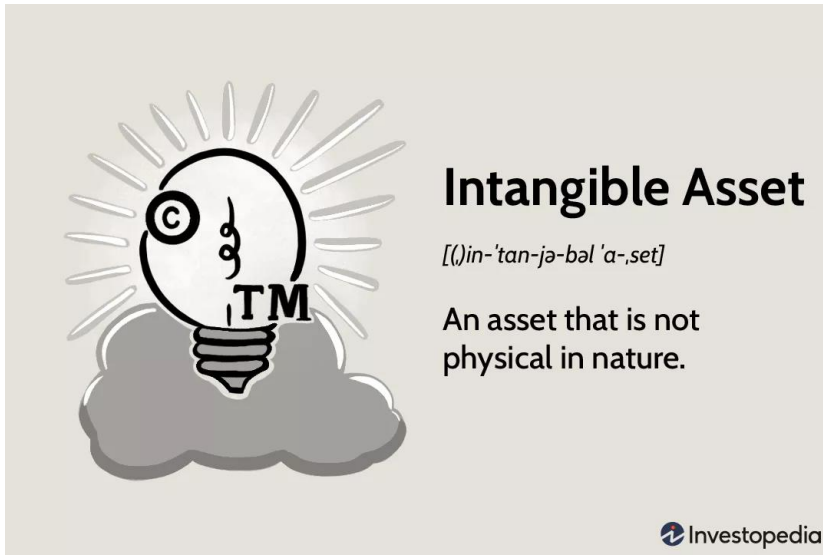
- A probable future economic benefit with some monetary value
- The benefit must arise from some past transaction or event
- The business must have the right to control the resource
- The asset must be capable of measurement in monetary terms

Does not have to be physical – can be non physical: - tangible or non-tangible

Types of Assets

- Non – Current – Long Term Value to the business – usually greater than one year.
 - Plant & equipment
 - Fixtures and fittings
 - Patents and trademarks
- Non Current Assets can be further split between Tangible and Intangible.

Assets of the Business (What the company owns)



Examples

- Goodwill
- Brand
- Trademark
- Copyright
- Patents
- Licencing Agreements
- Website Domain Names

Assets of the Business (What the company owns)

- Tangible Examples being:
 - Land
 - Plant and Machinery
 - Machinery and Equipment
 - Vehicles
 - Furniture and Fittings

Types of Assets

- Current Assets – Usually less than one year
 - Cash at Bank
 - Debtors / Trade Receivables
 - Stock / inventories
 - Short Term Investments

Balance Sheet – Assets



GROUP BALANCE SHEET

	Note	As at 27 March 2021 £m	As at 28 March 2020 £m
ASSETS			
Non-current assets			
Intangible assets	12	237.0	247.0
Property, plant and equipment	13	280.4	294.9
Right-of-use assets	14	818.1	834.0
Investment properties		2.4	2.5
Deferred tax assets	15	137.1	171.5
Trade and other receivables	16	45.0	53.7
		1,520.0	1,603.6
Current assets			
Inventories	17	402.1	450.5
Trade and other receivables	16	276.9	252.1
Derivative financial assets	18	2.2	6.7
Income tax receivables		39.7	50.4
Cash and cash equivalents	19	1,261.3	928.9
		1,982.2	1,688.6
Total assets		3,502.2	3,292.2

Source : Burberry Financial Statements 2021

- Liabilities - claims of individuals and organisations on the business e.g. supply of goods or lending money
- Split into Non Current and Current

- Liabilities (What the organisation owes)
- Current Liabilities (Obligation to be paid within one year)
 - Creditors
 - Cash and Cash Equivalents
 - Accrued Liabilities
 - Short term Bank loans

