

Final Project Format

Liquidity & Leverage Ratio Analyses of Company A, Company B and Company C in Same Industry for FY 20X1, 20X2 & 20X3

(Bold, 16 font, Times New Roman style)

A REPORT

**SUBMITTED TO THE DEPARTMENT OF MANAGEMENT SCIENCES,
VIRTUAL UNIVERSITY OF PAKISTAN
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF BS BUSINESS ADMINISTRATION**

(Bold, 12 font, Times New Roman style)

Submitted By

<<Student ID>>

<<Student Name>>

(Bold, 16 font, Times New Roman style)



**Department of Management Sciences
Virtual University of Pakistan**

Letter of Undertaking

You are required to fill in the **Letter of Undertaking** provided in the 'Download' section of the course VULMS and attach here the scanned copy after signing it.

Note: There is NO need to send us its hard copy through post or any other means.

Job Confirmation Letter

You are required to attach here scanned copy of your original and fresh JCL (Job Confirmation Letter) which is provided to you by your current organization/employer.

Note:

You are also required to send us the same in hard form at the address which is mentioned in lesson no.4 of this course.

Overseas students are required to carefully read the note which is especially mentioned for them in lesson no.4.

Dedication (*Optional*)

Acknowledgement

Here you will write a brief paragraph to acknowledge the help and support you received throughout your project. You can acknowledge the library staff, lecturer, family or any other person who helped you in your project completion.

Executive Summary

An executive summary is one among the several important parts of a report. It is like a micro image of the research report because it covers all the sections of the report. It may range from one to two pages providing brief overview of the subject matter, methods of analysis you used in the project, findings based on your analysis and recommendation in the light of the findings. It comprises several paragraphs which are numbered and deal with the following sections:

NOTE: In the following paragraphs your actual work must be reflected.

Paragraph one (1) should deal with back ground of the study.

Paragraph two (2) should deal with the purpose and methodology of the research/study.

Paragraph 3, 4 should deal with the findings of the study.

Last paragraphs should deal with recommendations of study and action plan if any.

Table of Contents

(Enlist the main headings and sub-headings of the project along with page numbers)

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Section I

Chapter 1) Introduction:

You are required to provide a brief introduction of the selected companies, their industry and your selected topic of project.

1.1 Financial Period Under-Consideration for Analysis:

You are required to mention the financial years for ratio analysis such as:

FY20X1, FY20X2 & FY 20X3

1.2 Objectives:

You will carry out this Project to know the liquidity and leverage position of the selected companies. This Project will highlight:

- Which of the selected companies is able to pay its short term obligations effectively
- The composition of capital structure of all three selected companies
- Which of the selected companies is able to provide protection of long-term funds for suppliers
- Which of the selected companies is in better position to meet the interest payments on its debt
- Which of the selected companies is able to pay off its long term liabilities on time
- How much of the companies assets are financed through external and internal debt

Note: At the end of the study, objectives must be assessed to see if they have been met/achieved or not.

1.3 Significance:

You will state here the significance of this Project for the stakeholders like investors, creditors and the companies' management. You will state here why you want to carry out this type of Project.

Chapter 2) Methodology

This section should provide solid or concrete foundations to the study. Quality and value of the research report depends upon how precisely and accurately the data is collected, processed, analyzed and interpreted so that fruitful conclusions may be drawn out of it. It includes:

2.1 Data Collection Sources: (Describe the sources used for data collection. Whether primary / secondary or both.)

2.2 Data Processing and Analysis Tools:

- Mention the methods used to extract and process the information gathered
 - Software used to process the data

Chapter 3) Data / Ratio Analysis

LIQUIDITY & LEVERAGE RATIO ANALYSES of all three selected organizations under consideration will be conducted for the **most recent THREE financial years**.

Liquidity & Leverage Ratio Analyses Project

In this project, you have to:

- Select **three listed companies existing in the same industry**
- Get their financial statements for the **most recent three years** and
- Perform the **LIQUIDITY & LEVERAGE RATIO** analysis

Liquidity Ratios

Liquidity ratios measure a firm's ability to meet its current obligations.

These include:

- 1) Current Ratio
- 2) Acid Test Ratio
- 3) Sales to Working Capital
- 4) Working capital

Leverage Ratios

Leverage ratios measure the degree of protection of suppliers of long term funds.

