**ANALYSING THE ANNUAL REPORT**

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# Introduction

Analysing the business report provides information and focuses towards the current situation of the organisation and the report is usually developed by the authorisation of management which is necessary for terms of proceeding with proper decision-making in various parts of the organisation. the assignment is going to provide an annual report on two rival companies, Tesco and Sainsbury’s. The information is going to educate regarding the financial statement and its competition which are calculated in the report for the financial year of 2019 and 2020. it provides information regarding the return on capital, returns on sales, gross profit margin, current ratio, stock days, current trade payable days, returns on equity and many more.

# Task No: 1

## Return on capital employed

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Return on capital employed** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (EBIT/ Capital Employed | 1617/((44320+12480)-20973)) | (1315/((39138+12879)-17927)) | (186/(28011-11849) | (152/(27937-12047) |
|  | 4.51% | 3.86% | **1.15%** | **0.96%** |

**Table No 1: Return On Capital Employed Ratios**

(Source: Created by self)

## Return on sales

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | |  | |
| **Return On Sales** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Operating profit/ Sales) \*100 | (2649/63911) | (2518/64760) | (601/29007)\*100 | (650/28993)\*100 |
|  | **4.14%** | **3.89%** | **2.07%** | **2.24%** |

**Table No 2: Return On Sales Ratios**

(Source: Created by self)

## Asset utilization ratio

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Asset Utilization Ratio** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Sales/ Total Assets) | (63911/(36379+12570) | 58091/(39254+13893) | (29007/28011) | (28993/27937) |
|  | **1.31** | **1.09** | **1.04** | **1.04** |

**Table No 3: Asset Utilization Ratios**

(Source: Created by self)

## Gross profit margin

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Gross Profit Margin** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Gross Profit/ Sales) \*100 | (4696/63911) \*100 | (4580/64760)\* 100 | (2288/29007)\*100 | (2016/28993)\*100 |
|  | **7.35%** | **7.07%** | **7.89%** | **6.95%** |

**Table No 4: Gross Profit**

(Source: Created by self)

## Current ratio and Quick ratio

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Current Ratio** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Current Asset/ Current Liability) | (12570/20680) | ( 13608 / 18656 ) | (7550/11849) | (7582/12047) |
|  | **0.61** | **0.73** | **0.64** | **0.63** |
| Quick Ratio | (12570-2617)/20680 | ( 13608 - 2433 ) / 18656 | (7550-1929)/11849 | (7582-1732)/12047 |
| (Current Asset-Inventory)/ Current Liability | **0.48** | **0.60** | **0.47** | **0.49** |

**Table No 5: Current and Quick Ratios**

(Source: Created by self)

## Gearing

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Gearing Ratio** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| **Debt to equity ratio** | ((20680+13533)/14834) | ( 4763 + 21122 ) / 13369 | ((20680+13533)/14834) | ( 4763 + 21122 ) / 13369 |
| ( Total debt / total shareholder's equity ) | **2.31** | **1.94** | **2.31** | **1.94** |

**Table No 6: Gearing Ratios**

(Source: Created by self)

## Interest cover

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Interest Cover Ratio** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (EBIT/Interest) | (1617/347) | (1315/380) | (202/16) | (255/103) |
|  | **4.66** | **3.46** | **12.63** | **2.48** |

**Table No 7: Interest Cover Ratios**

(Source: Created by self)

## Stock days

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Stock days** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Inventory/ Cost of goods Sold)\*365 | (2617/59767)\*365 | (2433/ 53810)/\*365 | (1929/26719)\*365 | (1732/26977)\*365 |
|  | **15.98** | **16.50** | **26.35** | **23.43** |

**Table No 8: Stock days**

(Source: Created by self)

## Current trade receivables days

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Current Trade Receivable days** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Trade Receivables/ Sales)\*365 | (1640/63911)\*365 | (1396/58091)\*365 | (1929/29007)\*365 | (1732/28993) \*365 |
|  | **9.37** | **8.77** | **24.27** | **21.80** |

