

# Interpretation of accounts for tasker lynch plc. essay sample

[Finance](#)



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## 1/ Terms of Reference

As the company's accountant I have been asked by the board of directors to appraise the financial company of my choice. The appraisal was requested by the chairman who would like to invest a sum of money on behalf of the employees of Tasker Lynch plc.

This report has been prepared to analyse the financial performance of The Booker Group, the company I am looking into, with regards to its worthiness for investment by Tasker Lynch plc, and The Nurdin & Peacock Group, to incorporate the companies profitability, efficiency and liquidity for the historical period 1993-1995 and to provide a comparison between the two. Bookers financial structure will then be examined and the advantages and disadvantages of the company, as a recipient of investment funds will be discussed.

## 2/ Procedure

To obtain the correct analysis, a detailed breakdown of the figures given was necessary, comparing various ratios over the three year period, to see the progress (or otherwise), of the companies involved. To do this, the companies profit and loss accounts and balance sheets were used.

The financial information relating to the Booker Group has been extracted from the audited accounts for the three financial years end 30th December 1995. The financial information relating to the Nurdin and Peacock Group has been extracted from: for 1995, the audited accounts for the fifty two weeks ended 29th December 1995 and for 1994 and 1993 the comparative

figures shown in the audited accounts for the fifty two weeks ended 29th December and 30th December 1994 respectively. (See Appendices1)

### 3/ Introduction

#### a) Background to Booker

Booker is a UK based international food group active in three main business areas:

Food Distribution – cash and carry and delivered wholesale services; international cash and carry operations; food, non-food items and services to the catering industry and a contract distribution business.

Agribusiness – in the UK division, salmon farming, horticultural plant breeding, sugar-related businesses; and in the US, specialist poultry breeding businesses.

Fish and Prepared Foods – companies specialising in many aspects of the business of fish and seafood and the low cost production of value added fresh and frozen convenience foods.

Booker's food distribution businesses include Booker Belmont Wholesale ('BBW'), one of the UK's leading wholesalers and a major national food distribution organisation. BBW provides cash and carry and delivered wholesale services to retailers and caterers through 158 cash and carry depots and 10 distribution centres across the UK.

#### b) Background to Nurdin and Peacock

Nurdin & Peacock is a UK listed company and is one of the leading operators of wholesale cash and carry warehouses in the UK with 55 depots under the 'Trade and Business Warehouse'

Nurdin and Peacock owns an own-brand portfolio comprising more than 1,300 lines including the Happy Shopper and Happy Chef brands, and the Independent Cellars own label drinks range.

Nurdin & Peacock supports 2,200 independent retailers who trade under the Happy Shopper fascia.

#### c) Context for Booker plc

##### Internal areas

- Emphasises customer service.
- Emphasises efficiency and investment in major projects to improve profitability.
- Has moved to centralised distribution.

##### External areas

- Are facing increasing competition in preferred food markets.
- Success is linked to continuing success of its independent retailing and catering customers.
- Strong success in wholesaling has been offset by BSE (Bovine Spongiform

Encephalitis)

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- Food wholesaling is relatively static but with a very competitive UK market.
- In the United States, the broiler industry is currently facing formidable problems as a consequence of exceptionally high grain prices.
- Well known to the trade as ‘ Pullman Foods’

#### d) Context for Nurdin and Peacock plc

##### Internal factors

- New management team in force.
- Believes in strong investment in new systems.
- Has moved to more central distribution and lower costs.
- Employees profit sharing scheme.
- Policy to reduce costs in the core cash and carry business.

##### External areas

- Are facing increasing competition in preferred food markets
- The tendency for people to eat ready prepared meals and sandwiches, is leading to increased trade.
- Strong success in wholesaling has been offset by BSE (Bovine Spongiform Encephalitis)

- Food wholesaling is relatively static but with a very competitive UK market.
- Well known brand name, ' Happy Shopper'

This is the standard test of liquidity, and it is generally considered that the liquidity ratio should be between 1.5 and 2, below 1.5 a company can find difficulty in meeting immediate bills, (wages etc.), over 2 and the company has excess funds.

Both companies fall below 1.5, although Bookers is slightly higher. This may well be due to both companies being food distributors, who are able to operate on a lower ratio, as less credit is given and taken in the food industry, where most stock has a limited shelf life.

#### b) Acid Test

The acid test ratio is helpful in judging the solvency of the company. The accepted ratios for this test are between 0.9 and 1.0. Nurdin and Peacock is barely liquid, with a ratio of 0.07-0.16, so that one serious bad debt could put the company in trouble.

#### c) Stock Carried

Both companies number of weeks stock, are remaining constant and are in the region of six weeks, indicating good stock control by both companies

#### d) Credit given

Table 1. shows that Bookers, have good control in collecting moneys owing to them. Possibly indicating that the company is collecting payments by the end of the month, following the month of delivery.

Whilst this is slightly in excess of the ' normal' credit payment of thirty days, some companies must allow generous credit terms to win customers. Nurdin and Peacock, being mainly cash and carry, operates with very little credit given.

