

Assignment Name: Assignment 1: Jurys Inn

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Executive Summary

The main purpose of this report is to analyse the financial information of Jurys Inn and calculate a suitable ratio. There will also be a detailed discussion about the trends seen in the ratio analysis and also understanding the essence of ratio analysis. In the end, there will be a discussion about the benefits and limitations of ratio analysis.

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Introduction

The main objective of any business is to make a profit. To achieve this major objective preparing a financial statement is required. It helps to determine the costs and income of an organisation. As a company accountant, Jurys Ann wants a full financial statement analysis. So, this report includes the financial analysis of Jurys Inn, ratio analysis including profitability, liquidity and gearing ratio and trends seen between two years. Then there will be a detailed analysis of the information seen in the financial statement for hotel management and finally the benefits and limitations of ratio analysis within the tourism industry.

Financial Analysis

Jurys Financial analysis refers to the analysis to evaluate a business and all its finance-related transactions to evaluate the performance of the business. To conduct the financial analysis of Jurys Inn their profit and loss account and balance sheet needs to calculate.

After analysing the profit and loss statement of Jurys Inn 2019 was a more profitable year for them than 2020 as the net profit of 2019 was 623 thousand Euros and the net profit of 2020 was 307 thousand Euros.

Now we should analyse the Balance sheet of Jurys Inn to know their assets and liabilities statement.

In terms of assets and liabilities, the year 2020 is more fruitful than 2019. In 2019 the total assets of Jurys Inn were £2534000. But in 2020, the total assets have increased and became £2864000. Therefore, the total assets of Jurys Inn have increased in 2020 compared with 2019.

Another analysis that is required to calculate the financial statement is ratio analysis. So the ratio analysis of Jurys Inn is given below:

	2019	2020
Profitability Ratio		
Gross Profit Margin	23.33%	19.47%
Net profit Margin	6.92%	3.23%
Return on Asset	17.6%	7.9%
Return on Equity	24.59%	10.72%
Liquidity Ratio		
Current ratio	2.15	2.42
Quick ratio	1.33	1.58
Gearing ratio		
Debt to equity ratio	33.74%	31.01%
Equity ratio	71.60%	73.40%
Debt ratio	24.16%	22.76%

Financial Analysis Trends

Financial trend analysis is an analysis that helps the organisation by providing the financial analysis over some time. The period can be measured on a monthly, quarterly or yearly basis. The main goal of operating this analysis is to know the changes of amounts and percentages compared with one period to another. In the following section, there will be a brief discussion about the profitability, liquidity and gearing ratio of Jurys Inn to know the financial trend of the organisation.

Profitability

To know the profitability ratio of an organisation four things an organisation needs to calculate. Those are: Gross profit margin, net profit margin, return on assets and return on equity ratio. The trends that seen in the profitability ratio of Jurys Inn is given below:

Gross Profit Margin Ratio:

Gross profit margin helps to identify how successfully an organisation generates revenue by keeping all the expenses low (My Accounting Course, 2021). Generally, the gross margin standard is 20% to 30% but it sometimes varies for a different kind of organisation.



In 2019, the Gross Profit Margin of Jurys Inn was 23.33% which is quite good and match the standard as well. On the other hand, in 2020, the margin decreased and became 19.47% just below the standard. So, in 2019 the gross profit margin was better than the year 2020.

