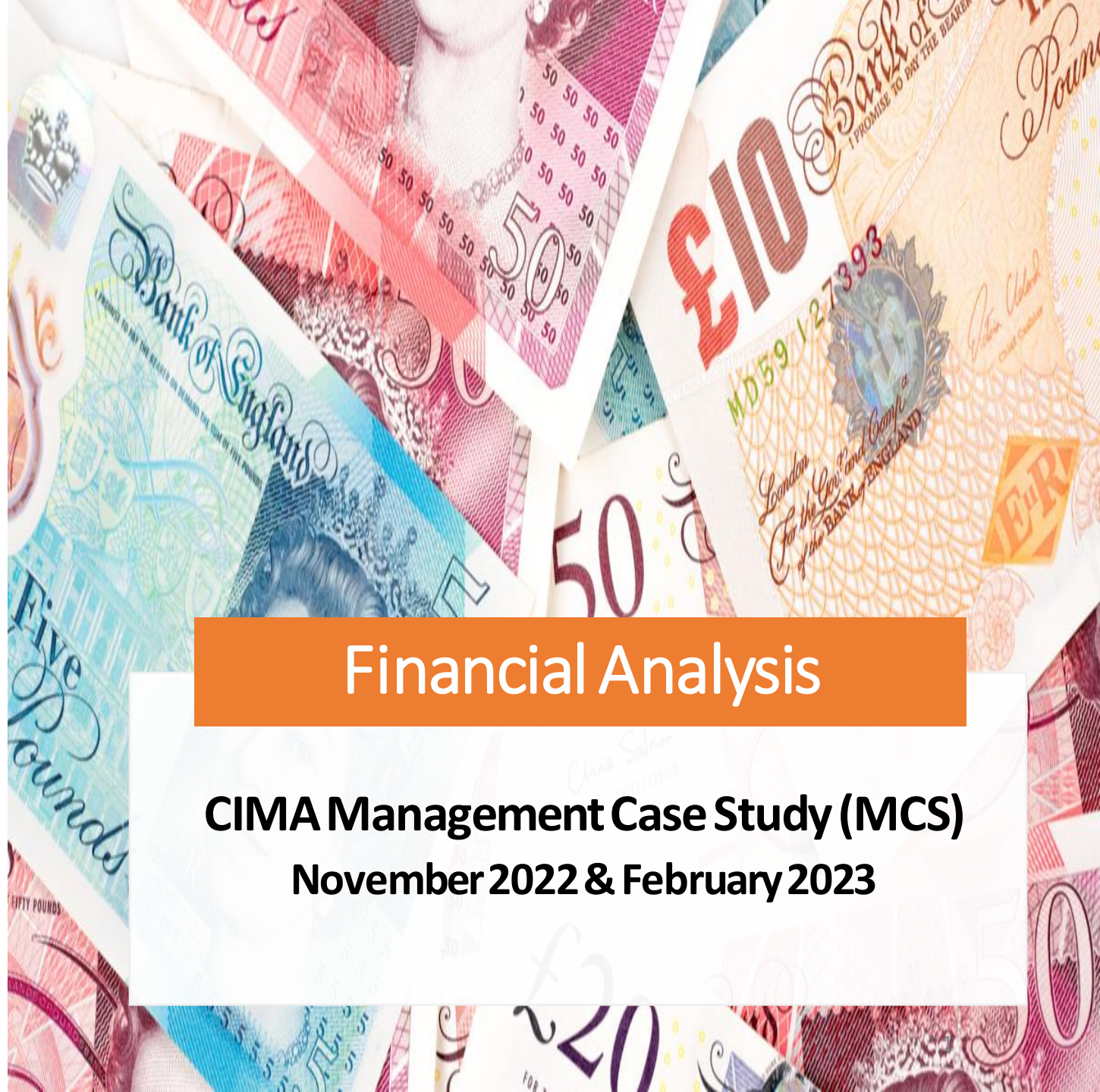




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## Financial Analysis

**CIMA Management Case Study (MCS)**

**November 2022 & February 2023**



#### ■ Revenue

- Growth of 6.6%
- Capturing market share
- Gleetill suffered a 0.1% decline in revenue

#### ■ Cost of Revenues

- Increase is lower than the growth in sales leading to an increase in gross profit margin

#### ■ Gross Profit

- Moderate growth
- Due to increasing revenues & controlling costs of revenue

#### ■ Operating Exp

- Slight increase
- Increase is lower than the growth in Sales - indicative of better cost control

#### ■ Operating Profit

- Considerable growth
- Due to increasing revenues & controlling expenses

#### ■ Net Profit (Profit After Tax)

- Considerable growth
- Gleetill suffered a 6.4% decline in net profit

# Statement of Profit & Loss

	2021	2020	% change
Revenue	906.4	850.7	6.6%
Cost of revenues	(635.1)	(603.3)	5.3%
Gross profit	271.3	247.4	9.7%
Administrative expenses	(8.6)	(8.4)	2.4%
Selling and advertising	(139.7)	(136.9)	2.0%
Operating Profit	123.0	102.1	20.5%
Finance Costs	(21.5)	(20.2)	6.4%
Profit Before tax	101.5	81.9	24%
Tax	(24.4)	(17.0)	43.5%
Profit for year	77.1	64.9	18.8%

