



Financial Analysis

# ACE APPAREL

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# 1. General overview of the clothing manufacturing industry

To determine appropriate measures and benchmarks when analysing Ace's financial performance, we looked at the industry average financial ratios and compared them to the calculated ratios derived from Ace's financial statements.

The table below shows the median industry financial ratios in the US.

Financial ratio	Year					
	2019	2018	2017	2016	2015	2014
<b>Solvency Ratios</b>						
Debt ratio	0.71	0.52	0.47	0.54	0.47	0.54
Debt-to-equity ratio	1.12	0.86	0.74	0.80	0.50	0.51
Interest coverage ratio	6.28	8.45	7.79	7.76	7.18	3.73
<b>Liquidity Ratios</b>						
Current Ratio	1.45	1.99	2.25	2.31	1.84	2.13
Quick Ratio	0.75	0.98	1.15	1.31	1.17	1.44
Cash Ratio	0.17	0.34	0.35	0.39	0.36	0.53
<b>Profitability Ratios</b>						
Profit margin	2.9%	5%	3%	1.7%	4.2%	2.9%
ROE (Return on equity), after tax	22.2%	12.2%	4.8%	5.3%	7.7%	-43.5%
ROA (Return on assets)	8.2%	6.2%	1.1%	3.1%	5.3%	-2.3%
Gross margin	46.3%	45.8%	43.7%	45%	46.2%	43.4%
Operating margin (Return on sales)	6.2%	7.1%	4.3%	3.3%	8.4%	6.1%
<b>Activity Ratios</b>						
Asset turnover (days)	88	290	281	286	253	293
Receivables turnover (days)	10	30	37	37	32	32
Inventory turnover (days)	30	115	110	113	113	96
<b>Price Ratios</b>						
Dividend Payout Ratio	0.21	0.31	0.24	0.28	0.01	0.01

(1)

## 2. Analysis

Ace's financial performance can be monitored and benchmarked through a number of industry standard financial ratios. The data for our analysis have been derived from the Income statement, Statement of Financial Position and Cash Flow Statement for the financial year ending 2019 and 2020 (see Appendix 4.1 for calculated ratios).

## 2.1 Profitability

### 2.1.1 Profitability ratios

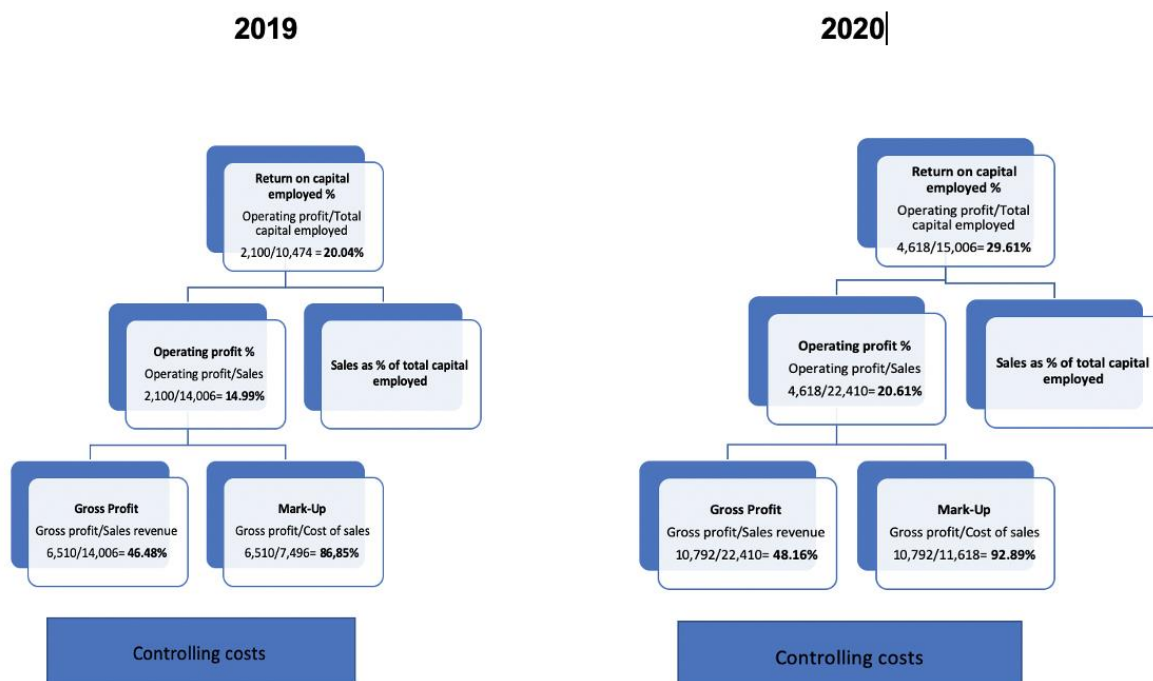
**Tab. 1 Indicators of profitability: comparison between industry's median and Ace Apparel**