Net Profit Margin Ratio:

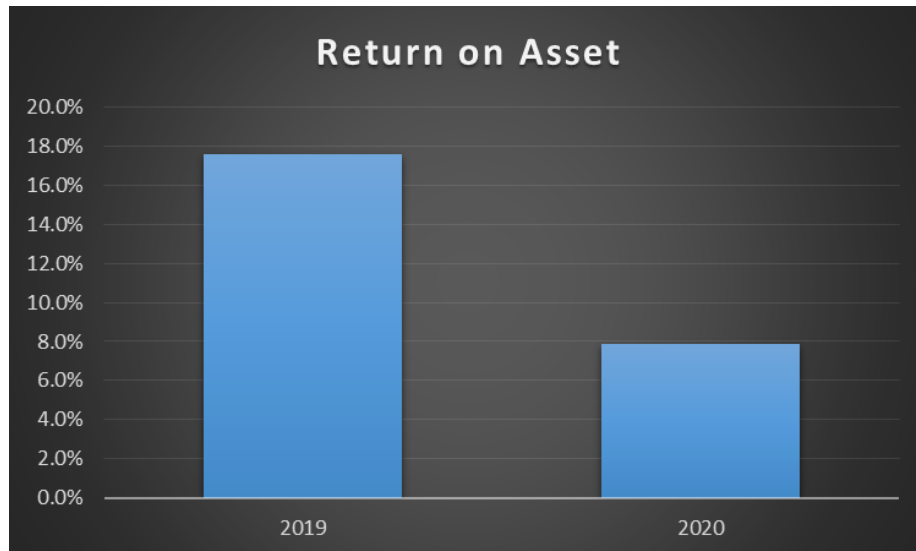
Net income refers to the net income of an organisation after adding and deducting all the factors related to the operation. The Net Profit Margin standard is 10%. 5% profit margin is low and 20% profit margin is high (Tide, 2019).



In 2019, the net profit margin of Jurys Inn was 6.92% which can be considered as a low-profit margin. In 2020, the profit margin decrease and became 3.23% which is very low. Both year profit margin is very low and the organisation should take necessary steps to increase the net profit.

Return on Asset Ratio:

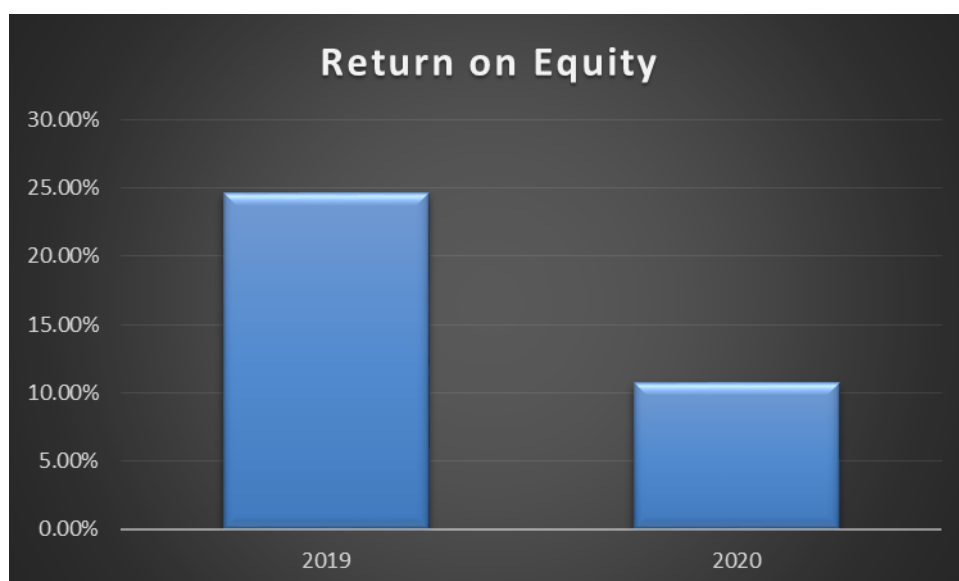
The Return on Assets Ratio helps to measure the net income produced by total assets in a certain period (HARGRAVE, 2021).



ROA over 5% is considered good and above 20% is considered excellent. In 2019, Jurys Inn's ROA was 17.9% which is quite good but in 2020 it became 7.9% which is good but not good enough compared to the previous year. So, the ROA of 2019 is good for the organisation.

Return on Equity Theory:

ROE is a measurement that measures the profitability of a business about equity. The standard of ROE is 15% to 20%.