Balance Sheet



LIABILITIES			
Non-current liabilities			
Trade and other payables	20	(99.4)	(102.3)
Lease liabilities	21	(809.6)	(910.0)
Borrowings	24	(297.1)	(300.0)
Deferred tax liabilities	15	(0.8)	(0.1)
Retirement benefit obligations		(1.0)	(1.9)
Provisions for other liabilities and charges	22	(31.8)	(28.6)
		(1,239.7)	(1,342.9)
Current liabilities			
Trade and other payables	20	(392.9)	(447.5)
Bank overdrafts	23	(45.4)	(41.6)
Lease liabilities	21	(210.0)	(215.5)
Derivative financial liabilities	18	(2.6)	(4.8)
Income tax liabilities		(27.9)	(7.9)
Provisions for other liabilities and charges	22	(24.0)	(13.2)
		(702.8)	(730.5)
Total liabilities		(1,942.5)	(2,073.4)

Source : Burberry Financial Statements 2021

Balance Sheet



LIABILITIES			
Non-current liabilities			
Trade and other payables	20	(99.4)	(102.3)
Lease liabilities	21	(809.6)	(910.0)
Borrowings	24	(297.1)	(300.0)
Deferred tax liabilities	15	(0.8)	(0.1)
Retirement benefit obligations		(1.0)	(1.9)
Provisions for other liabilities and charges	22	(31.8)	(28.6)
		(1,239.7)	(1,342.9)
Current liabilities			
Trade and other payables	20	(392.9)	(447.5)
Bank overdrafts	23	(45.4)	(41.6)
Lease liabilities	21	(210.0)	(215.5)
Derivative financial liabilities	18	(2.6)	(4.8)
Income tax liabilities		(27.9)	(7.9)
Provisions for other liabilities and charges	22	(24.0)	(13.2)
		(702.8)	(730.5)
