

Burberry managerial accounting assignment

[Business](#)



The report firstly explains the importance of shareholder maximisation, its limitations and how it may not necessarily benefit the customer, employee or the environment and may enter into bad practices when siding with political parties for their own benefit. Moving on, we investigate the strengths and weaknesses of using financial ratios in analysing financial statements and how they provide a fair perspective on the performance of a company in relation to its profitability, efficiency or liquidity.

After formulating relevant ratios calculations (which is attached hereto as Appendix A') , the report will continue to analyse Burberry in regards to its successful sales growth ratio results and gross profit ratio results and examine the positive moves that attributed to its success. We will also discover that Burberry is efficiently using its human capital in comparison to one of its rivals, Mulberry Group Plc, using the sales per employee ratio.

The analysis will go into further investigation in regards to the companys relatively new business strategy to produce their own in-house fragrance line, how much it cost them to terminate their beauty and fragrance license with Interparfums SAI How it affected the operating expenses for the FY 2013 and what would have been Burberry's revenue in the FY 2013 if the license agreement had not been terminated. Which, in truth is how we should consider the true picture of the company's abilities to generate successful revenues.

Looking into the company's liquidity, we see that their success in the FY 2011, (which was considered to be a record year for Burberry according to the 201 1/12 Burberry Annual Report), and the FY 201 2, elevated cash flow

by E40m when entering into the FY 2013. We use the Cash Ratio to investigate further and conclude that the cash ratio actually decreases in FY 2013, partly due to further expenditure but also due to the aforementioned E144m termination fee. In accordance to the London Stock Exchange Burberry's performance has been higher than the related benchmark index and its annual DPS growth ranks highest in its industry, [LSE, 2013].

By calculating the Earnings Per Share and the Dividends Per Share we can analyse the company's historical progression and attempt to forecast its performance in future years. Shareholder Maximisation The primary goal of most organisations is to maximise profits and the very existence of shareholder value maximization is to generate a return for shareholder. Shareholder value is the value delivered to shareholders through the company's ability to increase earnings, dividends and price per share. In short, it is the company's efficiency to increase its cash flow over a specific amount of time, [Pearson, 2013].

Common goal is created amongst investors and the board of corporations since they both want to maximize profits. The theory of the shareholder also advocates the market price of a share through investment, financing and dividend decisions which are all decisions taken by the board and shareholders of a company. However, the focus of corporations on maximizing shareholder value is often criticized because it can have several negative consequences. Too much focus in maximising shareholder value can lead to bad business practices.

One major example of this is the economic recession of 2008, where countless US banks approved loans to low credit borrowers (customers) for the sake of maximizing shareholder value in order to maximize profits.

Therefore, solely focusing on maximizing shareholders' value may bring short-run positive returns and just like the case of the 2008 recession, after numerous defaulted repayments and foreclosures the banks suffered huge losses in the long-run. It was the customer in this case that suffered. Giving too much attention to maximizing shareholder value may lead to corporations forgetting about their customers' needs.

We can see this effect when companies try to cut back on costs. When sourcing cheaper raw materials, quality should never be compromised and [Dixon & Holmes, 1992] suggest that 'transactional costs should be as low as possible, so that barriers to trading on capital markets are reduced and operational efficiencies promoted'. Therefore there is a tendency to reduce costs across other budgets, such as, research and development, capital expenditure, quality assurance, and support services such as after sales support and customer service. Pearson, 2013:1 Reduced costs improve profitability and shareholder wealth in the short run, however the long term consequences will have the opposite effect and eventually the company may no longer possess competitive advantage [Grant, 2012]. Postponing capital investment results in higher maintenance expenses and insufficient quality assurance results in lower quality goods and services being produced which in turn will lead to a loss in brand loyalty [Grant, 2012]. For example, the cost reduction on safety led to the BP oil leaks in Louisiana 2010 which resulted in \$38 billion in direct costs of cleaning up the damage.

The indirect costs of “lost face” to BP is more difficult to measure but it has been estimated to be higher than the direct costs which lead to a reduction in shareholder wealth as the share price plummeted, [CNN News, 2010]. In efforts to increase shareholder value maximization, businesses tend to relocate or outsource cheaper employees. An example of the human cost of redundancy in pursuit of shareholder wealth can be seen when Burberry relocated a factory from Treorchy, South Wales to Spain and China resulting in a loss of approximately 300 domestic job opportunities and only saved 1% of profit, [The Guardian, 2007].

Lastly, large corporations have a tendency to financially assist political parties in order to encourage the passing of legislation that is complimentary for business. Even though corporations and political parties are often scrutinised in such practices, unfavourable government restrictions and imposed taxes do not help in increasing shareholder value. Therefore the shareholder principle may encourage abuse of financial power. Bad publicity leads to loss in customer goodwill which then leads to falls in revenue and eventual loss in profits i. e. shareholder wealth [Sloman, 2014].

Strengths and Weaknesses of Ratio Analysis Financial ratios aid in measuring the strength of a company performance. they are the most frequently utilized method of analysing financial statements. They determine the company's level of functioning competence, liquidity, sustainability and profitability providing potential and current shareholders an internal perspective on the company's financial position. The use of financial ratios also provide an upper hand to stock investors and senior managers when implementing business decisions, [Pearson, 2013].

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Financial ratios are conveniently categorised thus providing the analyst further clarity. Liquidity ratios evaluate the company's cash to pay off debts. Profitability ratios determine the company's ability to transform sales into profits and cash. Efficiency ratios assess how efficiently a company transforms goods and services into cash. Leverage ratios analyse the company's ability to meet financial and Investor ratios examine components such as, the EPS DPS and dividend cover, [Pearson, 2013].

Financial ratios on their own generate no information except when they are measured against another parallel result, such as performance from prior years, other competitors in the industry or against the industry benchmark. They give a fair financial perspective when comparing companies and industries, as companies are assessed based on their performance as opposed to comparisons against market share, sales and profits of their competitors. One would assume that an established company generating significantly more revenue than a start-up is more sustainable and efficient.

Working out the return on equity (ROE), return of assets (ROA) and net profit margin could prove otherwise that the start-up functions more efficiently and accumulating more revenue per invested pound. Financial Ratios also aid in observing company's trends over several years by putting the prior years' ratio results against each other and they are also a handy tool when swiftly reviewing a company's performance without reading throughout the entire annual report.

In the face of the positive aspects Of financial ratios, companies and investors and others alike should be acquainted with its limits. A company in

one industry possesses different industry factors to a company in another industry. Every industry is composed with their own factors and comparing two companies in different industries with significant differences leads to false analysis. Furthermore, different accounting methods may be used by different companies.

Lastly, ratio analysis assist in making predictions and assumptions for future results however there is no guarantee that the future results will mimic the historical results since here are industry factors beyond our control such as the global economy, the environment and governmental policies. Financial Performance Analysis of Burberry Group Plc. (FYs 201 1, 2012 & 2013) Retail & Wholesale revenues over Financial years to 31 March, 2011, 2012 and 2013 Fig. I: The above graph shows the company's consistently growing revenues and determines how much comes from retail and wholesale.