Profitability ratios	Industry's median 2019	Ace Apparel 2019	Ace Apparel 2020
<b>ROE</b>	22.2%	18.15%	32.51%
<b>Operating margin</b>	6.2%	14.99%	20.61 %
<b>Gross margin</b>	46.3	46.48%	48.16 %

Revenue increased 60% from FY19 to FY20 showing strong growth YOY. EBIT increased 120% from £2.1m to £4.6m and profit for the year has more than doubled as it saw a percentage increase of 134%.

The Return on Equity (ROE) increased by 14.36% from 18.15% to 32.51% showing strong returns for equity holders. This is broadly in line with the industry average of 22.20% for FY19.

To assess the business' profitability in terms of all its capital (ROCE) we have created the profitability pyramids for each financial year. In this section, we will only analyse the Controlling Costs driver as the Managing the Assets driver will be discussed in the asset turnover section.



In FY20, the business generated more profit from capital than in FY19 as ROCE increased by 9% from 20.04% to 29.61%.

In FY20, sales revenue grew by 60%, from £14.01m to £22.41m. The proportion of cost of sales relative to sales remained at similar levels (53.51% and 51.84% for FY19 and FY20 respectively).

Operating expenses, as a percentage of gross profit, has decreased by 10.54% from 67.74% to 57.20% for FY19 and FY20 respectively) indicating that the business has been able to control operating expenses more effectively (please see 4.3 appendix for calculation).

The decrease in the proportion of COGS to sales (53.51% to 51.84%) have resulted in an increase in profit margin ratio, from 46.48% in FY19 to 48.16% in FY20, and an increment in Markup ratio from 86.85% in FY19 to 92.89% in FY20.

Thus, these positive results indicate that the business is good at controlling its costs and at generating profits through its core activities.

### 2.2.1 Investment ratios

The company's earnings per share (EPS) has increased from £0.35 in FY19 to £0.81 FY20.

The dividend cover ratio (DCR), a measure of the number of times a company can pay dividends to shareholders, has improved from 2.08x in FY19 to 3.66x in FY20.

However, since DCR is calculated from the profit after tax, which does not represent the actual cash flow, the high net income generated does not mean that there was sufficient cash to fund dividend payments.

Overall the business is profitable; however the capital structure and cash management has not been optimised resulting in liquidity issues once the bank decreases the overdraft (see Use of Resource).

## 2.2 Liquidity

**Tab. 2 Indicators of liquidity: comparison between industry's median and Ace Apparel**

Liquidity ratios	Industry's median 2019	Ace Apparel 2019	Ace Apparel 2020
Current ratio	1.45: 1	1.76 :1	1.13 :1
Quick ratio	0.75:1	0.78: 1	0.47: 1

In FY19, the current ratio was 1.76:1, 0.31% higher than the industry median, indicating that the business had enough current assets to cover its short-term liabilities.

The quick test ratio was 0.78:1, meaning that the company's most liquid assets (current assets that exclude inventory) couldn't pay down debt.

The large difference between the two ratios is mainly due to the high level of inventory which has tied up cash. This is reviewed in the next section.

In FY20, as short-term debt increased, the current ratio decreased to 1.13:1 while the acid test ratio decreased to 0.47:1, indicating that the business would have problems meeting short-term liabilities. The difficulties in paying its short-term debt, without raising external capital, has caused a negative cash balance for both financial years.

