

# [Management skills and entrepreneurship](https://assignbuster.com/management-skills-entrepreneurship/)

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This whole method requires many values to consider for the discounted rate of turns and the cash flow. For example to get the cash flow from the final report trading profit and loss account you will have to adjust the operating profit by adding back the depreciation and amortization of good will and you will need to deduct the capital expenditure , the change in working capital and cash taxation. The discounted cash flow or net profit value technique is term superior to all the other method of investment appraisal. This is because it has the following advantages 1 .

A positive Net profit value for a project increase the wealth of the company and warehouses , its represent the change in wealth of shareholders 2. Net present value present take time value ofmoney. This put some economic factors into consideration like inflation and exchange rates for example OHIO today will worth less than OHIO in a year this is because of time value of money 3. The discount rate can be adjusted to take account of the level of risk in different project. 4. The net value profit method take projects into account throughout its life spend 5.

The net value profit is superior that the internal rate of return method because it has no problem f multiple rates to use. 6. The net value profit is better that the average rate of return because it focus the cash flow not the profit. 7. The net profit value is used to determine the optimum policy for assets replacement. Having discuss all the great benefit, the net present value method to appraisal investment gives, however it has some short falls like 1. Determination of correct discount rate is difficult. 2. It is difficult for non-financial managers to understand. 3. The speed of repayment of investment is not highlighted. . The cash flow figures are estimated. Discounted cash flow analysis Discounted cash flow at 10% A company want to invest in a project with an initial capital of IEEE 000 which has a rate of return of 10 per cent . Calculate the net profit value using the following values year Capital outlay Cash flow Net cash flow Discounted factor 10% Discounted cash flow (El 50 000) (1 50 000) 30 oho 0. 9091 27273 2 40 oho 0. 8264 33 056 3 60 oho 0. 7513 45 078 4 80 oho 130 oho 0. 6830 88 790 Net present value is positive 44197 Financial management analysis Profitability ratio analysis: All business company are concern about its profitability.

One of the most popular models use in financial ratio analysis is profitability ratio; Profit margin is a measure of efficiency and performance of a company it is a concern for every business owners and managers about the profits earn by a firm. Simply put, it is a measure of profitability of a firm. It helps to find out how much of every pound of revenue is kept in the form of profit, it is best use for comparing companies within the same industry that have similar revenues numbers and business models.

The profit margin is calculated as total revenue less all the expenses, divided by the venue as a percentage . This is show or illustrated below For example MS company have total revenue of EIOOOOOO and a total expenses of IEEE Denotes the profit margin will be Lowell-E800000 /EIOOOOOO This means for every pound of revenue, the company earns 20 per cent as profit and for comparison of different companies, the higher the profit margin the better the profitability, meaning from every pound of revenue the higher margin present is he profit that the company realize.

The profit margin can be calculated based on different forms below we will analyses the gross profit and net profit margin. Gross profit margin: The gross profit margin is a frequent use financial metric to determine the financial strength of a company or business by showing the proposition of money realize from thee total revenue after deducting the total cost of the goods sold . Len comparing the three companies that is company A, B and C. Company C has the highest gross profit margin followed by company B and company A has the lowest gross profit margin.

Meaning, from every pound revenue earn by the above companies, company have the highest proportion as profit. With an assumption that all the three companies eave different business resources capabilities and all incurred different cost of production, different revenue is realized in the same time or period. This will means that company C will have more gross profit . Even if company A have a greatest revenue and a greatest gross profit compare to company C but company C has greater gross profit margin of 40 per cent compare to 15 per cent . His means that company C keeps more money from every pound in sale meaning from every sale 40 per cent will be the gross profit of company C and the margin percentage for company A company B, 15 per cent and 22 per cent respectively. For example assuming all the three companies have the same sales of IOW 000 for a financial year therefore the gross profit will be Company A EIOOOOOO\* = E150000 Company B Company C IOW OHO \* = IEEE OHO IOW = 400 OHO This also shows that company C has more gross profit to pay off its operating and other expenses.