Total liabilities		(1,942.5)	(2,073.4)

Source : Burberry Financial Statements 2021

Balance Sheet



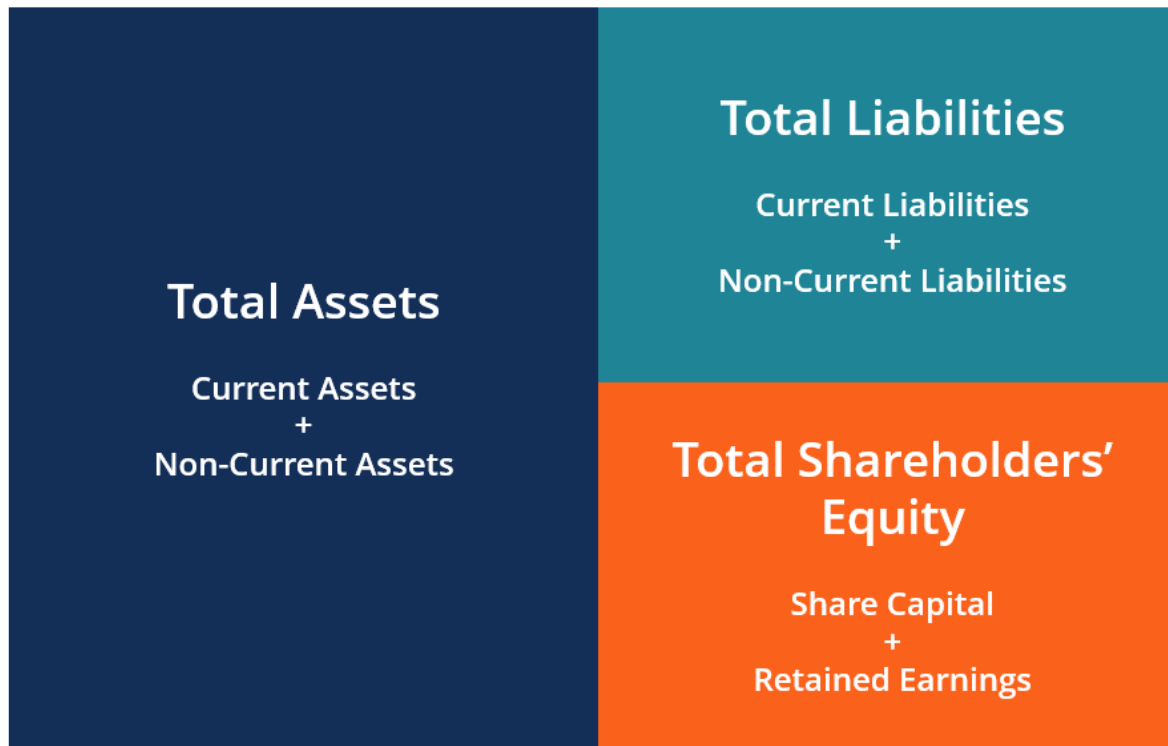
	Note	As at 27 March 2021 £m	As at 28 March 2020 £m
ASSETS			
Non-current assets			
Intangible assets	12	237.0	247.0
Property, plant and equipment	13	280.4	294.9
Right-of-use assets	14	818.1	834.0
Investment properties		2.4	2.5
Deferred tax assets	15	137.1	171.5
Trade and other receivables	16	45.0	53.7
		1,520.0	1,603.6
Current assets			
Inventories	17	402.1	450.5
Trade and other receivables	16	276.9	252.1
Derivative financial assets	18	2.2	6.7
Income tax receivables		39.7	50.4
Cash and cash equivalents	19	1,261.3	928.9
		1,982.2	1,688.6
Total assets		3,502.2	3,292.2
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	(99.4)	(102.3)
Lease liabilities	21	(809.6)	(910.0)
Borrowings	24	(297.1)	(300.0)
Deferred tax liabilities	15	(0.8)	(0.1)
Retirement benefit obligations		(1.0)	(1.9)
Provisions for other liabilities and charges	22	(31.8)	(28.6)
		(1,239.7)	(1,342.9)
Current liabilities			
Trade and other payables	20	(392.9)	(447.5)
Bank overdrafts	23	(45.4)	(41.6)
Lease liabilities	21	(210.0)	(215.5)
Derivative financial liabilities	18	(2.6)	(4.8)
Income tax liabilities		(27.9)	(7.9)
Provisions for other liabilities and charges	22	(24.0)	(13.2)
		(702.8)	(730.5)
Total liabilities		(1,942.5)	(2,073.4)
Net assets		1,559.7	1,218.8