In 2019, the ROE of Jurys Inn was 24.59% which is amazing but in 2020 it falls noticeably to 10.72% which is below the standard percentage. So, the ROE of 2019 was far better than in 2020.

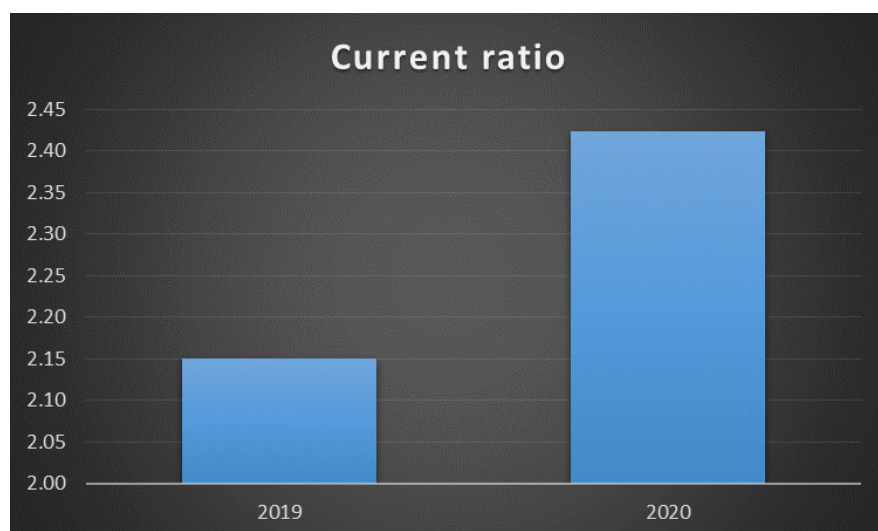
After considering all the ratios included in the profitability the performance of Jurys Inn in 2019 is comparatively better than in 2020. The organisation needs to focus on their operation and figure out all the problems to perform well in the following years.

Liquidity

Liquidity refers to the ratio that indicates the capability of an organisation to pay its short-term debt (Frumusanu, 2012). The liquidity structure of an organisation can be determined by determining the current ratio and quick ratio.

Current Ratio:

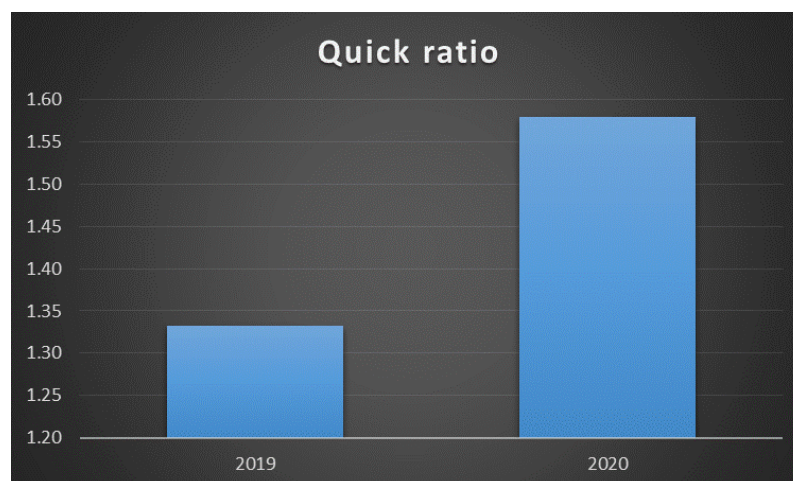
The current ratio refers to the ability of an organisation to pay the short-term debt (within one year) (FERNANDO, 2021). The standard current ratio is 2:1 which means the organisation must have twice as much as current assets compared to its current liabilities. Though, more current assets are also not useful for the business as they show a lack of investment.



In 2019, Jurys Inn's current ratio was 2.15:1 which is good but in 2020 the current assets increase and it became 2.42 which is good but 2019 shows much more investment activates and this is why 2019 was a fruitful year.

