COURSE WORK FSA 2024-2025

1. **Type of audit opinion :**

The audit states that the consolidated financial statements of the ENNAKL Automobiles Group as of December 31, 2023, December 31, 2022 and December 31, 2021 all fairly present its consolidated financial position, consolidated financial performance, and consolidated cash flows in conformity with IFRS. This type of auditor's opinion is, therefore, an unqualified opinion.

Justification :  
*A notre avis, les états financiers consolidés ci-joints présentent sincèrement, dans tous leurs aspects significatifs, la situation financière consolidée du groupe ENNAKL AUTOMOBILES au 31 décembre 2023, ainsi que sa performance financière consolidée et ses flux de trésorerie consolidés pour l’exercice clos à cette date, conformément aux Normes internationales d’information financière (IFRS)*. *:*

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1. **Liquidity of group ENNAKL AUTOMOBILES over the period 2021-2023** :
2. **Receivables liquidity :**

* Day’s sales in receivables = the DSR measures the number of days it takes for a company to collect payment from its credit sales and the lower the days the better the company’s cash flows and efficiency.

1. DSR 2021 = = = 56.55 days

It takes 56.55 days for the company to collect cash from its credit sales .

1. DSR 2022 = = 92.529 days
2. DSR 2023 = = 74.168 days

The DSR increased significantly from 2021 to 2022 by 35.979 days then decreased by 18.361days by the end of 2023. Net increase in day’s sales in receivables is 17.618 days which reflects a fluctuating trend. The increase in 2022 may signal temporary operational inefficiencies related to the increase in gross receivables, while the decrease in 2023 points to efforts toward improvement, though the company hasn’t returned to its 2021 performance levels yet.

* Accounts receivable turnover = the ART measures the **efficiency** of a company in managing and collecting its credit sales. We prefer a high ratio because it indicates that the company collects receivables more frequently, showing efficient credit and collections processes.

1. ART 2021 = = = 5.90 ×

The company collects its receivables 5.90 times per year .

1. ART 2022 = = 4.99 ×
2. ART 2023 = = 4.94 ×

The accounts receivable turnover decreased from 5.90× to 4.99× in 2022 and continued to decrease by 0.05× in 2023 . Which reflects a decrease in the efficiency of the firm in collecting its receivables. Although net sales have increased over the years , the increase of average gross receivables had more negative effect on the turnover.

* Accounts receivable turnover in days = the ARTD measures the average number of days it takes for a company to collect payment from its credit sales and the lower the days the better the company’s cash flows and efficiency.

1. ARTD 2021 == = 61.79 days

On average, it takes 61.79 days for the company to collect payment from its credit sales.

1. ARTD 2022 = = = 73.02 days
2. ARTD 2023 = = = 73.89 days

The accounts receivable turnover days increases by 11.23 days then by 0.89 days respectively from 2021 to 2022 and from 2022 to 2023. Because average gross receivables have increased along with net sales this suggests that the firm is following a credit policy loosening to boost its sales .

1. **Inventory liquidity :**

* Day’s sales in inventory = the DSI measures how many days it takes for a company to sell its inventory.

1. DSI 2021 == = 77.48 days

It takes 77.48 days for the company to sell its inventory .

1. DSI 2022 == = 144.75 days
2. DSI 2023 = = = 105.19 days

The DSI have significantly increased by 67.27 days from 2021 to 2022 then decreased to 105.19 days by the end of 2023 . The overall increase from 2021 to 2023 is 27.71 days . While there is a recovery in 2023, the company still takes significantly longer to sell its inventory compared to 2021, indicating lingering inefficiencies or market challenges.

* Inventory turnover = measures how many times a company sells and replaces its inventory during a specific period . A higher inventory turnover ratio indicates that inventory is sold and replaced quickly, while a lower ratio may suggest that inventory is moving slowly or there’s overstock.

1. Inventory turnover 2021 = == 5

The company sold and replenished its inventory approximately 5 times in a year.

1. Inventory turnover 2022 ==3.28 ×
2. Inventory turnover 2023 = = 3.36 ×

The inventory turnover has experienced a decrease from 2021 to 2022 by 1.64× then a slight increase by 0.08× in 2023 . Because the growth of average inventory was higher than the growth of COGS , the turnover was affected negatively during 2022 . But in 2023 the increase of COGS has offset the increase of average inventory leading to a slight enhancement in the ratio .

* Inventory turnover in days = the ITD measures how many days, on average, it takes for a company to sell its inventory. A lower ITD indicates that inventory is sold quickly, while a higher ITD means it takes longer to sell inventory.

1. ITD 2021 = = = 72.85 days

On average, it takes 72.85 days for the company to sell its inventory.

1. ITD 2022 = == 110.98 days
2. ITD 2023 ==  = 108.57 days

The inventory turnover in days increased from 72.85 days to 110.98 days by the end of 2022 then decreases to 108.57 days in 2023 . The net increase of the inventory turnover days from 2021 to 2023 with the increase of COGS coming from the increase of sales may suggests that some of the company’s inventory are sold faster than others.

