

Emaars financial performance

Business



The numbers on the financial statement indicate a slight decline in revenue from 30th September 2007 to 30th September 2008 (1.62%). Although the revenue has declined slightly, the net profit has gone up by (0.4%). This indicates that the cost of revenues has gone down. From the company's perspective, this shows that they have controlled their costs.

However, an interesting feature to note in the financial statements is that 'selling, general and administrative expenses' form a considerable portion of the overall expenditure both in 2007 and in 2008. Moreover, the ratio of selling and administrative expenses to the gross profit stands out to be (29.5%) and (29.1%) in 2007 and 2008 respectively. This indicates a very high proportion and is reducing profitability considerably.

In order to control these expenses, we first need to analyze the composition of these expenses. Selling, general, and administrative expenses are the sum of all direct and indirect selling expenses and all general and administrative expenses incurred by a company. Selling expenses are of two types, direct and indirect. Direct ones are those which can be linked with the sale of a specific unit. This would include a warranty, advertisement, or credit expenses. Indirect ones are those which cannot be allocated to a sale of a specific unit but is applied to all units in proportion. This would include telephone and postal charges. Whereas, general and administrative expenses include other expenses such as rent, heating, lighting, and salaries of non-sales personnel (Investopedia).

High SG&A expenses can be a serious issue for any business. Emaar needs to analyze this and compare the ratios related to selling and admin expenses with other companies in the same industry. This can give some idea of the performance of management. In this case, it could indicate that the

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management is wasting valuable cash flow.

Normally in the construction industry, there is a lot of advertisement carried out, both through the media and personal selling. Hence, this could be one of the reasons why Emaar has such high expenses in this category.