

1 INTRODUCTION

ABC Pvt) Ltd was incorporated on 31st March 1953 under the Companies Ordinance No 51 of 1938, and e-registered under the New Companies Act No 07 of 2007. The Registered office and principal place of the company is located at XXX.

With over a century of experience, “ABC” as more popularly known, have become renowned in their core business as a pioneer manufacturer and exporter of Coconut products and Spices. As a prominent Company in Sri Lanka, and have consistently maintained their position as one of the largest exporters of combined Coconut Kernel products.

ABC Office and Warehouse Complex are strategically located in Colombo - the commercial hub of Sri Lanka, and within a 2km radius to the main port. With an infrastructure capacity exceeding 100,000 Sq Ft the company is fully equipped to manage it’s the Export, Import and processing operations.

Company Vision

-) Strive to maintain our position as a leading exporter with an emphasis on quality and reliability through continuous search for improvement.
-) To diversify and seek new avenues of trade & markets whilst observing the highest standards of business principles and ethics set down by their forefathers.
-) To leave a similar legacy for the future generations who will uphold the traditions and continue the name of ABC Ltd.

2 ANALYSIS OF ABC (pvt) Ltd FINANCIAL STAMENTS

Financial year of ABC (Pvt) Ltd is from 1st April to 31st March. Company accounts are audited by Kreston MNS & Co – Chartered Accountants.

Basis of Preparation of Financial Statements

The Financial Statements of ABC (Pvt) Ltd have been prepared in accordance with the “Sri Lanka Accounting Standard for Small and Medium – sized Entities”.

Comparison Years and the Ratios

Below analysis is done comparing the Financial Statements of year ended 31st March 2016 Vs year ended 31st March 2017.

Following are the Ratios compared in order to analyze the Financial Position of ABC (Pvt) Ltd.

2.1 Liquidity Ratios

Liquidity ratios are used to indicate a company's short-term debt paying ability. Following Liquidity ratios used to assess the liquidity position of ABC (Pvt) Ltd.

2.1.1 Current Ratio

Current Ratio indicates the ability of a company to pay its short-term financial obligations liquidation the current assets. Current Ration in other hand indicates the strength of the company's working capital position.

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

Current Ratio 2016	=	$\frac{782,522,668}{419,688,688}$	Current Ratio 2017	=	$\frac{734,758,082}{203,959,779}$
		1.86			3.60

When we compare the Current Asset Ratio (CAR) of ABC (Pvt) Ltd, even it shows the reduction in Current assets in 2017 compared to 2016 there is a very significant improvement in CAR in 2017 compared to 2016. If we take 2016, company could have used it's current assets only 1.86 times to settle the short term financial liabilities, however in 2017 it has increased to 3.60 times. The main reason for this improvement is there is an about 77% reduction in trade and other payables.

2.1.2 Quick Ratio / Acid-test Ratio

The quick ratio measures a company's immediate debt paying ability. Only cash, receivables, and current marketable securities considered as inventories may take several months to sell and convert into cash.

$$\begin{aligned}\text{Quick Ratio} &= \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}} \\ \text{Quick Ratio 2016} &= \frac{782,522,668 - 6,333,374}{419,688,688} = \mathbf{1.85} \\ \text{Quick Ratio 2017} &= \frac{734,758,082 - 198,871,613}{203,959,779} = \mathbf{2.63}\end{aligned}$$

Even though, Current Assets – Inventories there is a 31% reduced in 2017 compared to 2016, Quick Ratio is higher in 2017 compared to 2016. This is again mainly due to lower Current Liabilities in 2017 compared to 2017. In other words

Even in 2016 ABC (Pvt) Ltd has more liquidations assets due to high current liabilities Quick Ratio is weaker compared to 2017.

2.1.3 Inventory Turnover Ratio

Inventory turnover indicates the number of times on average the inventory is sold during the period. Its purpose is to measure the liquidity of the inventory.

$$\begin{aligned}\text{Inventory Turnover Ratio} &= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} \\ 2017 &= \frac{3,603,330,621}{(6,333,374 + 198,871,613)/2} \\ &= \mathbf{35.12}\end{aligned}$$

ABC(Pvt) Ltd on average 35.12 times inventory is sold. This shows company will take about 1 month and 1 week to sell its average stocks. This in other words can interpret as ABC(Pvt) Ltd has a very efficient sales team and their stock managing is well maintained.

2.2 Solvency Ratios

Solvency ratios are used to analyze a company's ability to cover its long-term obligations.

2.2.1 Debt to Total Assets Ratio

Debt to total assets ratio measures the percentage of a company's assets that are financed by debt.

$$\text{Debt to Total Assets Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$
$$\text{Debt to Total Assets Ratio 2016} = \frac{433,933,938}{1,095,551,564} = 40\%$$
$$\text{Debt to Total Assets Ratio 2017} = \frac{221,346,522}{1,036,242,389} = 21\%$$

In year 2016 40% of total assets was required to settle the total debits, however in 2017 it has improved to 21% , which means company debt position has reduced in 2017 compared to 2016 in more proportion (49% decrease from 2016 to 2017) even though there is a 5% decrease in company assets.

This is one of the indicators bank will consider when offering the facilities to company, therefore taking an Overdraft facility in 2017 must have been much easier as there is a magnificent improvement in the ratio.