#### e) Credit taken

Bookers appear to be settling their trade debts each year within the same period, which would indicate that the company is not under any pressure from it's debtors. Nurdin and Peacock plc, on the other hand have been extending the number of weeks credit given, which confirms the findings of the acid test. (See findings b) )

#### Profitability ratios

##### a) Return on Capital Employed

It is impossible to assess profits or profit growth without relating them to the amount of capital employed in making the profits. The most important profitability ratio is therefore the Return on Capital Employed, which states the profit as a percentage of capital employed.

The directors of Booker, account for the drop from 34. 3% in 1993 to 25. 2% in 1994, as being due to increased investment on capital projects (e. g. new distribution depot) and the benefits of these expenditures are reflected in

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the increase in the R. O. C. E. in 1995. Return on capital employed is considerably lower for Nurdin and Peacock at 10% in 1995.

#### b) Gross Profit

Bookers gross profit decreased in 1994, for reasons stated previously, (R. O. C. E.) the benefits of which are reflected once again in the increase in gross profit in 1995. Nurdin and Peacocks gross profit, shows a steady fall over the historical 3 year period, due to the increased pressure of competitors.

#### c) Administration Costs

The administration costs percentage for Booker is the same in 1995 as in 1993, but Nurdin and Peacock, shows a slight fall, showing that both companies have a tight control on their administration costs.

#### d) Borrowing: Net worth

This ratio can indicate the degree of risk to investors in ordinary shares in a company. Generally speaking, the higher the ratio, the greater the possibility of risk to ordinary shareholders, both in respect of future dividends and from threat of liquidation.

In view of the overall analysis of both companies, Bookers' does not have an excessive borrowing ratio and it is manageable at present. The drop in 1994 may well be due to the company disposing of peripheral businesses, to concentrate on the core. Nurdin and Peacock, although operating with an excessively low ratio, have been losing market share and are unable to expand and therefore have no need to borrow.



## Price to earnings ratio

Generally, the higher the P/E ratio, the more confidence investors have in the company, but their confidence may not necessarily be justified. The average P/E ratio for British companies is between 7 and 15.

As per The Daily Telegraph on 30th October 1996, Bookers' had a P/E ratio of 17.8, with Nurdin and Peacock having a ratio of 16.6.

## Capital used ratio

### Dividend cover

Dividend cover shows what proportion of profit on ordinary activities for the year, for distribution to shareholders, has been paid (or proposed) and what proportion is retained in the business to finance future growth.

Nurdin and Peacocks dividend cover has fallen sharply between one year and the next. Although profits have fallen, the directors of Nurdin and Peacock, perhaps indicating that they wished to pay at least the same amount of dividends as in the previous year, have attempted to keep the shareholder's expectations satisfied.

Bookers dividend cover has fallen slightly but given the strong position of the company, this reflects the desire of the directors to adequately, but not excessively reward shareholders.

## 5/ Conclusions

### Liquidity

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On analysis Bookers, is operating at present with adequate liquidity and the steady R. O. C. E ratio indicates that they are not facing future problems which may threaten this. Nurdin and Peacock however are operating on a much lower percentage.

### Profitability

Bookers profits in 1995 show a rise, as the benefits of development expenditure work through and is expected to show a further increase in the coming year. Nurdin and Peacock's profit is falling as they face increasing competition.

### Efficiency

The Booker company appears to be efficiently run at present, however Nurdin and Peacocks efficiency is falling.

### 6/ Recommendations

As the company accountant, the recommendation to the Chairman of Tasker Lynch plc, is that he consider that the acquisition of shares in the Booker Group, would be in the best interests of the company and the employees as a whole. Financial advice on the matter has been taken from Bellamy Brothers, the companies financial advisors and they concur with the assessment below.

It is found that Booker plc:

a) Has a better return on capital.

b) Is more profitable.

c) Whilst Nurdin and Peacock appear to show a better return on dividends, they are struggling to meet these payments, whilst Bookers expenditure on developments will show increasing benefits.

d) Nurdin and Peacock being a smaller company in all respects (turnover etc.) are facing increasing problems from competition.

It should be stated however that Tasker Lynch plc would be relying to some extent, on the gamble that the 'investment' two years previously will continue to boost the profit of the company in the coming years.

#### 7/ Limitations of the report

Ratio analysis on its own, is insufficient for interpreting company accounts, other details need to be looked at. Conclusions drawn from the ratios in this report have therefore been done with care. Reasons for this may include:-

- On their own ratios would not provide enough information to enable managers to gauge performance or make control decisions.
- Care must be taken with definitions of ratios used. For example, should capital employed include or exclude intangible assets.
- If ratios are compared over a period of historical cost, they will not be properly comparable where inflation in prices has occurred.
- Ratios calculated on historical cost may not provide a guide to the future.

- The use of ratios, are however useful if a companies figures can be compared to a similar firm in the same industry.
- It would have been useful to calculate a distribution ratio but this was not present in the accounts available.

Note: There are various other ratios which may also be used as an aid in the interpretation of Bookers and Nurdin and Peacocks accounts.