Quick Ratio:

The quick ratio refers to the company's ability to pay its current liabilities without selling inventory or any other thing. The quick ratio standard is 1:1 (Tim Jenkinson, 2014).



That means the current assets without inventory needs to be equal. In 2019 and 2020 the quick ratio of Jurys Inn was 1.33 and 1.58 respectively. 2019 was more fruitful because more assets are involved with the investment.

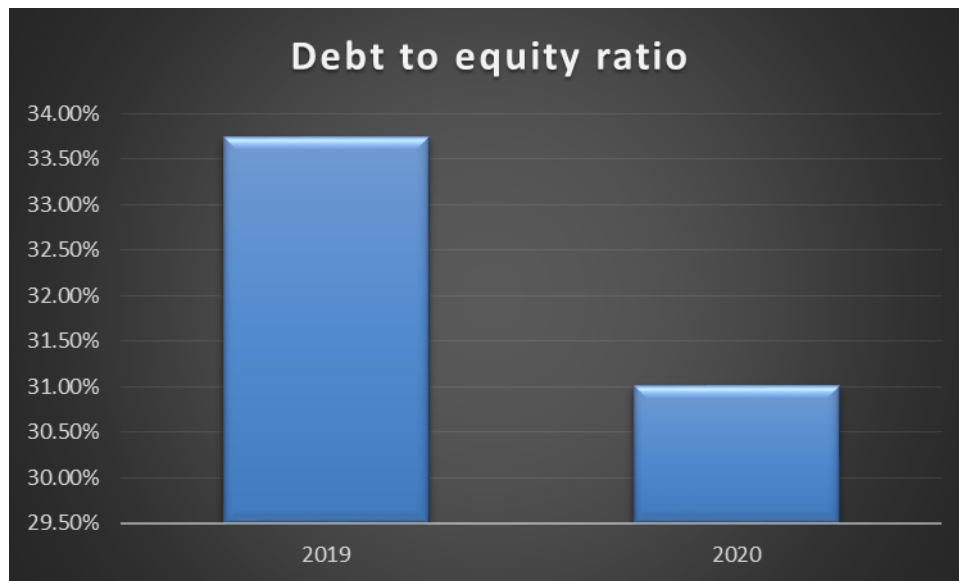
The liquidity ratio of Jurys Inn in 2019 was better than in 2020 because in 2019 more assets were involved with the investment and also remains the required standard as well.

Gearing

The gearing ratio compares some form of owner's equity with the debt of the company. The gearing ratio includes a 3 ratio analysis. Those are given below:

Debt to Equity Ratio:

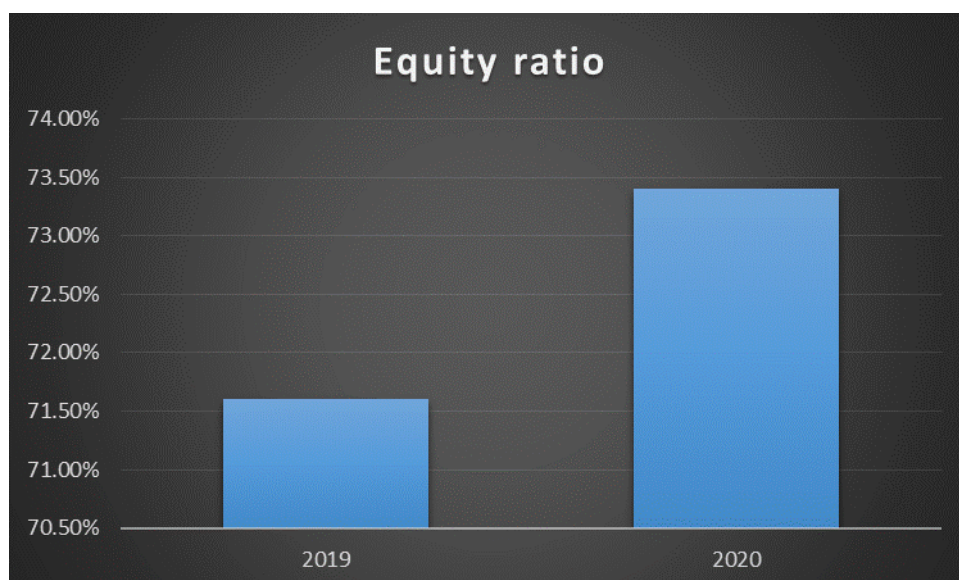
Lower debt to equity ratio is better for an organisation (CFI, 2020).