As indicated in the Cash Flow Statement, the business was holding too much inventory which reduced the amount of cash for working capital and thus reduced its ability to generate more cash from operations. In addition, the business has a high level of Trade Receivables where cash is tied up.

## 2.3 Use of resources

**Tab. 3 Indicators of efficiency: comparison between industry's median and Ace Apparel**

Efficiency ratios	Industry's median 2019	Ace Apparel 2019	Ace Apparel 2020
Trade receivable days	10	42	61
Inventory days	30	118	183

### 2.3.1 Inventory

In FY19, the inventory days was 118 which is behind the benchmark at 88 days: it took Ace an additional 30 days to collect payment from customers.

The increase in COGS (54%) and inventory (140%) has resulted in an increase of the inventory holding period by 65 days, from 118 to 183. This impacts the business negatively as the business has to sustain further inventory carrying costs.

The reasons behind this increase might be that the company has either purchased too much inventory due to wrong sales forecasting, or purchased the right amount of inventory, but too early.

The inventory days were higher than industry median in FY19, suggesting that the production process was inefficient as products were not completed and available for sale. This results in an excessive amount of WIP Inventory.

Whilst a long production process might add value to the company products, it has negatively impacted cash flow: high inventory days increase the cash conversion cycle resulting in delays to receiving cash to finance operating activities.

### 2.3.2 Trade receivables & trade payables

The trade receivable days were higher than benchmark in FY19 at 42 days when compared to the industry median (10 days). This increased to 61 days in FY20. High trade receivable days increases the cash conversion cycle and negatively affects liquidity.

Because of the lack of financial expertise with Ace, it is likely that the business has poor credit policies and controls in place. This has resulted in cash flow issues and led to a cash crunch.

Ace needs to have more control over trade receivables, collect payment in quicker cycles and monitor clients who continually pay late. It is unwise to let trade receivables grow too high with one client (Threadz Corporation) as it increases the risk of loss if the client defaults.

Additionally, Ace should reassess its credit policies to ensure the timely collection of its receivables.

In FY20, trade payables days, that indicates the time the business takes to settle its debts, increased to 82 days, from 59 days in FY19 to 82 days in FY20. This improves cash flow as it delays payment to suppliers.

### 2.3.3 Working capital cycle

In FY20, Ace received payments from customers 162 days after they had to pay their suppliers, which is 61 days later than in FY19. This is because:

- the inventory holding period increased from 118 days to 183 days, and
- the clients were paying for the inventory sold 19 days later than before, after 61 days.

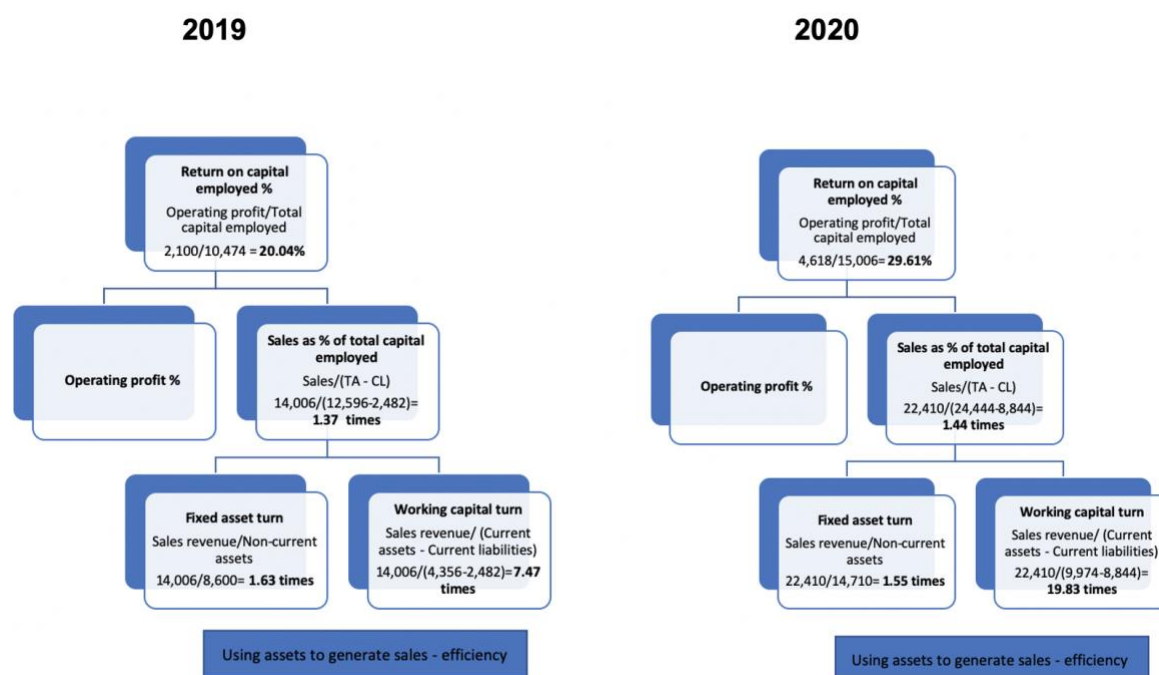
However, Ace negotiated with their suppliers to pay them in 82 days, later by 23 days than in FY19.

