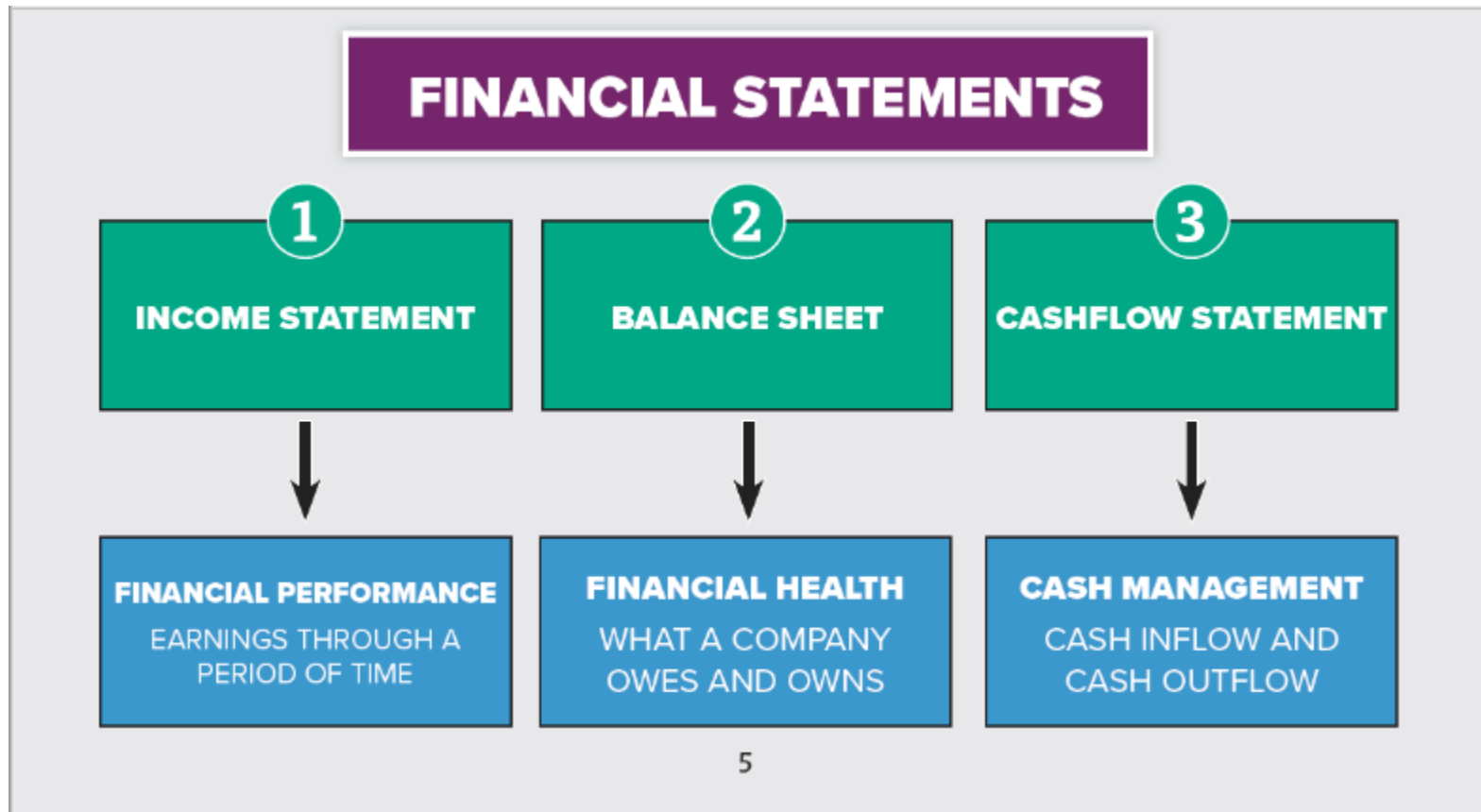


Finance Management & Planning

Annual Report Review

- This Week
 - Annual Reports

- 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



- 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

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

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

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$$

Consider :-

- | | |
|---------------|---------------------|
| Current Ratio | – Low Test Level |
| Quick Ratio | – Medium Test Level |
| Cash Ratio | – High Test Level |

Activity Ratios

$$\text{Days Sales Outstanding (DSO)} = \frac{\text{Trade and other receivables}}{\text{Average Revenue per Day}}$$

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

$$\text{Days Payable Outstanding (DPO)} = \frac{\text{Trade and other payables}}{\text{Average COGS per day}}$$

$$\text{Where Average Revenue per Day} = \frac{\text{Annual Revenue}}{365}$$

$$\text{Where Average COGS per Day} = \frac{\text{Annual COGS}}{365}$$

Leverage Ratios

$$\text{Gearing Ratio} = \frac{\text{Non Current Liabilities}}{\text{Equity Plus Non Current Liabilities}} \times 100\%$$

$$\text{Debt / Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Stockholders Equity}} \times 100\%$$

$$\text{Long Term Debt / Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Stockholders Equity}} \times 100\%$$

$$\text{Interest Coverage} = \frac{\text{Operating Profit}}{\text{Interest Charge}} \times 100\%$$

Investor Ratios

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

$$\text{Dividend cover} = \frac{\text{Net Income (Profit after Tax)}}{\text{Dividend Proposed and Paid}} \times 100\%$$

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

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



Definition : An annual report is a document that public corporations must provide annually to shareholders that describes their operations and financial conditions.