Source : Burberry Financial Statements 2021

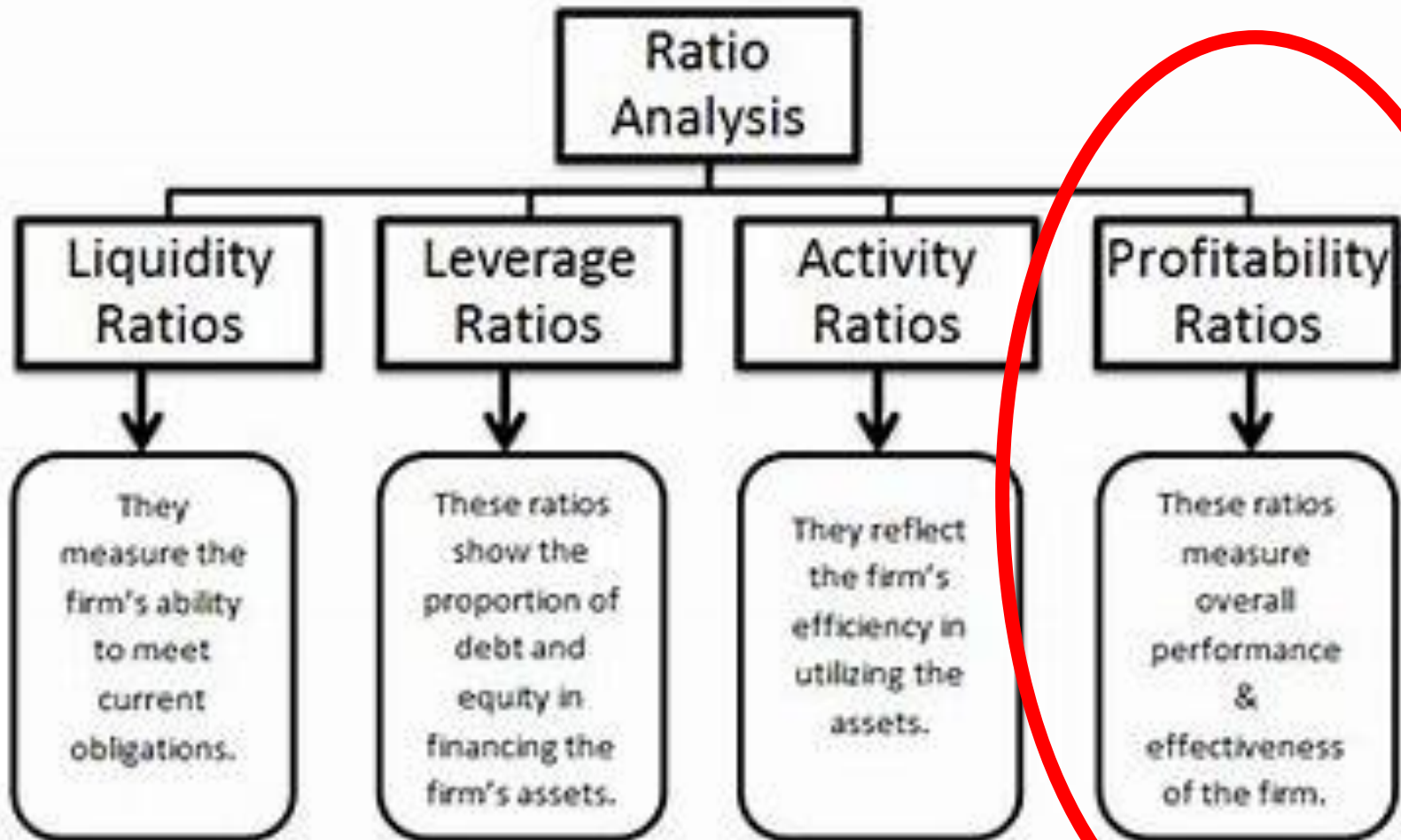
- Equity – sometimes referred to as owners capital
- $\text{Equity} = \text{Assets} - \text{Liabilities}$

Net assets		1,559.7	1,218.8
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary share capital	25	0.2	0.2
Share premium account		223.0	220.8
Capital reserve	25	41.1	41.1
Hedging reserve	25	4.7	4.7
Foreign currency translation reserve	25	196.4	245.2
Retained earnings		1,091.2	702.2
Equity attributable to owners of the Company		1,556.6	1,214.2
Non-controlling interest in equity		3.1	4.6
Total equity		1,559.7	1,218.8

A Simple Balance Sheet



<https://corporatefinanceinstitute.com/resources/accounting/balance-sheet/>



Profitability Ratios Formula

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

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

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

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

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

- **Types of Profitability Ratios**
- Margin Ratios – Shows the ability for a company to convert sales into profitability.
- Return Ratios – Shows the companies ability to generate returns to its shareholders.

Financial Ratios



Consolidated Income Statement

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Revenue	2	16,307	14,955
Cost of sales		(13,134)	(11,907)
Gross profit		3,173	3,048
Commercial and administrative costs ¹		(1,222)	(2,203)
Research and development costs	3	(795)	(918)
Share of results of joint ventures and associates	11	131	117
Operating profit *		1,287	44
Gains arising on the acquisition of ITP Aero	25	798	-
Loss on disposal of business		-	(3)
Profit before financing and taxation	2	2,085	41
Financing income	4	2,973	96
Financing costs	4	(161)	(4,773)
Net financing		2,812	(4,677)
Profit/(loss) before taxation		4,897	(4,636)
Taxation	5	(689)	604
Profit/(loss) for the year		4,208	(4,032)
Attributable to:			
Ordinary shareholders		4,207	(4,032)
Non-controlling interests		1	-
Profit/(loss) for the year		4,208	(4,032)
Earnings per ordinary share attributable to ordinary shareholders:	6		
Basic		229.40p	(220.08)p
Diluted		228.64p	(220.08)p
Payments to ordinary shareholders in respect of the year:	17		
Per share		11.7p	11.7p
Total		216	215
* Underlying operating profit	2	1,175	915

¹ In 2016, 'commercial and administrative costs' include £671m for financial penalties from agreements with investigating bodies (see note 23) and £306m for the restructuring of the UK pension schemes (see note 19).