Moreover, in FY20 a sum of £6.9m was tied up for 162 days, £4.1m more than in FY19. This is because the inventory increased from £2.4 m to £5.8 m and the clients owed Ace 132% more money on credit.

Having a long working capital cycle means that the business takes more time to generate cash flow, creating liquidity problems, consequently a negative cash balance. It also means that the company needs to use external financing as they cannot pay the suppliers' bills when they come due to payment. This can also be seen in Asset turnover.

From the cash flow statement, we notice that the net cash used in investing activities (£ 8.6 million) was the biggest contributor in generating the negative closing cash balance. Ace's loan was not enough to cover its capital expenditure, so it had to rely on an overdraft, causing further liquidity problems.

## 2.3.4 Asset turnover



In this section, we analysed the business' efficiency in using assets to generate sales.

Working capital turnover (WCT) which is the revenue generated from the working capital invested, increased from 7.47x in FY19 to 19.83x in FY20. This is because there was a 39% decrease in working capital from FY19, meaning that current assets:current liabilities decreased. (see Liquidity).

19.83x is considered to be an extremely high WCT, meaning that the business does not have enough capital to support its sales.

Compared to FY19, in FY20 the company generated less revenue from non-current assets indicating that the firm did not efficiently use its fixed assets to generate sales. This could imply that the money spent on the additional machinery was a bad investment (at least for that year) as it was inefficient in generating revenue for FY20.

## 2.4 Gearing

**Tab. 4 Indicators of Gearing: comparison between industry's median and Ace Apparel**

Gearing	Industry's median 2019	Ace Apparel 2019	Ace Apparel 2020
<b>Debt to equity</b>	112%	52.37 %	40%
<b>Interest coverage ratio</b>	6.28 times	4.86 times	5.06 times

The company debt to equity ratio in 2019 was 52.37%, much below than the industry average (112%). In FY 2020, it decreased to 40%.



This is a bad sign, as it indicates that the business is mostly financing its capital expenditure with its equity rather than debts. For Ace, which is growing at a high rate, debt is a less expensive source of growth capital.

Thanks to high pre-tax income, the business has achieved a good interest coverage ratio (5,06x in 2020), indicating that it can easily pay interest on its outstanding debt.

## 2.5 Bottom line

Ace Apparel is growing fast with a 60% YOY increase in revenue, but it is taking too long to collect payments and tying too much money into stock, causing liquidity problems.

Therefore, to remain on a going concern, the company has to improve its operational efficiency.

### 3. Recommendations

The company needs to reduce the overdraft by 50%, meaning that it has to pay £2 525 000 in the next 6 months. Considering that their closing cash balance in FY20 was £8000, the business needs an net increase in cash of £ 2 517 000 (2 525 000 - 8000) within the following 6 months.

We have set out advice for both the short and long term.