The front part of the report often contains an impressive combination of graphics, photos, and an accompanying narrative, all of which chronicle the company's activities over the past year and may also make forecasts about the future of the company.

The back part of the report contains detailed financial and operational information.

Annual Report

What do you think they achieve ? Or

What's their purpose ?



What is the purpose of an Annual Report ?

- **Serving a marketing and PR function**
- **Stating financial performance and goals**
- **Meeting regulatory requirements**
- **Highlighting Achievements in the prior year**
- **Highlights the Companies Mission statement and goals**

Information supplied

General corporate information

Operating and financial highlights

Letter to the shareholders from the CEO

Narrative text, graphics, and photos

Management's discussion and analysis (MD&A)

Financial statements, including the balance sheet, income statement, and cash flow statement

Notes to the financial statements

Auditor's report

Summary of financial data

Accounting policies

Key Reports

- **Chief Executive Letter to Shareholders**
 - **Reviews Strategy**
 - **Vision of the business**
 - **Where we have been and where we are going**
 - **Key changes within the business**
 - **Opportunities for the future**
 - **How we are performing against our plan**
 - **Reassurance / Clarity to Shareholders**

Key Reports

- **Chairman's Letter to Shareholders**
 - **Vision of the business**
 - **Where we have been and where we are going**
 - **Key changes within the business**
 - **Opportunities for the future**
 - **How we are performing against our plan**
 - **Reassurance / Clarity to Shareholders**

Key Reports

- **Chief Finance Officer / FD**
 - **Reviews Strategy**
 - **Financial Performance**
 - **Segmental reporting**
 - **Overview of performance against expectation**
 - **Opportunities for the future**
 - **Reassurance / Clarity to Shareholders**

Key Reports

- **Financials**
 - **Income Statement**
 - **Balance Sheet**
 - **Cashflow**
 - **Notes to Accounts**

Walk through Aston Martin

Finance Management & Planning

Assignment pointers

Thoughts on Sections

Executive Summary

Introduction

Use and Limitation of Ratios

Ratio Analysis

Summary of Findings

Conclusion and Recommendation

Appendices

Thoughts on Sections

Executive Summary

Usually the last thing written as it is the overview and summary of your recommendations and findings.

This is to advise the reader of what the report is about and what your findings are

Introduction

Basic overview of the company - do not spend a lot of words or time on this !!!! This is not a mark rich area of the assignment .

Thoughts on Sections

Use and Limitations of Ratios

Why do we use statements and Ratios

What are the limitations of using them

Ratio Analysis

The outcomes of your calculations

What are they showing show

What changes have happened year on year

Can we link certain Ratio's together for a wider understanding

This is the important bit

Summary of Findings

Critical Analysis of what you are seeing and understanding from the ratios and the wider reading that is informing your decision.

Be conscience of descriptive writing i.e. just explaining

How do we link the findings together ?

Conclusion and Recommendation

What is your decision and how do you back it up with your findings with the information within the report.

This is a Financial review not a personal review.

Appendices

Reference list in Harvard Format

Ratio calculations

The Statements

Where are the marks ?

Engagement with Literature

10 Marks

- References
- Evidence of wider reading

Knowledge and Understanding

20 Marks

- Explanation of the use of Ratios and interpretation of the outcomes
- Demonstrate your knowledge

Cognitive and Intellectual Skills

35 Marks

- Critical Analysis of the information
- Use of the information to explain your decision and conclusion

Practical Skills

20 Marks

- Calculation of the Ratios

Transferable Skills

15 Marks

- The above sections will show how these skills will be used

Things to think about

References – ensure you have referenced your wider reading, the reference list is not bibliography .

Descriptive writing versus critical analysis

Validate your conclusion with your findings

Things to think about

Things to consider

How many years are you reviewing ? 2 year is the minimum

Are you going to compare to a competitor?

Trending analysis

Why do we use these statement

Limitations of the use of these

Why do we use Ratios

Advantages and Disadvantages of their use

What are the Chairman / CEO and CFO saying in the report – Key messages

What other information is available

What would you recommend to improve the financial health of the organisation ?

References for wider reading

Next Week

No Lecture – Directed Learning

Actions for next week and until we meet again on the

Review Aston Martins Annual Statements

Start preparing your ratios for Aston Martin

Highlight areas where information is not available for discussion in the next lecture