The gross profit margin ratios looks how well a company control the cost of its inventory and manufacturing of its product and subsequently pass on the cost to consumers therefore the higher the gross profit margin presents the better for the firm. Net profit margin: reposition of money or net income after you deduct all the expenses . For example if the net profit margin is 10 per cent , that means 10 per cent of every pound is a profit. In comparing the three companies, company A, company B and company C net profit margin per cent of 9%, 10% and 12% respectively.

This means that from every pound, revenue earns, each company will have a net profit of up, lop and 12 p respectively from the pound revenue. For example assuming all these companies have made the same sale revenues of EYE 000 for the financial year 2012, the net profit of the companies will be Company A E2000000 000 many B OHO EYE 000\* OHO This shows that company C has more net profit for the first year, so the larger the net profit margin per cent the better for the company.

The profitability ratio analyses are used to determine the financial wealth a company. Company C which has a greater gross profit and net profit margin and will have more funds to pay off its operating expenses and better adequate profit left for shareholders returns on investment and future growth of the firm by re-investing the profit and assuming that the companies are realizing the same revenues . Forever in practice it could be many A and company B willingly sacrifice their profit margin by given consumers a cheaper price that would double up and edge revenues members, so if that is the case , even with their higher or larger total revenue, they still have a low profit margin, so for such reason the profit margin is best used for comparing companies within the same industry who have similar business models.

Working capital management This refers to how management will maintain an efficient levels of the component of working capital this include current asset and current liability companies need to ensure that it hold its day to day business operation. Base on the information given company A, company B and company C will analyses the working capital management of each company base on individual component stocks, debtors and creditors.

Stock days Stock days can has the least 18 days to convert its inventory into cash meaning that compare to company, and c will spend 18 days to sell outs all stock and 25 days and 45 days for company B and company C respectively, company A has , more stock or inventory efficiency and it can have advantage of selling all the stock and buys more ND sell again to realize maximum profit while the other companies will still selling their first condiments or supply: company A will have a low risk of keeping obsolesce stock or even increasing additional cost for storage.

However on the assumption that there is an expected strike or seasonal demand for their products . many A will be on a risk of going out of stock Debtors' days This tells us how much advantage the companies are selling from early collecting it debt from customers the less the days or period of the time taken the increase the efficiency the company will be Company A is most efficient in collection of debts it takes shot number of days to collect its debt invest it or use it in the operation of the business so company B, and company C will run into capital tidy up since it will take The creditors day is much like the debtors ratio, which tell us it the business take full advantage of trade suppliers.

This give the period of time it will take for the firm to pay off trade suppliers The longer the time or greater days taken to settle the trade creditors the better for the company Its take company A Just 9 days before its settle TTS creditor , days for company B and 55 days for company A therefore has an advantages of using it cash available for other operating activities and even generate additional fund before the due date for payment of trade creditors company C is most efficient in terms of creditors day management.

Investment ratio This ratio analysis provides an insight for investors to estimate the attractiveness of an investment. Return on capital employee (ROCK): This indicate that company C is most efficient and profitable of the companies capital with 16% more that company A and company 8. 5% and 13% respectively since the return on capital employee should always be greater than the borrowing rate of the company and therefore company C has the highest.

Earning per shares (PEPS) This is the part of the profit that is allocated to individual outstanding share of company stock . Company C has the highest earning per shares of pep and the other two company have a lesser figures of earning per shares, assuming all these companies uses similar or same equity investment, therefore company C would be more attractive for investment since it will pay higher rate of earning per share for is outstanding shares. Price earnings ratio (PIE) This is the share price of a company in comparisons to it per shares earning.

Company C has the highest price per ratio of 19 meaning that investors will expect more or greater earning growth in the near future compare to company A and company B: investors will be more attracted in investing in company C even though it might not provide all the situation but can compare different companies. Recommendation Base on the analysis I would buy company C . It has a higher gross profit margin that loud provide more profit portion to par off all the operation expenses and a better net profit margin for a better return on shareholders fund.

Company C has a better profitability ration meaning it has healthier financial condition Company C again has kept a good efficient working capital management by having longer period of repaying creditors of 55 days compare to 9 days and 42 days but it might not has he most efficiency inventory control but with the assumption of strike coming on during a very busy season for its product it is keeping more stock so that it will not run out of tock.