

Final Project

Cash Flow Ratios Analysis of Company A and its comparison with Industry for FY 20XX-20XX (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 MASTERS IN 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.

Dedication (*Optional*)

Acknowledgement

Here you will write a brief paragraph to acknowledge the help and support you received through out 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.

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(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 company and its business activities.

1.1 Financial Period Under-Consideration for Analysis:

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

FY20XX-FY20XX

1.2 Other companies of the Sector under consideration:

You are required to mention the names of the 3-4 other companies from the same sector for conducting your study other than the company you have selected for analysis to work on this topic.

1.3 Objectives:

You will carry out this Project to know the cash flows patterns/ Cash movements, Sources and utilization of cash /capabilities to manage cash equivalents/ liquidity and solvency positions of the selected company. This Project will highlight:

- To know that how the company is generating/managing/utilizing its funds?
- Is the company is utilizing/managing its cash equivalents effectively, is there any idle funds or shortage of funds, i-e negative cash flows.
- Comparisons of company cash flow with the industry average for analyzing performance with respect to others.
- The facts why this company is/ is NOT able to manage its funds effectively?

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

1.4 Significance:

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

Chapter 2) Data Processing & Analysis

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)

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 Analysis

CASH FLOW RATIO ANALYSIS of organization under consideration will be conducted for the **recent Three financial years.**

Cash flow Ratio Analysis Project

In this project, you have to:

- Select a **listed company.**
- Get their financial statements for the **most recent three years** and
- Perform the **CASH FLOW RATIO** analysis
- **Select Three - Four companies** from the same Industry and Perform the **sector analysis**

a) Cash flow Ratios

Cash flow ratios tells us about the usage, availability and managing of the business liquid resources (cash and cash equivalents)

These include:

- Operating Cash Flows Ratio
- Price/Cash flow ratio
- Operating Cash Flow/Cash dividends
- Cash Flow Margin Ratio
- Cash Flow from operations/Average Total Liabilities
- Net Working Capital Ratio
- Current Ratio
- Liquid Ratio
- Debt/Equity Ratio
- Any other if necessary according to objectives

b) 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.

c) Industry/ Sector Analysis

The analysis of an entity's financial statements is more meaningful if the results are compared with industry averages or with results of competitors.

In this section you are required to select 3-4 companies from the same industry and then calculate their same ratios. After that take average of these ratios, in the last you have to compare these average ratios results with your company's ratios results. This enables financial analyst to check that where the selected companies fall in that particular industry.

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 activity ratio:

For Example:

FORMAT FOR RATIO ANALYSIS

CURRENT RATIO:

Current ratio is a ratio which tells about the short term ability of a company to pay its short term liabilities. For a healthy company it should be equal to or more than 1.5.

Current ratio is calculated by dividing current assets by current liabilities for a given year.

FORMULA:

Current ratio = Current assets / Current liabilities

CALCULATION

	Year 20**	Year 20**	Year 20**
Company*A	655, 359,574,000 / 226, 426,625,000 = 2.8944	584, 488,232,000 / 202, 548,387,000 = 2.8857	523, 907,344,000 / 190, 633,538,000 = 2.7482

WORKING:

After the table show how you have calculated the amounts given in numerator and

denominator (for those items that require calculations).

$$\begin{aligned}\text{Current assets} &= \text{asset A} + \text{asset B} + \text{asset C} \\ &= 1111+2222+3333+4444=*****\end{aligned}$$

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

NOTE: If current assets (or any other figure) are 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 = 22222 (provided in the financial statements)

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

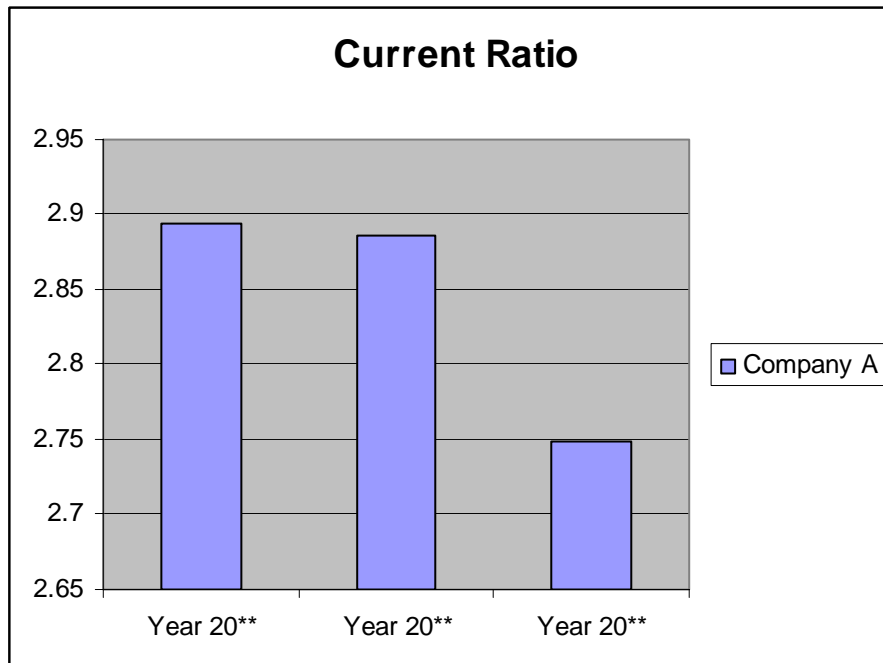
2-Quick assets = not provided in the financial statements (for quick/acid test ratio)

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

$$\begin{aligned}\text{Quick assets} &= \text{current assets} - \text{Inventory} \\ &= 22222-11111 = *****\end{aligned}$$

GRAPHICAL REPRESENTATION AND TREND ANALYSIS

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



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 been increased or decreased over the two years.

