

Final Project Format

Profitability Ratio Analysis 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 MASTER 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.

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.3 of this course.

Overseas students are required to carefully read the note which is especially mentioned for them in lesson no.3.

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 & FY20X3

1.2 Objectives: You will carry out this Project to know the profitability of the selected companies. This Project will highlight:

- To analyze the ability of selected companies to earn profit over a period of time
- To analyze the selected companies efficiency in managing their resource for generating profit
- To find out the reasons for generating profit over the years for selected companies
Note: If in any year, any of the three selected companies is facing losses, then to find out the reasons of losses
- To find out that how effectively selected companies are maximizing their profits by controlling their costs/expenses

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 debtors, and the 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

PROFITABILITY ANALYSIS of three organizations under consideration will be conducted for the **most recent THREE financial years.**

Profitability Ratio Analysis 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 **PROFITABILITY RATIOS** analysis

The following ratios you are required to analyze:

Profitability Ratios

Profitability ratios measure the earning ability of a firm.

These include:

- 1) Gross Profit Margin
- 2) Operating Income Margin
- 3) Net Profit Margin
- 4) Return on Assets
- 5) DuPont Return on Assets
- 6) Operating Assets Turnover
- 7) Return on Operating Assets
- 8) Return on Total Equity
- 9) Sales to Fixed Assets

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.

An example below will help out in presenting ratios' analysis:

Significance of Sales to Fixed Asset Ratio:

This ratio tells about the management efficiency for fixed assets utilization in generating company's sales. It is calculated by dividing sales with fixed assets for a given year.

Formula:

Sales to Fixed Asset ratio = Sales / Fixed Assets

CALCULATION

Step 1: Show the table as given below (calculation)

	Year 20X1	Year 20X2	Year 20X3
Company A	155,359,574,000 / 226,426,625,000 = 0.69 times	284,488,232,000 / 202,548,387,000 = 1.40 times	153,907,344,000 / 190,333,538,000 = 0.81 times
Company B	152,219,526,000 / 340,994,479,000 = 0.45 times	157,239,861,000 / 284,034,788,000 = 0.55 times	154,226,886,000 / 261,316,870,000 = 0.59 times
Company C	252,229,456,000 / 200,844,669,000 = 1.25 times	157,139,061,000 / 184,004,752,000 = 0.85 times	154,000,220,000 / 161,206,870,000 = 0.96 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.

No need to provide working of sales as mentioned in Profit & Loss Account

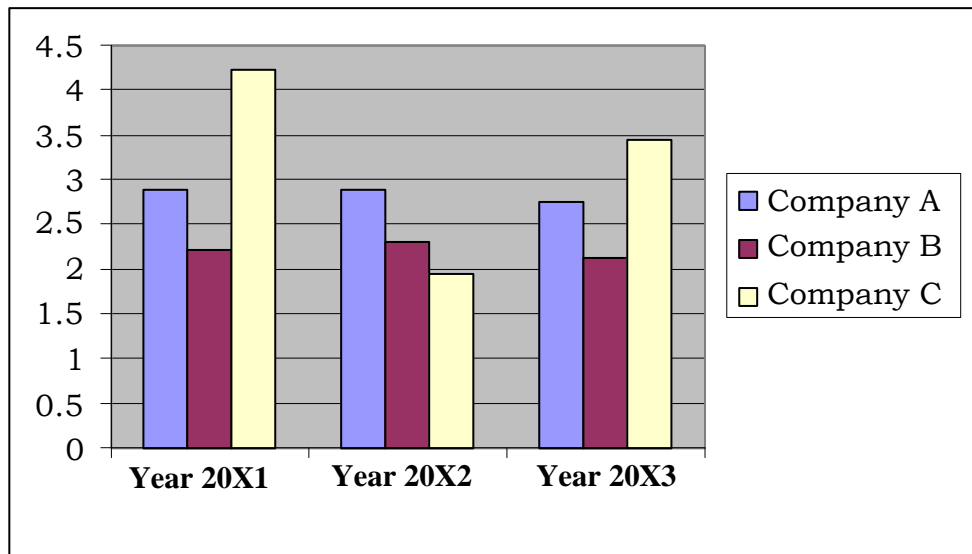
Required to provide working of fixed assets (If not clearly mentioned in balance sheet)

Year 20X1:

Fixed Assets = Fixed Asset A + Fixed Asset B + Fixed Asset C + Fixed Asset D
= 5,555 + 6,666 + 7,777 + 8,888 = *****

Step 3: Graphical Presentation of Ratio/Trend Analy

Plot the calculated ratio results on graph. Use only Column chart for graphs. Do not use Line chart 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 required financial statements used for profitability 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 profitability 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.
- **NOTE:** Failure to provide the related 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.
- You should not perform the profitability analysis of companies having losses.
- While selecting companies for an 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 sector.
- You can get annual reports of companies from companies' offices, stock exchanges or from companies' websites.

Chapter 4) Conclusion and Recommendations:

4.2) Conclusion

Precisely state the final outcomes of the work. Conclusion/findings should be in short yet comprehensive sentences/paragraphs. Each sentence/paragraph describing new idea should be bulleted.

4.3) 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.