#### 3.1 Short-term

The company needs more than £2 million cash to cover 50% of their overdraft within the next 6 months. Firstly, as the company is holding £5.8 m inventory for 6 months, we recommend Ace Apparel to sell as much existing inventory as they can by offering big discounts (2). This advice is limited because we cannot forecast sales generated from discounted inventory over the next 6 months.

Secondly, Ace Apparel is receiving money from their creditors after 61 days (£3.7 m tied up). Ace can get access to a large percentage of the money from their outstanding invoices from an invoice company. When the customer pays, the money goes into the bank, and the bank pays Ace the rest of the credit minus a fee. Invoice discounting will provide Ace with a cash flow boost. For instance, this can be applied to Threadz Corporation.

#### 3.2 Long-term

Our long-term recommendation for the company is to manage the inventory more efficiently. The optimal situation would be to reduce inventory days to 30, which is the clothing manufacturing industry median value. They should implement a just-in-time inventory management (2), as at the moment Ace Apparel is holding too much inventory which may be due to overestimating sales, as explained in the Inventory section.

Moreover, we recommend Ace Apparel to collect their trade receivables faster – ideally no more than 10 days (the industry median). The company is currently collecting receivables after 61 days on average. Our advice is to hire a CFO that will assess the credit risk of companies before doing business with them. Another way to speed up this process is to offer incentives for early payments e.g., 2% discount if the bill is paid within 10 days or a penalty if the payment is late. (2)

With these recommendations taken into account, Ace Apparel would receive payments from customers 42 days before they have to pay their suppliers (30+10-82). Cash cycle days will decrease by 125.93% - from 162 days originally. In this way, the company will be more liquid, and they won't need external funding to pay the suppliers on time.

Furthermore, another advice would be to increase long term financing to support its operations, once the liquidity issue is solved. This is due to the fact that the debt-to-equity ratio is much below the industry's median which is 112%.

Thanks to a good interest coverage ratio, Ace has the capacity to take on more debt which will lessen the short-term burden and financial pressure.

## 4. Appendix

### 4.1 Requirement 1

To do the financial ratios, we have constructed the income statement and the statement of financial position. All the values, including the ones in the ratios, are shown in £000.

#### Income statement

	2019	2020
Income Statement	shown in £000	shown in £000
Sales revenue	14,006	22,410
Cost of sales	7,496	11,618
Gross profit	6,510	10,792
Operating expenses (it includes depreciation of 2,800 for 2020)	4,410	6,174
Operating profit	2,100	4,618
Interest	432	912
Net profit before tax	1,668	3,706
Taxation	420	780
Profit for the year	1,248	2,926
Dividends paid	600	800
Reinvested profit	648	2,126

#### Statement of Financial Position

	2019	2020
Statement of financial position	shown in £000	shown in £000
<b>Non current assets</b>	<b>8,600</b>	<b>14,470</b>
<b>Current assets</b>		
Inventory	2,418	5,820
Trade receivables	1,614	3,744
Other receivables	268	402
Cash	56	8
<b>Total Assets</b>	<b>12,956</b>	<b>24,444</b>
<b>Current liabilities</b>		
Trade payables	1,214	2,612
Other payables	248	402
Taxation	420	780
Bank overdraft	600	5,050
<b>Non current liabilities</b>		
Loan	3,600	6,600
<b>Equity</b>		
Ordinary shares of £1 each	3,600	3,600
Retained profit	3,274	5,400
<b>Total equity and liabilities</b>	<b>12,956</b>	<b>24,444</b>

### 4.1.1 Profitability ratios

4 ratios:

Profitability ratios	Year 2019	Year 2020
Return on equity	$(1248/6874) \times 100 = 18.15 \%$	$(2926/9000) \times 100 = 32.51\%$
Return on capital employed	$(2100/(12956-2482)) \times 100 = 20.04 \%$	$(4618/(24444-8844)) \times 100 = 29.61 \%$
Operating profit margin % of sales	$(2100/14006) \times 100 = 14.99 \%$	$(4618/22410) \times 100 = 20.61 \%$
Mark-Up	$6510/7496 \times 100 = 86.85 \%$	$10792/11618 \times 100 = 92.89 \%$