Jurys Inn had a 33.74% and 33.01% equity ratio in 2019 and 2020. So, 2020 was performing the best debt to the ratio for the organisation.

Equity Ratio:

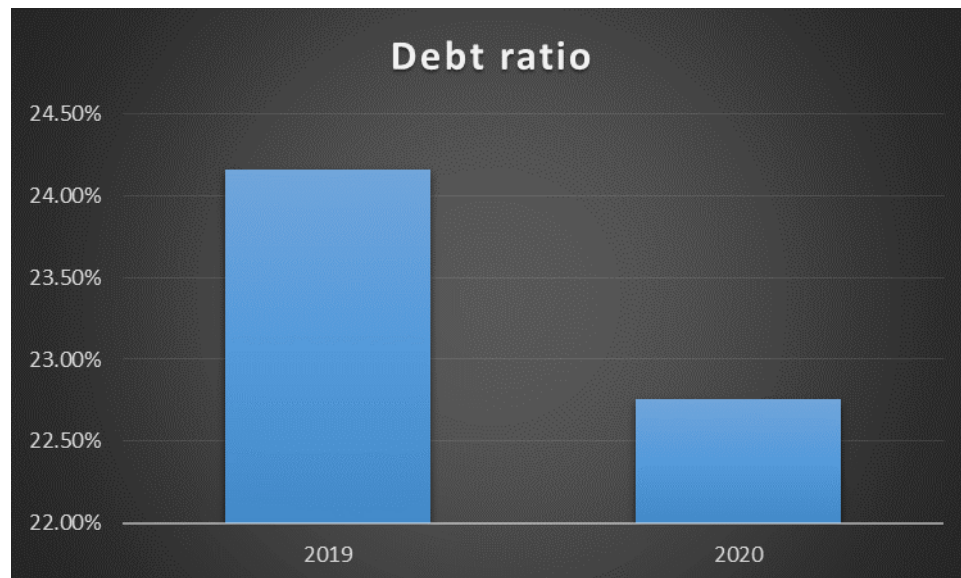
The equity ratio shows how much equity is used to finance the assets of a company. The standard of equity ratio is 50%.



The equity of Jurys Inn in 2019 and 2020 was 71.60% and 73.40%. Both show that the creditors have more power than the company owner and it increases over the year which is not good for the organisation.

Debt Ratio:

A debt ratio lower than 40% is considered better (HARGRAVE, 2021).



In 2019 and 2020 the debt ratio of Jurys Inn was 24.16% and 22.76% which is relatively low and in 2020 the performance was very good.

The gearing ratio did not give a very good result to the organisation and the creditors have more power in the organisation which is a big threat for the future. Therefore, the organisation should take proper steps for the betterment of the organisation.

Knowledge from Ratio Analysis

Understanding ratio analysis is very essential for hotel management as it shows the comparison between previous years and the management can use those outputs for the betterment of the organisation. The importance of understanding the ratio analysis in terms of the information of Jurys Inn is given below:

Financial Position:

The ratio analysis helps to show the financial position of the organisation. To make the ratio analysis the organisation requires to make a balance sheet and income statements. By preparing the balance sheet and income statement Jurys Inn know their financial position and they can take decisions based on that.