1. **Operating cycle =** *Inventory turnover in day + Accounts receivable turnover in days.*

The Operating Cycle measures the time it takes for a company to convert its inventory into cash through sales. It starts with the acquisition of inventory and ends when cash is received from the sale of goods .

1. OC 2021 = 72.85 +61.79 = 134.64 days

On average, it takes the company 132.09 days to acquire inventory, sell it and receive cash payments .

1. OC 2022 = 110.98 + 73.02 = 184 days
2. OC 2023 = 108.57 + 73.98 = 182.55 days

The operating cycle has increased sharply from 134.64 days to 184 days from 2021 to 2022 then decreased by 1.45 days due to the decrease in the inventory turnover in days .

1. **Liquidity ratios :**

* Working capital = *Current assets – Current liabilities* the WC represents the difference between a company's **current assets** and **current liabilities**, and it indicates the company's ability to pay off its short-term obligations with its short-term assets.

1. WC 2021 = Actifs courants –Passif courants= 202,464,859 -152,062,98 = 50,401,870 TND

Current assets are in excess of current liabilities by 50,401,840 TND.

1. WC 2022 = Actifs courants –Passif courants =351,484,567 -278,782,079 = 72,702,488 TND
2. WC 2023 = Actifs courants –Passif courants =338,163,990 -245,509,883 = 92,654,107 TND

The WC has increased by 22,300,618 TND then by 19,951,619 TND respectively from 2021 to 2022 and from 2022 to 2023 . while the increase in working capital suggests that the firm may be able to cover its short-term obligations, the increase in the operating cycle raises concerns about the efficiency of inventory and receivables management. Despite the slight decrease in the operating cycle over the last year, which indicates some improvement in inventory turnover, the overall increase in the cycle could point to inefficiencies that might affect liquidity and cash flow .

* Current ratio = the CR measures how many times current assets can cover current liabilities . We prefer a **high** ratio but also this may indicate a high level of inventory or receivables or both.

1. CR 2021 == = 1.33 ×

Current assets can cover current liabilities 1.33 times .

1. CR 2022 == = 1.26 ×
2. CR 2023 == = 1.37 ×

The current ratio was enhanced by the end of 2023 with an increase of 0.11× from 2022 to 2023 reflecting the ability of the company in covering its short term obligations. However, The **fluctuation** between 2021 and 2023 shows some inconsistency in liquidity management.

* Acid test ratio = the ATR assesses a company's ability to meet its short-term obligations using its most liquid assets . This ratio provides insight into a company's immediate financial health.

1. ATR 2021 == = 0.70×

Current assets excluding inventory can cover 70% of current liabilities .

1. ATR 2022 == = 0.62 ×
2. ATR 2023 == = 0.69 ×

By the end of 2022 , the ATR has decreased by 0.08× then increased to 0.69× in 2023 which was mainly explained by the increase and then the decrease of current liabilities from one year to the other . But because the ratio is less than 1× this means that relying only on

the most liquid assets of the firm is not able to fully cover current liabilities .

* Sales to working capital = measures how much sales the company generates for each 1 TND invested in working capital .We prefer a **high** ratio because it indicates that the company is efficiently using its working capital to generate sales .

1. STWC 2021 = =11.26

For every 1 TND of working capital, the company generates 11.26 TND of sales.

1. STWC 2022 == = 9.23
2. STWC 2023 = = 8.6

The sales to working capital has decreased over the period from

2021 to 2022 due to the increase in working capital that has offset the increase in net sales. Therefore, the decrease in the **Sales to Working Capital ratio** suggests that the company is becoming **less efficient** at utilizing its working capital to generate sales. In other words, for each unit of working capital, the company is generating fewer sales than before.

**Conclusion on the company’s liquidity based only on ratios:**

Overall ,ENNAKL AUTOMOBILES' liquidity position appears to be mixed. Because while some ratios reflect liquidity enhancement , others show the opposite. The company needs to address its liquidity concerns by focusing on improving its receivables collection, inventory turnover, and operational efficiency. Optimizing working capital management, reducing reliance on inventory to meet short-term obligations, and speeding up the cash conversion cycle would be essential to improving its liquidity and ensuring that the company can meet its obligations without strain.

1. **Long term debt paying ability of group ENNAKL AUTOMOBILES:**
2. **Income statement perspective:**

* Times interest earned (TIE) ratio =

The Times Interest Earned (TIE) ratio measures a firm's ability to cover its interest expenses with its operating income.  
A **higher** ratio is better because it indicates that the firm generates more income to comfortably cover its interest obligations, reducing the risk of default.

1. TIE ratio 2021 = = = 15.58 ×

The company’s operating earnings can cover 15.58 times interest expenses .