Extra ratios:

Profitability ratios	Year 2019	Year 2020
Gross profit	$(6510/14006) \times 100 = 46.48 \%$	$(10792/22410) \times 100 = 48.16 \%$

### 4.1.2 Investment ratios

2 ratios:

Investment ratios	Year 2019	Year 2020
Earnings per share	$1248/3600 = \text{£}0.35\text{p}$	$2926/3600 = \text{£}0.81\text{p}$
Dividend cover	$1248/600 = 2.08 \text{ times}$	$2926/800 = 3.66 \text{ times}$

### 4.1.3 Liquidity ratios

2 ratios:

Liquidity ratios	Year 2019	Year 2020
<b>Current ratio</b>	$4356 / 2482 = 1.76 :1$	$9974 / 8844 = 1.13 :1$
<b>Quick test ratio</b>	$(4356 - 2418) / 2482 = 0.78 : 1$	$(9974 - 5820) / 8844 = 0.47 : 1$

### 4.1.4 Efficiency ratios

4 ratios:

Efficiency ratios	Year 2019	Year 2020
<b>Trade Receivable days</b>	$(1614 / 14006) \times 365 = 42$ days	$(3744 / 22410) \times 365 = 61$ days
<b>Trade Payable days</b>	$(1214 / 7496) \times 365 = 59$ days	$(2612 / 11618) \times 365 = 82$ days
<b>Inventory days</b>	$(2418 / 7496) \times 365 = 118$ days	$(5820 / 11618) \times 365 = 183$ days
<b>Non-current asset turnover</b>	$14006 / 8600 = 1.63$ times	$22410 / 14470 = 1.55$ times

Extra ratios:

Efficiency ratios	Year 2019	Year 2020
<b>Operating cash cycle</b>	$118 + 42 - 59 = 101$ days $2418 + 1614 - 1214 =$ £ 2820	$183 + 61 - 82 = 162$ days $5820 + 3744 - 2612 =$ £ 6950
<b>Working capital turnover</b>	$14006 / (4356 - 2482) = 7.47$ times	$22410 / (9974 - 8844) = 19.83$ times
<b>Sales revenue to total capital employed</b>	$14006 / (12956 - 2482) = 1.34$ times	$22410 / (24444 - 8844) = 1.44$ times

#### 4.1.5 Gearing

2 ratios:

Gearing ratios	Year 2019	Year 2020
Debt/Equity ratio	$3600/6874 \times 100 = 52.37 \%$	$6600/9000 \times 100 = 40.00 \%$
Interest cover ratio	$2100/432=4.86$ times	$4618/912=5.06$ times

Extra ratios:

Gearing ratios	Year 2019	Year 2020
Leverage long term debt to capitalization ratio	$3600/(12956-2482) =34.37\%$	$6600/(24444-8844) =42.31\%$
Equity/TCE	$6874/(12956 - 2482) \times 100 =$ $65.63 \%$	$9000/ (24444-8844) \times 100 =$ $57.69 \%$

## 4.2 Requirement 2

### Statement of Cash Flows

Statement of Cash Flows	
For the Year Ended December 31, 2020	shown in £000
<b>Cash flow from Operating Activities</b>	
Net profit before tax	3,706
add back depreciation	2,800
add interest expense	912
	<b>7,418</b>
Deduct increase in inventory	-3,402
Deduct increase in trade receivables	-2,130
Deduct increase in other receivables	-134
Add increase in trade payables	1,398
Add increase in other payables	154
<b>Cash generated from operations</b>	<b>3,304</b>
less interest paid	-912
less tax paid	-420
less dividend paid	-800
<b>Net cash flow from Operating Activities</b>	<b>1,172</b>
<b>Cash flow from Investing Activities</b>	
Opening NBV	8,600
less depreciation	2,800
<b>Expected NBV</b>	<b>5,800</b>
Actual closing NBV	14,470
Additions	-8,670
<b>Net cash used in Investing Activities</b>	<b>-8,670</b>
<b>Cash flow from Financing Activities</b>	
Bank loan	3,000
Ordinary share capital	0
<b>Net cash from Financing Activities</b>	<b>3,000</b>
<b>Net decrease in Cash</b>	<b>-4,498</b>
<b>Opening balance</b>	
Cash 2019	56
<b>Beginning cash balance</b>	<b>56</b>
<b>Closing cash balance</b>	
Cash 2020	8
bank overdraft (difference between the years)	-4,450
<b>Ending cash balance</b>	<b>-4,442</b>



