Financial accounting and control system

Finance

Financial Accounting and Control System of Institute Introduction The paper compares the performance of twocompanies based on their 2014 annual reports. It gives a brief description of the two companies and then compares them through ratio analysis using data from the annual reports posted on the respective websites. The two companies under study are Dairy Crest and Associated British Foods plc.

Dairy Crest is a company that deals in integrated dairy business. Its operations are mainly in the UK and Europe. Among its many dairy products are butter and spreads, cheese, milk, and cream as well as ingredients. The company offers delivery services for milk and other dairy products (Dairy Crest, 2014). The company uses online platforms to assist in delivery services as orders are placed online.

Associated British Foods is an international company with diversification into retail, ingredients and food. It is present in 47 countries on different continents, that is, Southern Africa, Asia, Europe, the Americas and Australia (Associated British Foods plc., 2014, p. 2). The company operates in five different segments, each dealing with different products. The segments include retail, agriculture, grocery, sugar and ingredients. The sugar segment produces and sells sugar while the agriculture segment focuses on providing farmers with farm implements while buying their produce to supply manufacturers, processors and retailers (Associated British Foods plc., 2014, p. 23). Through Primark, the retail segment operates retail outlets that up-to-date fashion merchandise in different countries. The grocery segment deals in groceries such as cereals and spices. The ingredients segment on the other hand deals with yeast and baking ingredients. It also deals with yeast extracts, lipids, and enzymes.

Ratio Analysis

Profitability Ratios

Gross Margin Ratio = Gross margin ÷ Net sales

Gross Margin Ratio = Dairy CrestAssociated British Foods plc.

74. 5 ÷ 1, 3911, 080 ÷ 12, 943

0. 0540. 083

5. 4%8. 3%

Profit Margin Ratio = Net income ÷ Net sales

Profit Margin Ratio = Dairy CrestAssociated British Foods plc.

50. 2 ÷ 1, 391783 ÷ 12, 943

0. 0360. 06

3. 6%6. 0%

In terms of the profit margin and the gross margin ratio, Associated British Foods has higher ratios comparative to Dairy Crest. That may indicate that Associated British Foods generates more profits than Dairy Crest (Fridson and Alvarez, 2011).

Return on Assets = Net income ÷ Average Total Assets

Average Total Assets = (Opening assets + Closing assets) ÷ 2

ROA = Dairy CrestAssociated British Foods plc.

50. 2 ÷ 895. 25783 ÷ 10, 423

0. 0560. 075

5. 6%7. 5%

Return on Capital Employed = Net operating profit ÷ Employed Capital

Capital Employed = Total Assets – Current Liabilities

ROCE = Dairy CrestAssociated British Foods plc.

64. 3 ÷ 289. 41, 080 ÷ 7788

0. 2220. 139

22. 2%13. 9%

Return on Equity = Net Income ÷ Shareholders' equity

ROE = Dairy CrestAssociated British Foods plc.

50. 2 ÷ 289. 4783 ÷ 6, 437

0. 1730. 122

17. 3%12. 2%

Associated British Foods' Return on Assets is higher than that of Dairy Crest. However, Dairy Crest has a higher return on capital employed and a higher return on equity. That may indicate that dairy crest is better when it comes to maximizing resources to generate profits (Bragg, 2012).

Liquidity Ratios

Current Ratio = Current Assets ÷ Current Liabilities

Current Ratio = Dairy CrestAssociated British Foods

405. 6 ÷ 253. 83, 626 ÷ 2, 684

1. 61. 35

Quick ratio = (Cash and cash equivalents + Short term Investment + Accounts Receivable) ÷ Current Liabilities

Quick Ratio = Dairy CrestAssociated British Foods plc.

186. 1 ÷ 253. 81, 886. 6 ÷ 2, 684

0. 730. 703

Cash Ratio = Cash and Cash Equivalents ÷ Current Liabilities

Cash Ratio = Dairy CrestAssociated British Foods plc.

67. 3 ÷ 253. 8519 ÷ 2, 684

0. 270. 19

The liquidity ratios indicate that Dairy Crest is in a better position to meet its obligations as they become due comparative to Associated British Foods. Dairy Crest registers higher liquidity ratios.

Conclusion

From the ratios, it may be seen that although Associated British Foods has better profit margins, its Return on Capital Employed and Return on Equity ratios are lower than those of Dairy Crest. That may indicate that there is insufficient utilization of resources. To correct this, costs need to be minimized as profits are maximized. That would increase the profits while using the same amount of resources, therefore improving the ratios.

References

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