FORMAT FOR SECTOR ANALYSIS

Step 1

Calculate the ratios for the 3-4 companies of the same sector other than the company you have select for analysis. Like below

CURRENT RATIO:

FORMULA:

Current ratio = Current assets / Current liabilities

	Year 20XX	Year 20XX	Year 20XX
Company X	655, 359,574,000 / 226, 426,625,000 = 2.89	584, 488,232,000 / 202, 548,387,000 = 2.89	523, 907,344,000 / 190, 633,538,000 = 2.75
Company Y	752, 219,526,000 / 340, 994,479,000 = 2.21	657, 239,861,000 / 284, 034,788,000 = 2.31	554, 226,886,000 / 261, 316,870,000 = 2.12
Company Z	852, 229,456,000 / 400, 844,669,000 = 2.12	357, 139,061,000 / 184, 004,752,000 = 1.94	554, 000,220,000 / 161, 206,870,000 = 3.44
Industry * average	2.40	2.39	2.77

Step 2

Calculate the industry average ratio

FORMULA:

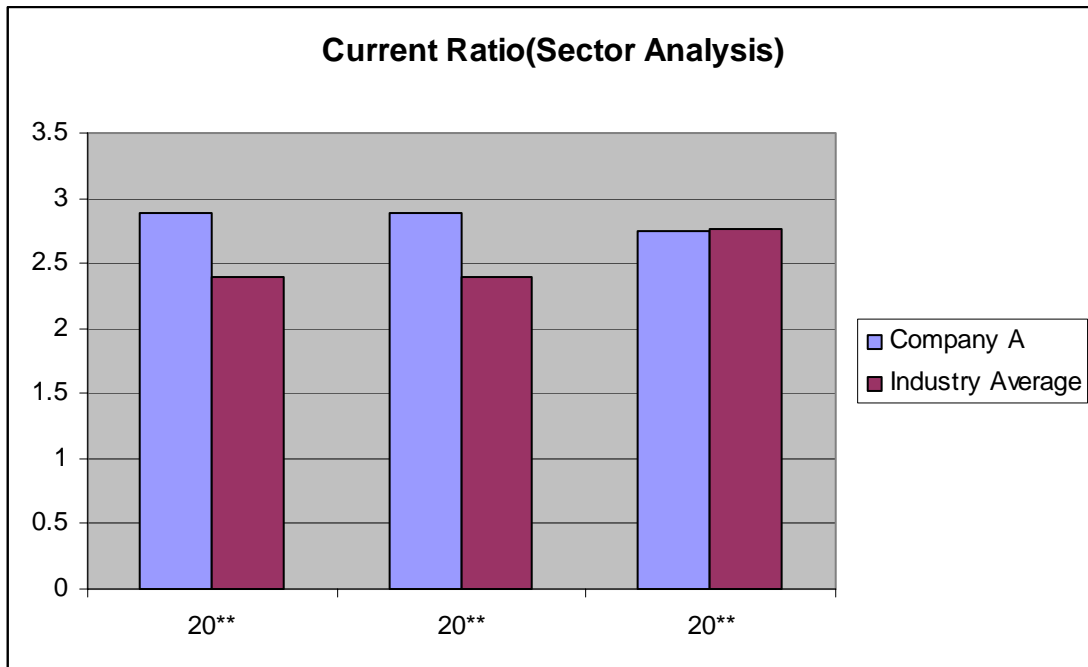
Current Ratio (Industry average) = Company X + Company Y + Company Z / no. of companies

*Current Ratio (Industry average) = $2.89+2.21+2.12/3 = 2.40$

Step 3

GRAPHICAL REPRESENTATION AND TREND ANALYSIS

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



Step 4: Interpretation

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. Also compare ratio of the company with the industry average and state company performance with respect to the industry.

Note:

You have to follow the same format for all the ratios that you will calculate. This format will cover **Ratio analysis, Trend analysis and Sector 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.

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 the **BALANCE SHEET** and **PROFIT AND LOSS STATEMENT** and the **NOTES TO THE FINANCIAL STATEMENTS FOR TOTAL PURCHASES** used for ratio analysis.

(If you have downloaded the financial statements from internet then its source or web link should be provided. Scanned copies are not required in such case).

NOTE: Your work will not be considered or accepted in case you do not provide scanned copies or source of original financial statements.

Scanned copies should be provided in the following format:

Resolution: 200 DPI

File type: JPEG

Size: 300-400 KB

- You must perform complete activity ratio 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 nine (9) 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 & 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, etc. (IF applicable)

Scanned copies should be provided in the following format:

Resolution: 200 DPI

File type: JPEG

Size: 300-400 KB

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 appendices. APA format should be used for citing the references.

*Note: The APA format for reference citation is given in the **DOWNLOADS** tab of VU-LMS of this course and in Lesson # 45 of the handouts of STA630. It is also advised to consult the course of STA630 for a better understating of the research process.*