## Workings

We have extracted relevant data from the summarised Income statement and the Statement of Financial Position and constructed the Cash flow statement in 3 parts:

- Cash flow from Operating Activities
- Cash flow from Investing Activities
- Cash flow from Financing Activities

The summarised Income Statement is shown below, and the data highlighted in green are the ones that we have extracted to prepare the Statement of Cash Flows.

	<b>2019</b>	<b>2020</b>
<b>Statement of financial position</b>	<b>shown in £000</b>	<b>shown in £000</b>
<b>Non current assets</b>	<b>8,600</b>	<b>14,470</b>
<b>Current assets</b>		
Inventory	2,418	5,820
Trade receivables	1,614	3,744
Other receivables	268	402
Cash	<u>56</u>	<u>8</u>
<b>Total Assets</b>	<b>12,956</b>	<b>24,444</b>
<b>Current liabilities</b>		
Trade payables	1,214	2,612
Other payables	248	402
Taxation	420	780
Bank overdraft	<u>600</u>	<u>5,050</u>
<b>Non current liabilities</b>		
Loan	3,600	6,600
<b>Equity</b>		
Ordinary shares of £1 each	3,600	3,600
Retained profit	<u>3,274</u>	<u>5,400</u>
<b>Total equity and liabilities</b>	<b>12,956</b>	<b>24,444</b>

To do the statement of Cash flow, we have constructed the Income statement since some values were missing. The data highlighted in green are the ones we have extracted.

	2019	2020
Income Statement	shown in £000	shown in £000
Sales revenue	14,006	22,410
Cost of sales	7,496	11,618
Gross profit	6,510	10,792
Operating expenses (it includes depreciation of 2,800 for 2020)	4,410	6,174
Operating profit	2,100	4,618
Interest	432	912
Net profit before tax	1,668	3,706
Taxation	420	780
Profit for the year	1,248	2,926
Dividends paid	600	800
Reinvested profit	648	2,126

## Cash flow from Operating Activities

Yellow represents the values used, blue represents the difference between years and pink represents the tax paid.

	2019	2020	Difference between the years		2020
Income statement extract	shown in £000	shown in £000	shown in £000	Cash flow from Operating Activities	shown in £000
Net profit, after interest, before taxation	1,668	3,706		Net profit before tax	3,706
Depreciation	unknown	2,800		add back depreciation	2,800
Interest expense	432	912		add interest expense	912
Taxation expense	420	780			7,418
Dividend paid	600	800			
				Deduct increase in inventory	-3,402
Statement of financial position extract				Deduct increase in trade receivables	-2,130
Non-current assets				Deduct increase in other receivables	-134
PPE at net book value	8,600	14,470		Add increase in trade payables	1,398
				Add increase in other payables	154
Current assets				Cash generated from operations	3,304
Inventory	2,418	5,820	3,402	less interest paid	-912
Trade receivables	1,614	3,744	2,130	less tax paid	-420
Other receivables	268	402	134	less dividend paid	-800
Cash	56	8		Net cash flow from Operating Activities	1,172
Current liabilities					
trade payables	1,214	2,612	1,398	Further explanation for cash paid for tax	
other payables	248	402	154	opening tax payable (SOFP)	420
Taxation	420	780		add Tax expense of the period (SOCL)	780
bank overdraft	600	5,050		deduct closing tax payable (SOFP)	-780
				tax paid	420
Non current liability					
bank loan	3,600	6,600			
Equity					
Ordinary shares of £1 each	3,600	3,600			

## Cash flow from Investing Activities

Yellow represents the values used and pink represents the additions.