Calculate for both years

Gross Margin %
Operating Profit %
Net Profit %

	2017	2016
Gross Margin %	19.46%	20.39%
Operating Profit %	7.89%	0.29%
Net Profit %	25.80%	-26.96%

Return Ratios

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

$$\frac{\text{Net Income}}{\text{Shareholders Equity}} = \text{Return on Shareholders Equity}$$

- Used to evaluate how management are utilising the capital within the business
- Shareholders Equity utilised the investment into the business and retained earnings.

Financial Ratios

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

Net Income	5,000	15,000
Net Profit %	5.0%	10.0%

Balance Sheet		
Year	2017	2018
Fixed Assets	100,000	90,000
Current Assets	75,000	80,000
Total Assets	175,000	170,000

Current Liabilities	60,000	45,000
Long Term Liabilities	50,000	45,000
Total Liabilities	110,000	90,000
Assets Less Liabilities	65,000	80,000

Ordinary Shares	60,000	60,000
Retained Earnings	5,000	20,000
Shareholders Equity	65,000	80,000

Return on Assets	2.9%	8.8%
------------------	------	------

$$\frac{\text{Net Income}}{\text{Shareholders Equity}} = \text{Return on Shareholders Equity}$$

Shareholders' equity = total assets – total liabilities

Net Income	5,000	15,000
Net Profit %	5.0%	10.0%

Balance Sheet		
Year	2017	2018
Fixed Assets	100,000	90,000
Current Assets	75,000	80,000
Total Assets	175,000	170,000

Current Liabilities	60,000	45,000
Long Term Liabilities	50,000	45,000
Total Liabilities	110,000	90,000
Assets Less Liabilities	65,000	80,000

Ordinary Shares	60,000	60,000
Retained Earnings	5,000	20,000
Shareholders Equity	65,000	80,000

Return on Shareholder Equity	7.7%	18.8%
------------------------------	------	-------

Financial Ratios

Year	2017	2018	2019	2020
Net Profit	5,000	15,000	12,000	16,200

Balance Sheet				
Year	2017	2018	2019	2020
Fixed Assets	100,000	90,000	80,000	70,000
Current Assets	75,000	80,000	90,000	108,200
Total Assets	175,000	170,000	170,000	178,200
Current Liabilities	60,000	45,000	38,000	35,000
Long Term Liabilities	50,000	45,000	40,000	35,000
Total Liabilities	110,000	90,000	78,000	70,000
Assets Less Liabilities	65,000	80,000	92,000	108,200
Ordinary Shares	60,000	60,000	60,000	60,000
Retained Earnings	5,000	20,000	32,000	48,200
Shareholders Equity	65,000	80,000	92,000	108,200

Return on Assets	2.9%	8.8%	7.1%	9.1%
------------------	------	------	------	------

Return on Shareholder Equity	7.7%	18.8%	13.0%	15.0%
------------------------------	------	-------	-------	-------

Return Ratios for Burberry

Burberry Financial Ratios

	2021	2020
Revenue	2,343.90	2,633.10
Gross Profit	1,662.50	1,705.50
Operating Profit	521.10	188.70
Profit for the Year	375.90	121.60
Total Assets	3,502.20	3,292.20
Total Shareholder Equity	1,559.70	1,218.80

Gross Profit %	71%	65%
Operating Profit %	22%	7%
Net Profit Margin %	16%	5%
Return on Assets	11%	4%
Return on Equity	24%	10%

Reading List

<https://bizfluent.com/about-6195930-purpose-financial-ratios.html>

<https://www.investopedia.com/ask/answers/070914/what-are-main-differences-between-return-equity-roe-and-return-assets-roa.asp>

<https://www.investopedia.com/terms/p/profitabilityratios.asp>

<https://corporatefinanceinstitute.com/resources/knowledge/finance/profitability-ratios/>