Profitability:

By analysing the profitability ratio, the organisation can able to know how profitable the organisation is and how it is growing over the year. After calculating the profitability ratio Jurys Inn can know their gross profit margin, net profit margin, return on asset and return on equity which helps them to make the best decision for the future (Banerjee, 2021).

Liquidity:

By analysing the liquidity ratio, the organisation will be able to know the ability to pay its short term liabilities. By analysing the liquidity ratio of the year 2019 and 2020 Jurys Inn can know their current assets compared with the current liability and able to make a better investment decision in future.

Operational efficiency:

The ratio also increases the operational efficiency of an organisation (CFI, 2015). It gives information about assets, inventory accounts receivable and many more things which will help Jurys Inn to increase the operational efficiency of the organisation.

Benefits and limitations of Ratio Analysis

There are several benefits of ratio analysis but also have some limitations as well. The benefits and limitations of ratio analysis within the tourist industry are given below:

Benefits:

- ❖ It helps the organisation to make better forecasting and planning.
- ❖ The ratio helps to make proper budgeting by analysing all the financial information.
- ❖ It also helps to measure operational efficiency by providing the information of assets, inventory, liabilities etc.
- ❖ It helps to determine the liquidity situation of the organisation and also helps to make good investment decisions (Pant, 2021).
- ❖ It helps to control the cost of the organisation.
- ❖ To meet the long-term liabilities ratio analysis also helps to maintain a long-term solvency position.

Limitations:

- ❖ The standards of ratio may not remain the same based on the size of the organisation.
- ❖ There are chances that the economic cycle can change.
- ❖ Market structure changes very quickly and the macro factors also affect the business decision making.

Conclusion

Preparing the financial statement is one of the major tasks of an organisation as it provides all the information related to the economic transaction of an organisation. To make a proper plan and effective budgeting financial statement needs to be accurate enough. Different financial trends or ratio analysis helps an organisation to know about the financial condition of an organisation. The ratio is analysed between different years to know about the past performance of the company and make the plan accordingly. Profitability ratio, liquidity ratio and gearing ratio helps an organisation to know the full financial structure of a business and make a decision according to that. Besides all these benefits there are also some limitations as the market structure is constant and it can change at any time. But ratio analysis can give the organisation a numerical result which is very beneficial for the organisation. Therefore, financial analysis and ratio analysis is the most important thing for an organisation.

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PROFIT AND LOSS ACCOUNT

		2019		2020	
		£000	£000	£000	£000
Sales			9000		9500
Less:	cost of goods sold				
	Opening stock	1100		700	
	Purchases	6500		7700	
Less:	Closing Stock	<u>700</u>		750	
			6900		7650
Gross Profit			2100		1850
Less:	Expenses				
	Rent		500		500
	Rates		175		180
	Motor Expenses		90		95
	Advertising		82		84
	Light and Heat		100		100
	Depreciation		75		70
	Insurance		10		11
	Repairs		92		107
	Bad Debts		33		17
	Salaries		310		370
	Loan Interest		<u>10</u>		<u>9</u>
			1477		1543
Net Profit for the Year			<u>623</u>		<u>307</u>

Balance Sheet at 30th May

		2019	
	£000	£000	£000
Fixed Assets (at net book value)		1700	
Current Assets			
Stocks	700		750
Debtors	649		870
Cash at Bank	480		522
Cash in Hand	<u>10</u>		<u>10</u>
		1839	
Total Asset		3539	
Current Liabilities			
Trade Creditors	660		690
Accruals	45		48
Bank Overdraft	150		150
		855	
Net Current Assets		984	
Total Assets Less Current Liabilities		<u>2684</u>	
Long - Term Liabilities			
Bank Loans		150	
		2534	
Represented by:			
Capital		2100	
Profit for the Year		623	
Less: Drawings		<u>189</u>	
		2534	

2020

£000

1750

2152

3902

888

1264

3014

150

2864

2700

307

143

2864

	2019	2020
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