These include:

- 1) Time Interest Earned
- 2) Debt Ratio
- 3) Debt / Equity Ratio
- 4) Debt to Tangible Net worth Ratio
- 5) Current Worth / Net worth Ratio
- 6) Total Capitalization Ratio
- 7) Long term Assets versus Long term Debt

Trend Analysis

Trend analysis studies the financial history of a firm for comparison. It is the comparative analysis of a company's financial ratios over time. This helps to detect problems or observe good management. Ratios are plotted on graph to see whether the ratios are falling, rising, or remaining relatively constant.

Special Guidelines for Presentation of Ratio Analysis

Ratio analysis is a very important part of your final project and should be presented properly.

Follow the below given format for each liquidity & leverage ratio:

For Example:

Significance of Current Ratio:

Current ratio tells about the short term ability of a company to pay its short term liabilities. As per standards, good current ratio is 2:1. Current ratio is calculated by dividing current assets by current liabilities for a given year.

Formula:

Current ratio = Current assets / Current liabilities

Step 1: Show the table as given below:

	Year 20X1	Year 20X2	Year 20X3
Company A	655,359,574,000 / 226,426,625,000 = 2.89 times	584,488,232,000 / 202,548,387,000 = 2.89 times	523,907,344,000 / 190,633,538,000 = 2.75 times
Company B	752,219,526,000 / 340,994,479,000 = 2.21 times	657,239,861,000 / 284,034,788,000 = 2.31 times	554,226,886,000 / 261,316,870,000 = 2.12 times
Company C	852,229,456,000 / 200,844,669,000 = 4.24 times	357,139,061,000 / 184,004,752,000 = 1.94 times	554,000,220,000 / 161,206,870,000 = 3.44 times

- * Must mention the values of numerator and denominator in the table.
- * Round the answers upto two decimal places for better presentation of values.
- * Must mention the measuring unit with each result you have calculated in all required ratios just like mentioned with above results.

Step 2: Working

After the table, show how you have calculated the amounts given in numerator and denominator (provide working for those items that require calculations).

e.g.

$$\begin{aligned}\text{Current Assets} &= \text{Asset A} + \text{Asset B} + \text{Asset C} + \text{Asset D} \\ &= 1111 + 2222 + 3333 + 44444 = \text{*****}\end{aligned}$$

$$\begin{aligned}\text{Current Liabilities} &= \text{Liability A} + \text{Liability B} + \text{Liability C} + \text{Liability D} \\ &= 5555 + 6666 + 7777 + 8888 = \text{*****}\end{aligned}$$

NOTE: If current assets (or any other figure) are clearly categorized and provided in the financial statements then there is no need of working. Working is required only for those items for which the calculated amounts in the financial statements are not provided.

For example:

- 1) Current asset = 655,359,574,000 (provided in the financial statements)

In this case there is no need to show the working of calculating current assets

- 2) Quick assets = not provided in the financial statements (for quick/acid test ratio)

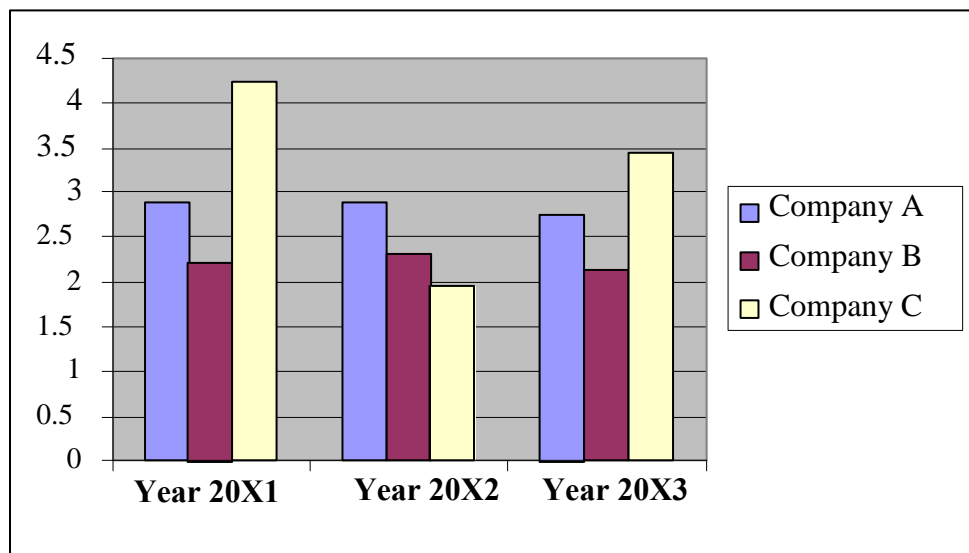
Now you are required to show the working of calculating quick assets like this:

Quick assets = current assets – Inventory – Prepaid Expenses

=22222-11111-3333 = *****

Step 3: Graphical Presentation of Ratio/Trend Analysis

Plot the calculated ratio results on graph. **You can use only Column chart for graphs. Do not use Line or Pie chart.**



Step 4: Interpretation and comparison

In this section interpret the graph shown above and explain that what are the reasons/factors for decreasing or increasing trend of this ratio i.e. you have to explain that why it has increased or decreased over the three years in the selected three companies. Also compare ratio of the three companies and state which company is better in accordance with the ratio calculated.