## ■ Non-current Assets

- Slight growth in PPE
- Due to investment in fixtures and fittings in shops
- No change in intangible assets

## ■ Current Assets

- Moderate increase in receivables and bank
- Trade receivables represent debit/credit card payments made by customers which can take a few days to be credited to the company's account
- Marginal decrease in closing stock (inventory)

## ■ Equity

- Marginal increase in retained earnings (1.7% due to significant dividend pay-out (95.2% of profit has been paid out as dividends)
- No 'Non-Controlling Interest' - Hence, HP owns 100% of its subsidiary/subsidiaries

## ■ Non-current liabilities

- Slight increase in lease liabilities

## ■ Current liabilities

- Slight decrease in trade payables
- Slight increase in lease liabilities
- Significant increase in tax payables

# Statement of Financial Position

	2021	2020	% change
<b><u>Non current Assets</u></b>			
Intangible assets	100.0	100.0	0%
Property, plant and equipment	443.3	425.6	4.2%
	543.3	525.6	3.4%
<b><u>Current assets</u></b>			
Inventory	56.6	58.3	(2.9%)
Trade receivables	20.1	17.6	14.2%
Bank	27.8	24.2	14.8%
	104.5	100.1	4.4%
<b>Total assets</b>	647.8	625.7	3.5%
Equity			
Share capital and premium	100.0	100.0	0%
Retained earnings	174.8	171.9	1.7%
	274.8	271.9	1%
<b><u>Non-current liabilities</u></b>			
Lease liabilities	236.3	224.5	5.3%
<b><u>Current liabilities</u></b>			
Trade payables	66.0	69.6	(5.2%)
Lease liabilities	49.8	46.8	6.4%
Tax	20.9	12.9	62%
	136.7	129.3	5.7%
<b>Total equity and liabilities</b>	647.8	625.7	3.5%

# Ratio Analysis



# Profitability Ratios

Ratio	Happy Playz		Gleetill	
	2021	2020	2021	2020
Gross profit margin (GP)	30.0%	29.0%	27.6%	31.3%
Operating profit margin (OP)	13.6%	12.0%	15.5%	16.3%
Net profit margin (NP)	8.5%	7.6%	10.3%	10.9%
Return on capital employed (ROCE)	24.1%	20.6%	26.2%	31.7%

- All profitability ratios of Happy Playz have slightly improved due to increase in sales revenue and cost control as observed before.
- All profitability ratios of Gleetill have slightly declined mainly due to decline in sales revenue from 2020 to 2021.

# Capital Structure

	Happy playz		Gleetill	
Ratio	2021	2020	2021	2020
Gearing ratio(D/D+E)	46.2%	45.2%	35.8%	41.2%
Gearing ratio(D/E)	86%	82.6%	55.9%	70.2%
Interest cover	5.7	5.1	7	7.6
Effective interest rate	9.1%	9%	10.7%	10%

- The generally accepted threshold for gearing is 50% based on (D/D+E)
- Happy Playz's gearing of 46.2% (D/D+E) is within the acceptable threshold by a small margin.
- Since HP is highly geared, it limits the company's potential to borrow in the future or to borrow at lower interest rates.
- Gleetill has a better gearing and interest cover than Happy Playz.

# Liquidity

	Happy Playz		Gleetill	
Ratio	2021	2020	2021	2020
Current ratio	0.76	0.77	0.69	0.63
Quick ratio	0.35	0.33	0.36	0.32

- Although, the ideal current ratio is said to be 2:1 and the ideal quick ratio to be 1:1, this is dependent upon the industry under consideration.
- In retail organisations, lower levels of current and quick ratios can be expected.
- Hence, the company's position should be compared against the industry average to arrive at a meaningful conclusion.
- When comparing the ratios of Happy Playz's with direct competitor Gleetill, it can be observed that Happy Playz's liquidity position does not appear to indicate any major concerns.

# Activity/Efficiency Ratios

	Happy Playz		Gleetill	
Ratio	2021	2020	2021	2020
Receivable days	8	7.5	11	10
Inventory days	33	35	26	25
Payable days	38	36	46	48
Working Capital Cycle	3	6.5	(9)	(13)
Asset turnover	3.3	3.1	2.7	3.3

- A slight increase in payable days and a slight decrease in inventory days have contributed towards an improvement in the working capital cycle for Happy Playz.
- Gleetill has a negative working capital cycle mainly due to longer payable days which can have a detrimental impact on relations with suppliers.
- There appears to be no major concerns with the working capital position of Happy Playz



**THANK YOU!**



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