**Table No 9: Trade receivable days**

(Source: Created by self)

## Current trade payables days

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Current Trade Payable days** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Trade Payables/ COGS)\*365 | (9354/59767)\*365 | (8922/ 53810 ) \*365 | (4373/26719)\* 365 | (4275/26977)\*365 |
|  | **57.13** | **60.52** | **59.74** | **57.84** |

**Table No 10: Trade Payable days**

(Source: Created by self)

## Return on equity

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | | **Sainsbury** | |
| **Return On Equity** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| (Net profit / Shareholder's  equity) \* 100) | (1320/14834)\*100 | ( 973 / 13369 ) \* 100 | (186/7782)\*100 | (152/7773)\*100 |
|  | **8.90%** | **7.28%** | **2.39%** | **1.96%** |

**Table No 11: Return On Equity**

(Source: Created by self)

## Common Size Analysis

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Tesco** | **Sainsbury** |
| Revenue | 1.33% | -0.05% |
| COGS | 1.63% | 0.97% |
| Gross Profit | -2.47% | -11.89% |
| Administrative expenses | 0.73% | -15.42% |
| Operating Income/ Loss | -4.95% | 8.15% |
| Profit Before Tax | -18.68% | 26.24% |
| Income tax | 9.51% | 543.75% |
| Profit For the Year | -23.39% | -18.28% |

**Table No 12: Common Size Analysis of Income Statement**

(Source: Created by self)

## Du-Pont analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tesco** | | |  | |
| **Du Pont Analysis** | **2019**  **in £** | **2020**  **in £** | **2019**  **in £** | **2020**  **in £** |
| Net income / revenue | (1320/63911) | (973/58091) | (186/29007) | (152/28993) |
|  | 0.02 | 0.02 | 0.01 | 0.01 |
| Revenue / Total assets | (63911/(36379+12570)) | (58091/(39254+13893)) | (29007/28011) | (28993/27937) |
|  | 1.31 | 1.09 | 1.04 | 1.04 |
| Total Asset/ Total Equity | ((36379+12570)/14834) | ((39254+13893)/13369) | (28011/7782) | (27937/7773) |
|  | 3.30 | 3.98 | 3.60 | 3.59 |
| **Du Point Analysis** | **0.09** | **0.07** | **0.02** | **0.02** |

**Table No 13: Du Pont Analysis**

(Source: Created by self)

# Task No: 2

***ROCE***

Based on the above calculation it has been observed that the ROCE of Tesco has decreased in the year 2020 to 3.86% in comparison to 2019 which was 4.51%. The decrease in capital employed represents the weak financial position of the company. On the other hand, the Return on capital employed by Sainsbury has also decreased to 0.96% in 2020 in comparison to 1.15%. This shows that both the firm's ROCE has decreased which will result in lower profit. They will be able to offer a lesser number of dividends to their shareholders.

***Return on sales***

Return on sales provided calculation between the two rival companies Tesco and Sainsbury’s, where the return on sale for Tesco is analysed as 4.14% in 2019, whereas in 2022 the report analysed as 3.89%, which was degraded by 0.25%. In competing with the operating profit and sales of Sainsbury’s it represents that the earned profit for return of sales in 2019 is 2.07% and it increased in 2020 by 2.24%, which expresses the degradation of -0.17%. Comparing both companies, the return on sales in Tesco is more than that of the return on sales of Sainsbury’s. The formula for the return on sales is operating income which is calculated and divided by revenue through which the differences can be highlighted (Abidin *et al*., 2021). In this calculation, Sainsbury’s failed to increase the operating profit more than that Tesco.

***Asset utilization ratio***

The asset utilization ratio provides a calculation between the two rival companies Tesco and Sainsbury’s, where the total asset calculated for Tesco in the year 2019 is 1.31%, compared to the year 2020 which is a decline of 1.09%. The overall decline which is been achieved in Tesco between the two years is 0.22%. Looking forward to the total assets of Sainsbury’s calculated for the year 2019 is 1.04%, however, for the year 2020, the Asset utilisation ratio also received as 1.04%, which provides the result of zero advantages in the consecutive years on assets. Determining the competition between Tesco and Sainsbury’s, Tesco is enhanced with more sales assets which is the increment of 0.22% between 2019 and 2020 than that of assets of Sainsbury’s. The Asset utilisation ratio is calculated through total revenue which is earned for every dollar of asset determine by the company owns (Sausan *et al*., 2020).