Guidelines for Interpretation of Ratios

The following guidelines will help to understand what interpretation means and how it should be done.

What does interpretation of ratios mean?

Interpretation means explanation of the ratios results. It does not mean definition of ratios rather it should enable the readers to understand what the calculated ratio indicates and what the trend for that particular ratio is. You should keep in mind following four points while interpreting the ratios:

A) Result understanding:

i.e. what does the answer derived from ratio calculation indicates? You have to critically analyze the result of calculated ratio by explaining the relationship of numerator with that of a denominator.

B) Trend Analysis:

i.e. what are the variations in a company's ratio results i.e. the trend for the same company and the reasons for that change in trend? All three selected companies should be analyzed in this way.

C) Comparison:

i.e. among the three selected companies which company is leading/ taking edge and why?

D) Bench mark (if applicable):

i.e. the comparison of ratio with the benchmark/rule of thumb/standard of that ratio in that particular industry (as these standards vary according to the type of industry selected for analysis e.g. Manufacturing, Banking, FMCG companies, etc). Also give reasoning of deviation from that standard.

You will have to interpret the calculated ratios in the way described above **step wise**.

Note:

You have to follow the same format for all the ratios that you will calculate. This format will cover **Ratio analysis and Trend analysis** as in trend analysis ratios are plotted on graphs to show the increasing/decreasing trends. So by following the above format you will do both these analyses. **Also keep in mind that you must have to mention the measuring unit with the results in each ratio.**

Remember, without formulas, working, graphs and interpretations your analysis will NOT be accepted.

Instructions:**Please follow these instructions strictly:**

- You must provide scanned copies of all the financial statements used for financial analysis. However, if you have downloaded the financial statements from organization's website then URL or web link should be provided. In this case, scanned copies will not be required.

Note: Without providing the scanned copies or URL of the organization's website, your work will NOT be accepted /evaluated.

Scanned copies should be provided in the following format:

Resolution: 200 dpi

File type: JPEG

Size: 300-400 kb

- You must perform complete financial statements analysis of the selected companies for the **MOST RECENT THREE YEARS**.
- You must provide all the supporting calculations, working and interpretation of results obtained from each ratio. You are required to calculate/analyze **all (11) ratios**.
NOTE: Failure to provide the financial statements, supporting calculations and working of analyses in your project will affect the worth of your work and may result in failure/rejection of the project.
- While selecting companies for analyses, keep in mind that they are from same industry **for example:** you CANNOT select one company from Textile, one from Cement and one from Sugar. All three companies should be either from textile or from sugar or from cement sector.
- You can get annual reports of companies from companies' offices, stock exchanges or from companies' websites.

Chapter 4) Conclusion and Recommendations

4.1) Conclusion

Precisely state the final outcomes of the work. It is the ultimate result of the inquiry conducted under the given context and circumstances. Conclusion/findings should be in short yet comprehensive sentences/paragraphs. Each sentence/paragraph describing new idea should be bulleted.

4.2) Recommendations

This section deals with your proposed solutions or plans to cover and remove all the flaws and deficiencies that you think (in light of data processing and analysis) needs to be removed or improved. Recommendations should be clear, specific and based on your findings. They must be logical and applicable.

Section II

a) Introduction of the student

- Last Degree Obtained:
- Organization's Name:
- Designation:
- Experience (Years)

b) Appendix/Appendixes

These contain material related to the report but not included in the text because these were lengthy or not directly relevant. These include scanned copies of financial statements. However, if you have downloaded the financial statements from company's website then URL or web link should be provided. In this case, scanned copies will not be required.

c) Bibliography

A bibliography is a list of source materials on a particular subject. In a formal report it shows what books and other library materials were consulted. As part of the reference matter, it follows the appendix or appendixes. APA format should be used for citing the references.

Note: The APA formatting guidelines for the references citation are given in the lecture # 45 of the course "Research Methods (STA630)". You must review and watch video lecture # 45 of STA 630 for your better understanding. It is advised to explore downloads link of this project course where APA guidelines file is also available.