1. TIE ratio 2022 = = = 12.52 ×
2. TIE ratio 2023 = = = 9.46 ×

The TIE ratio **decreased** steadily from 15.58× in 2021 to 12.52× in 2022 and further to 9.46× in 2023. This decline suggests that the firm’s ability to cover its interest expenses has weakened over time. While a TIE ratio of 9.46× in 2023 is still generally considered safe, the downward trend may indicate increasing financial risk and if this trend continues, it could raise concerns about the firm's long-term debt-paying ability.

1. **Balance sheet perspective:**

* Debt ratio = The Debt Ratio measures the proportion of a company’s total assets that are financed through debt. A **lower ratio** is generally better because it indicates the firm is less reliant on debt to finance its assets, reducing financial risk.

1. Debt ratio 2021 = ==0.48
2. Debt ratio 2022 = ==0.59
3. Debt ratio 2023 = ==0.505

The **debt ratio increased** from 0.48 in 2021 to 0.59 in 2022, showing that the firm relied more heavily on debt financing during that year However, in 2023, the debt ratio **decreased** to 0.505, which suggests a reduction in debt relative to total assets . the trend suggests the firm may be stabilizing its debt levels after a concerning rise in 2022 since by 2023, the firm appears to have improved its debt management by growing its asset base and limiting its debt levels.

* Debt to equity ratio = the Debt-to-Equity (D/E) Ratio measures the proportion of debt used to finance the company’s assets relative to shareholders’ equity . It reflects the firm’s financial leverage. A **lower** ratio is generally preferred because it indicates that the firm relies less on debt financing and has a stronger equity base.

1. D/E ratio 2021 === 0.92
2. D/E ratio 2022 === 1.43
3. D/E ratio 2023 = == 1.02

The **D/E ratio increased significantly** from 0.92 in 2021 to 1.43 in 2022, indicating a rise in financial leverage as the firm relied more heavily on debt relative to equity during that year. In 2023, the ratio **decreased** to 1.02, showing an improvement In 2023 as the company reduced its reliance on debt and increased its equity base. The reduction in 2023 is a **positive** sign, suggesting that the company has improved its capital structure. While the current ratio of **1.02** is still higher than in 2021, it reflects a moderate improvement in managing financial leverage.

* Debt to tangible net worth ratio = The Debt to Tangible Net Worth Ratio measures the proportion of total debt relative to tangible net worth . It shows the firm’s financial leverage and reliance on debt relative to its real, tangible equity. It’s more **conservative** than D/E ratio and indicates how well creditors are protected in case of the firm’s insolvency. A **lower** ratio is better because it reflects that the company has lower financial risk.

1. D/tangible net worth ratio 2021 = = = 0.93
2. D/tangible net worth ratio 2022 == = 1.44
3. D/tangible net worth ratio 2023 == = 1.028

The ratio **increased sharply** from 0.929 in 2021 to 1.44 in 2022, indicating a significant rise in debt relative to tangible net worth. This suggests the company’s financial leverage increased, raising its financial risk. In 2023, the ratio **declined** to 1.028, showing improvement as the firm reduced its debt levels relative to tangible equity. This could be due to debt repayment, equity growth, or a combination of both. Although the ratio in 2023 is still slightly higher than in 2021, the downward trend from 2022 is a positive sign, suggesting the company is working towards a healthier capital structure and reducing its financial risk.

* Fixed asset to equity ratio = The Fixed Asset to Equity Ratio measures the proportion of a company’s equity that is invested in fixed assets, indicating how much of the owner’s capital is tied up in non-current assets like property, plant, and equipment . A **lower ratio** is generally better because it indicates that the firm relies less on equity to finance fixed assets, which can suggest better financial flexibility and less capital tied up in illiquid assets.

1. FA/E ratio 2021 = = = 0.039
2. FA/E ratio 2022 == = 0.034
3. FA/E ratio 2023 == = 0.027

The ratio **decreased** steadily from 0.039 in 2021 to 0.034 in 2022 and further to 0.027 in 2023. The decline could mean that the firm is shifting its focus toward more liquid or current assets or improving its asset efficiency . It may also imply that the firm has grown its equity base faster than its investment in fixed assets Overall, this is a positive trend as it suggests increased financial flexibility and potentially lower risk since fixed assets are typically less liquid and harder to convert into cash when needed.

**Conclusion on the company’s long term debt paying ability based only on ratios:**

The firm's **long-term debt-paying ability** shows a mixed trend but is improving. In 2022, the firm’s financial risk increased significantly due to higher reliance on debt, as seen in the **Debt Ratio**, **Debt-to-Equity Ratio**, and **Debt to Tangible Net Worth Ratio**. By 2023, the firm took steps to **reduce its debt levels** and improve its capital structure, as evidenced by declining debt-related ratios. However, the **Times Interest Earned (TIE)** ratio’s consistent decline signals a potential concern regarding income generation to meet future interest obligations . The future appears **cautiously optimistic** as the firm has shown improvement in managing its debt levels, but continued focus on increasing operating income and reducing financial risk is necessary to ensure long-term stability.