***Gross profit margin***

The gross profit margin provides a calculation between the two rivalries companies Tesco and Sainsbury’s, where the gross profit ratio calculated for Tesco in the year 2019 is 7.35%, In comparison to the gross profit margin in 2020 is 7.07%. Under the overall calculation, it is understood that positive profit margins accessed by the organisation are 0.28%. In addition, the necessary gross profit margin for Sainsbury’s in year 2019 is 7.89%, compared to the gross profit margin which access in the year 2020 is 6.95%, which is one of the greatest downfalls. However, the overall calculation provides the profit margin for Sainsbury’s is 0.94%. Compared to both gross profit margins, Tesco has achieved a place where the gross profit margin is maintained more than that of Sainsbury’s.

***Current Ratio and Quick Ratio***

The current ratio indicates the value of the company in increasing profit margin (Husna and Satria, 2019). The current ratio provided information regarding the two competitors organisation Tesco and Sainsbury’s. The current ratio provided for 2019 is 0.61% and compared to the ratio achieved in 2020 is 0.73%. Under the calculation the overall aspect which is achieved shows -0.12%. However, for the calculation of Sainsbury’s, the current ratio for 2019 is 0.64% and the ratio for 2020 is 0.63%, which derived the overall calculation of a 0.01% increment. Comparing both current ratios Tesco gains the position as it has achieved a hike in 2020 than that of Sainsbury’s hike in the current ratio. The quick ratio provided information regarding the two competitors organisation Tesco and Sainsbury’s, the current ratio for Tesco in 2019 is 0.48% and compared to the ratio in 2020 is 0.63%, which derives the overall calculation of -0.12%. The current ratio for Tesco in 2019 is Sainsbury’s 0.47% and compared to the ratio in 2020 is 0.49%, which provides an overall result of a 0.2% increment. However, the quick ratio has achieved more success at Sainsbury’s than that at Tesco.

***Gearing***

The gearing provides a calculation between the two rivalries companies Tesco and Sainsbury’s, where The gearing ratio calculated for Tesco in the year 2019 is 2.31%, and for the year 2020 is 1.94%. The overall calculation has provided the result of 0.37%. In comparison to the gearing ratio of Sainsbury’s in the year 2019 is 2.31%, and for the year 2020, the getting ratio is 1.94%, which results in 0.37%. Comparing both companies, the gearing ratio for both Tesco and Sainsbury’s occupies the same position.

***Interest Cover***

The role of the interest cover ratio is to provide the cash flow towards heading decisions under the financial aspect (Esma and Bustari, 2021). The interest cover ratio provides a calculation between the two rivalries companies Tesco and Sainsbury’s, where the interest cover ratio calculated for Tesco in the year 2019 is 4.66%, and the interest cover ratio for the year 2020 is 3.46%, which provides the overall calculation of 1.2%. Comparing to the interest cover ratio for Sainsbury’s for the year 2019 is 12.63% and the interest cover ratio for the year 2020 is 2.48%. The overall calculation provides a result of 10.15%. Comparing both companies, the Interest cover ratio is adjustable for Tesco, whereas Sainsbury’s follows loss.

***Stock Days***

Based on the above calculation it shows that the stock days of Tesco were 15.98 times in 2019 in comparison to 2020 which was 16.50. Whereas the above calculation shows that Sainsbury stock days in 2019 were 26.35 times than that 23.43 times in 2020. This shows that the stock days of both the company have decreased which indicates a decrease in sales figures in comparison to unsold goods. This will lead to a decrease in the profit of the company.

