Analysis of financial performance

Business

For this task using the following ratios, I will be interpreting the financial performance of Whitbread PLC: A ratio is the relationship or comparison between numbers. Ratios are used to compare numeric figures in order to produce a measurement of some sort. An example of this is if someone wanted to know the ratio between boys and girls taking part in an OCR National Level 3 course in London, it would be shown as 10: 8. There are many different types of ratios used in a business, here are ratios used by business demonstrated by Whitbread PLC’s financial performance: Profitability Ratios: In a business this ratio is considered as the most important profitability ratio, it helps to outline the relationship between the capital and the net profit earned. Return On Capital Employed (ROCE)Whitbread PLC would hope to find that their ROCE ratio is higher than a percentage rate they could earn from placing their money in a savings. To work out ROCE for a business they would need to do the following: Net profit after interest x 100 = ROCEShareholder fundsAn example of this is looking at the accounts of Whitbread PLC, their ROCE shows: 2001/22002/374.

4 / 1888. 5 x 100 = 3. 95%263. 8 / 1983. 9 x 100 = 13.

29%From the 2001/2 to the 2002/3 Whitbread PLC has made a 9. 34% increase on their Return On Capital Employed ratio. This may be because they may be purchasing raw materials and other goods at a cheaper rate by changing to a different supplier or getting discount deals on bulk orders. Gross profit marginThis is the illustration between the relationships of the amount earned through sales ant the cost of sales. Gross Profit x 100 = Gross Profit MarginNet Sales2001/22002/3ï¿½466. 3/ 2, 014.

3 x 100 = 23. 15%ï¿½441. 0/ 1, 794. 1 x 100 = 24. 58 %With their Gross profit margin ratio, Whitbread PLC has made a 1.

43% increase from the 2001/2 to 2002/3 period. Whitbread PLC may have increased sales by the reduction of competitors. Net profit marginThis ratio however illustrates the relationship between the amount earned through sales and the total expenses of the business. Net profit x 100 = Net profit marginSales2001/22002/3ï¿½105. 5/ 2, 014. 3 x 100 = 5.

23%ï¿½270/ 1, 794. 1 x 100 = 15. 04%Whitbread PLC’s Net profit margin ratio has increased by 9. 81% from 2001/2 to 2002/3 period. In order to have achieved this increase, the total expenses of the business have been lower than the sales.

They may have done this by controlling wastage which will increase sales and the amount spent of money spent on money coming out of the business. Liquidity Ratios: Liquidity ratios are used to look at the business’s ability to pay its immediate debts. It helps the business to find out if they have the sufficient funds to pay their creditors, expenses and loans on time. Current ratioA current ratio is used to compare the current assets to the current liabilities and show whether the business has sufficient short-term funds to meet their short-term liabilities. Current assets = x: 1Current liabilities2001/22002/3ï¿½213.

2/ 431. 8 = 0. 49: 1ï¿½230. 4/ 474. 4 = 0.

48: 1The current ratio within Whitbread PLC for the 2001/2 to 2002/3 period is a 0: 1 ratio increase as they may have put more money in their savings at the bank which increases because of the interest from the bank and made cutbacks on the current liabilities. Acid testThis is the ratio that deducts stock from the current assets. This ratio is used to see if a business has the sufficient liquid funds to pay its immediate debts.= Current assets (excluding stocks)current liabilities2001/22002/3ï¿½185. 1/ 431. 8 = 0.

42: 1ï¿½206. 5/ 474. 4 = 0. 43: 1Efficiency Ratios: These types of ratios are used to asses how efficiency of the use of resources is carried out by the business. It helps to determine whether the business has made the best use of its resources and if there is any room for improvement in the future to improve the overall profitability of the business.

Debtors Collection PeriodThis ratio is used to calculate the relationship between the credit sales and the debtors. It then shows how many days on average it takes the business to collect its debts. Debtors x 365 daysCredit sales2001/22002/3ï¿½112/ 2, 014. 3 x 365 = 20. 29ï¿½131.

1/1, 794. 1 x 365 = 26. 67From 2001/2 to 2002/3 period the debtor's collection period has increased by 6 days for Whitbread PLC. This is not good because customers are taking long to pay them back, however it shows that they trust in their customers which will increase their reputation and attract more customers who may pay quicker. If the situation starts to get worse Whitbread PLC can control it by factoring those customers whose payments are overdue. Creditors Collection PeriodThis ratio shows the relationship between credit purchases and the level of creditor who the business owes money.

Creditors x 365 daysCredit purchases2001/22002/3ï¿½431. 8/ 1, 548 x 365 = 101. 74ï¿½474. 4/ 1, 353. 1 x 365 = 127.

96Whitbread PLC creditor's collection period has increased by 26 days from the 2001/2 to the 2002/3 period. This increase may affect the business as it can result the business experiencing problems with their suppliers by receiving bad credit ratings which suppliers would not want to trust. This can be avoided by paying the creditors faster by collecting money from their debtors that could be used to pay the creditors. Stock TurnoverThis ratio is used to look at how often a business turns its stock around and shows the effectiveness of the business's stock control system. A slow trade is the representation of a reduction in stock turnover. Average stock x 365 daysCost of sales2001/22002/328. 1/ 2, 014. 3 x 365 = 6. 45 (6 days)23. 9 /1, 794. 1 x 365 = 4. 86 (5 days)???????? Unit 4 Finance for business