

# [International financial reporting essay](https://assignbuster.com/international-financial-reporting-essay/)

## Introduction

This report presents an analysis of financial statements of J Sainsbury Plc and Wm Morrison Supermarkets Plc. The aim and objective of the report is to interpret and analyze their financial position through ratio analysis and comparison to make informed and better decisions for stakeholders. This information will be relevant to stakeholders as it will help them form an opinion or judgment that is based on facts and figures (Sinha, 2012). Ratios have limitations in that, they are based on historical information and the companies’ under comparison may be using different accounting methods. Since there are many ratios a firm may have good ratios under a particular category and bad ones under another thus difficult to determine if it is a weak or strong company. Also, the analysis is quite expensive, and for the ratios to be important, they have to be compared with others.

Company Profiles

Morrison Supermarkets Plc

Morrison Supermarkets Plc operates retail supermarket stores in Britain. It is among the top five grocery chains in Britain operating 598 core stores and 336 filling stations. Morissons retails products that include fresh fruits, vegetables, baked products, wines, spirits, medicine and electrical accessories. Key operations involve the production of foods which are then moved to the national and regional distribution centers that supply the supermarkets. These are then sold together with other nonfood products in the company’s stores or through Ocado an online grocery. Morrisons had reported a loss of ; 792 million during the year 2014/15 which was attributed to the ; 1. 27billion write down in property values and price wars with competitors (Ft. com, 2017).

Sainsbury Plc

Sainsbury plc is top food retailer in Britain with interests in banking and property investment. The supermarket chain commands a 16. 9% market share under the grocery; s category (Kantarwordpanel. com, 2017). It has 601 supermarkets, 773 convenience stores, an online grocery, and merchandise operation. Its operations are in three segments namely retailing, banking and property investment. The retailing segment sells groceries like meat, fish, fruits, vegetables, drinks and some other non-food items. The banking segment offers financial services through Sainsbury’s Bank Plc which provides loans services, insurance, and credit cards. It undertakes investments in property through joint ventures. The company had reported a loss of £72M during the year 2014/15 due to write-downs in values of property, industry’s price wars and deflation in food prices. This led to employee restructuring, a fall in its shares by 4% and a slash in the proposed full year dividend to £13. 2 per share (Reuters UK, 2017).

Analysis

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| Liquidity ratios  |  |
|  | WM Morrison  | Sainsbury  |
|  | 2016  | 2015  | 2016  | 2015  |
| Quick ratio  | 0. 25  | 0. 21  | 0. 54  | 0. 51  |
| Current ratio  | 0. 47  | 0. 5  | 0. 769  | 0. 65  |
| Cash/liquidity ratio  | 0. 18  | 0. 11  | 0. 17  | 0. 19  |

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| Profitability Ratios  |  |
|  | WM Morrison %  | Sainsbury%  |
|  | 2016  | 2015  | 2016  | 2015  |
| Gross profit margin  | 3. 8  | 4. 53%  | 6. 2  | 5. 08  |
| Net profit margin  | 1. 38  | -0. 05%  | 2  | -0. 7  |
| Return on capital employed  | 5. 3  | 5. 6  | 8. 7  | 9. 7  |
| Return on equity  | 5. 91  | -21. 10%  | 7. 4  | -3  |

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| Activity Ratios  |
|  | WM Morrison  | Sainsbury  |
|  | 2016  | 2015  | 2016  | 2015  |
| Inventory turnover  | 25. 3  | 26. 4  | 23. 9  | 24. 2  |
| Average collection period  | 4. 88 days  | 4. 68 days  | 7. 6 days  | 7. 5 days  |
| Total assets turnover  | 1. 75  | 1. 82  | 1. 4  | 1. 42  |
| Fixed assets turnover  | 2. 02  | 2. 11  | 2. 18  | 2. 2  |

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| Debt and Long-term solvency ratios  |
|  | WM Morrison  | Sainsbury  |
| Item in 2015/2016  | 2016  | 2015  | 2016  | 2015  |
| Gearing ratio  | 46%  | 65%  | 28. 70%  | 42. 30%  |
| Interest cover  | 4 times  | 5 times  | 6. 7 times  | 7. 4 times  |

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| Market Ratios  |  |
|  | WM Morrison  | Sainsbury  |
|  | 2016  | 2015  | 2016  | 2015  |
| Earnings per share  | 7. 77  | 10. 93  | 24. 2  | 26. 4  |
| Dividend per share  | 5  | 13. 65  | 12. 1  | 13. 2  |

Workings

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| Profitability ratios  |
|  |  | WM Morrison  | Sainsbury  |
|  |  | 2016  | 2015  |
| Gross profit Margin  | Gross profit/sales\*100  | 617/16122\*100-3. 8%  | 761/16, 8165\*100= 4. 53%  | 2456/23506\*100= 6. 2%  | 1208/23, 775\*100= 5. 08%  |
| Net profit margin  | Net profit/sales\*100  | 222/16122\*100= 1. 37%  | 761/16, 816\*100=- (0. 05)%  | 471/23, 506\*100= 2%  | 166/23, 775\*100= (0. 7)%  |
| Return on equity  | Net Income/shareholders equity\*100  | 222/3, 756\*100-5. 91%  | 761/3, 594\*100= (21. 1)%  | 471/23506\*100= 7. 4%  | 166/5, 539\*100= (2. 72)%  |
| Return on capital employed.  | Earnings before interest, tax, amortization/Finance costs  | Ratio published in the financial statement.  | Ratio published in the financial statement.  | Ratio published in the financial statement.  | Ratio published in the financial statement.  |
|  |  | 2016  | 2015  | 2016  | 2015  |
| Liquidity Ratios  |
| Liquidity ratio=  | Cash + Cash Equivalents  | 488/2, 747= 0. 177  | 241/2, 273= 0. 09  | 1, 143/6, 724= 0. 17  |  |