2.3 Profitability Ratios

Profitability ratios measure the income or operating success of the organization for a given period of time. Income, or the lack of it, affects the company's ability to obtain debt and equity financing. It also affects the company's liquidity position and the company's ability to grow.

2.3.1 Gross Profit Margin Ratio

Gross profit margin is a profitability ratio that measures how much of revenues is left over after paying cost of goods sold.

$$\text{Gross Profit Margin Ratio} = \frac{\text{Revenue} - \text{Cost of Goods Sold}}{\text{Revenue}}$$

$$\begin{aligned} \text{Gross Profit Margin Ratio 2016} &= \frac{2,542,083,483 - 2,308,037,395}{2,542,083,483} \\ &= \mathbf{9.2\%} \end{aligned}$$

$$\begin{aligned} \text{Gross Profit Margin Ratio 2017} &= \frac{3,892,984,196 - 3,603,330,621}{3,892,984,196} \\ &= \mathbf{7.4\%} \end{aligned}$$

GP Margin ratio has dropped by 19% in 2017 compared to 2016. In 2017 sales revenue has increased by 53% compared to 2016, however the cost increase year on year is 56% which is higher than the increase in sales. This has led to drop in GP margin at ABC(Pvt) Ltd. Company required to find out why the COS has gone up, it could be due to increase in taxes and raw material cost. ABC(Pvt) Ltd has to look in to pricing of their products in order to maintain healthy GP margins year on year.

2.3.2 Net Profit Margin Ratio / Profit Margin Ratio

Net Profit Margin (also known as “Profit Margin” or “Net Profit Margin Ratio”) is a ratio used to calculate the percentage of profit a company produces from its total revenue

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit}}{\text{Revenue}}$$
$$\text{Net Profit Margin Ratio 2016} = \frac{29,129,360}{2,542,083,483} = \mathbf{1.1\%}$$
$$\text{Net Profit Margin Ratio 2017} = \frac{205,073,241}{3,892,984,196} = \mathbf{5.3\%}$$

Even though GP margin is better in 2016 compared to 2017, when analyze the NP Margin of ABC(Pvt) Ltd it is identifies NP Margin in 2017 has improved significantly compared to 2016. When looked into line by line in the Income Statement it is understood during the year 2017 other operating expenses are managed very efficiently and it is reduced by 48% in 2017. At same Other Operating Income and Finance income has improved significantly.

Net Profit Margin is a strong indicator of the organization’s overall success. Therefore it can be concluded in 2017 efficient management of ABC(Pvt) Ltd has led to achieve 5.3% NPM margin against 1.1% of 2016.

3 LEARNING

Analyzing financial statements of ABC(Pvt) Ltd in the years 2016 Vs 2017, involves evaluating its three characteristics: liquidity, solvency and profitability. When we refer a financial statement we are used to focus on given information from the balance sheet and income statement. However, we also should pay attention analyse the numbers in details and arrive at conclusion as the numbers will not always present the true financial picture of the organization.

This is being learnt from the course and it was very much useful in analyzing the Financial Statements of ABC(Pvt) Ltd.

As explained in above ratio analysis of ABC(Pvt) Ltd by looking at the numbers on year on year basis such as reduction in Fixed Assets can lead us to come into quick decisions which will lead to wrong management decisions. With learning of ratio calculations it was understood that analyzing the Financial Statement in details will lead for better decision making and it will result in better achievements by the organization.

4. CONCLUSION

In this financial analysis, ABC(Pvt) Ltd's financial facts and figures were depicted.

The analyzing years between 2016 and 2017 were done in the above calculations.

One of the most emphasized achievements was that the company's equity increased enormously. The equity was mainly made from retained earnings; from 2016 to 2017 there is an increase of 23% on retained earnings.

The liquidity ratio analysis of the company reflects that ABC(Pvt) Ltd's short-term debt paying ability was sufficient as well as the ratio shows the company's capability to meet unexpected needs of cash in accounting periods 2016 & 2017. Specifically, the proportions of quick ratio were higher in 2017 compared to 2016. Even though Total assets of the company have declined by 5%, total liabilities have declined by 49% from 2016 to 2017. Main highlight in total liability is about 77% reduction in trade and other payables. However in the year 2016 there were no OD facility in year 2017 there is a OD facility for LKR 105,454,616.

Moreover, solvency ratios proven the company would not have a problem with borrowing in the future on account of debts to total assets ratio

The profitability ratio indicated the company employed its assets in an effective way, and company constantly made profit through its assets and equity in analyzed years 2016 & 2017. Even though there is a decrease in GP Margin from 2016 to 2017, there is a magnificent increase in NP Margin from 2016 to 2017. This shows the management of cost and other income are carried out efficiently to improve the NP Margin of ABC(Pvt) Ltd.

As result of these factors mentioned above, ABC(Pvt) Ltd is in a strong financial position, and the company's business activities were in a good health in analyzed years. Based on analyzing liquidity, solvency and profitability, a prediction has been made that company financial position will continually improve. From the point of view as a student, ABC(Pvt) Ltd should concentrate on its operating activities, especially increasing sales in order to generate more profit in the future. if company invests its retained earnings in business ventures; it seems that company has good opportunity to obtain more profit as there other income shows that the company manage the subsidiary earnings well .

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