***Current Trade Receivables***

From the above calculation, it indicates that the current trade receivables of Tesco in the year 2019 are 9.37 times in comparison to 2020 which is 8.77 times. On the other hand, the stock receivables of Sainsbury were 24.27 times in 2019 in comparison to 2022 which were 21.80. These calculations reveal the decrease in current trade receivables of both the company. This is a good sign for the company because the number of debtors is reducing. The customers are facilitating payments after immediate receipt of the goods.

***Current Trade payables***

Based on the above calculation it reveals that the trade payables of Tesco in 2019 were 57.13 times in comparison to 2020 which was 60.52 times. Whereas Sainsbury's current trade payables were 59.74 times in 2019 in comparison to 2020 which were 57.84 times. This indicates that both companies' current trade receivables have declined. The decrease in trade payables indicates the decrease in liabilities of both companies. This will help the company ensure smooth operation.

***Return on Equity***

Based on the above calculation it indicates that the return on equity (ROE) of Tesco was 8.90% in 2019 in comparison to 7.28% in 2020. On the other hand, Sainsbury's ROE was 2.39% in 2019 in comparison to 2020 which was 1.96%. This indicates that the ROE of both companies has declined which represents poor financial performance of the company. This shows that both the company has generated less profit in respect of their equity capital in comparison to the previous year.

***Common Size Analysis***

Based on the above calculation it reveals that the Profit before tax of Tesco and Sainsbury are -18.68% and 26.24% respectively. Whereas the profit after tax for the company Tesco and Sainsbury is -23.39% and -18.28% respectively which indicates the net profits of the company declined in the year 2020 in comparison to the previous year. This will lead to a decrease in investors' faith in the company. Both companies will be unable to pay dividends to their investors.

***Du point analysis***

The Du Pont Analysis is considered to be the overall decomposition of the return on equity that is generated by an organization within a particular financial year (Bunea, 2019). It provides a clear overview of the various segments that are present within the return on equity ratios of an organization. With respect to this, it can be stated that the Du Pont analysis is the expanded form of the ROE ratios which is computed to understand all the elements that are present within the issues. Based on the above Du point analysis it reveals that the net income to revenue of Tesco is 0.02 times in 2019 which is the same as in the year 2020. On the other hand, the net income to revenue of Tesco is 0.01 times in 2019 to that of 0.01 times in 2020. This indicates that the net income to revenue of both companies has not changed within the given period. This reveals that net income in comparison to revenue has remained stagnant in both the years 2019 and 2020 respectively. On the other hand, Revenue in comparison to the total assets of Tesco is 1.31 times in 2019 whereas, in the year 2020, it is 1.09 times. On the other hand, the revenue to total assets of Sainsbury is 1.04 times 2019 in comparison to 2020 which is also 1.04 times. From the above calculations it indicates that revenue in comparison to the total assets of Tesco has decreased in 2020 than that in 2019, on the other hand, the revenue in comparison to total assets has remained stagnant which is 0.04%.

The above calculations on du point analysis made in the table reveal that the Total assets to equity of Tesco has increased from 3.30 times in 2019 to 3.98 times in 2020 whereas the total assets in comparison to equity of Sainsbury indicate that it was 3.60 times in 2019 in comparison to 2020 which was 3.59 times. The above calculation made in the du point analysis table shows that total assets in comparison to the equity of Tesco have increased which gives a positive view of the financial position of Tesco. Whereas the total assets in comparison to equity have remained the same which indicates the stability in the financial position of Sainsbury. This will allow the above companies to formulate policies to remove the shortcomings of the organization. This analysis will help these organizations to formulate long-term decisions and policies which will help these companies to sustain themselves in the long run.

# Conclusion

The annual report highlighted necessary aspects of Tesco and Sainsbury’s. it also provided vital information where the financial year ratio has been chosen to inspect the study by providing proper financial scenarios and comparison of the organisation. The financial analysis provides observation towards the performances of the organisation and represents proper differences in the presentation of performances in the organisation which are implemented. the analysis also provides information regarding various aspects where the proper decision is taken under calculations of the financial records.

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