	2019	2020		2020
	shown in £000	shown in £000		shown in £000
<b>Income statement extract</b>			<b>Cash flow from Investing Activities</b>	
Net profit, after interest, before taxation	1,668	3,706	Opening NBV	8,600
Depreciation	unknown	2,800	less depreciation	2,800
Interest expense	432	912	<b>Expected NBV</b>	<b>5,800</b>
Taxation expense	420	780	Actual closing NBV	14,470
Dividend paid	600	800	Additions	-8,670
			<b>Net cash used in Investing Activities</b>	<b>-8,670</b>
<b>Statement of financial position extract</b>				
<b>Non-current assets</b>				
PPE at net book value	8,600	14,470		
			Further explanation for additions	
<b>Current assets</b>			Actual closing NBV	14,470
Inventory	2,418	5,820	deduct expected NBV	5,800
Trade receivables	1,614	3,744	Additions	8,670
Other receivables	268	402		
Cash	56	8		
<b>Current liabilities</b>				
trade payables	1,214	2,612		
other payables	248	402		
Taxation	420	780		
bank overdraft	600	5,050		
<b>Non current liability</b>				
bank loan	3,600	6,600		
<b>Equity</b>				
Ordinary shares of £1 each	3,600	3,600		

## Cash flow from Financing Activities

Yellow represents the values used and blue represents the difference between years.

	2019	2020	Difference between the years	2020
	shown in £000	shown in £000	shown in £000	shown in £000
<b>Income statement extract</b>				<b>Cash flow from Financing Activities</b>
Net profit, after interest, before taxation	1,668	3,706		Bank loan
Depreciation	unknown	2,800		Ordinary share capital
Interest expense	432	912		
Taxation expense	420	780		<b>Net cash from Financing Activities</b>
Dividend paid	600	800		
<b>Statement of financial position extract</b>				
<b>Non-current assets</b>				
PPE at net book value	8,600	14,470		
<b>Current assets</b>				
Inventory	2,418	5,820		
Trade receivables	1,614	3,744		
Other receivables	268	402		
Cash	56	8		
<b>Current liabilities</b>				
trade payables	1,214	2,612		
other payables	248	402		
Taxation	420	780		
bank overdraft	600	5,050		
<b>Non current liability</b>				
bank loan	3,600	6,600	3,000	
<b>Equity</b>				
Ordinary shares of £1 each	3,600	3,600	0	

## Conclusion

The company has registered a net decrease in cash:

1.1 million (net cash from operating activities) - 8.6 million (net cash from investing activities)  
+ 3 million (net cash from financing activities) = - **4.498 million**

If we deduct 4.498 million (net decrease in cash) from the opening cash balance (56000), we obtain - **4.442 million** that should equal the closing cash balance.

The closing cash balance is 8000 minus the bank overdraft that represents a negative cash value. The closing bank overdraft balance is 5.050 million -600 000=4.45 million  
 $8000 - 4.45 \text{ million} = \textbf{-4.442 million}$

## 4.3 Analysis: calculation

### Cost of goods percentage of sales:

$$14006:7496=100:x \quad x=53,51\%$$

$$22410:11618=100:x \quad x=51,84\%$$

### Operating expenses % in relation to the Gross profit :

$$6510:4410=100:x \quad x=67,74\%$$

$$10792:6174=100:x \quad x=57,20\%$$

## 4.4. Minutes of meetings

Because of lockdown, we couldn't meet, so all the work was done remotely on FaceTime, Zoom and Microsoft teams.

We started working on the 24th of February: 4 hours on zoom and 1 hour on Facetime.

25th of February: 2 hours on zoom - to create the Cash flow statement

26th of February: 2 hours on zoom - to create the Cash flow statement

27th of February: 2 hours on zoom and 3 hours on Microsoft teams - to do requirement 1

3rd of March: 3 hours on zoom - to do the analysis

6th of March: 3 hours on zoom - to do the analysis / recommendations

8th of March: 3 hours on teams - to do the analysis / recommendations

9th of March: 4 hours on teams - to do the analysis / recommendations

10<sup>th</sup> of March: 5 hours on teams - to do the analysis / recommendations

11<sup>th</sup> of March: 6 hours on zoom – to finalise

12<sup>th</sup> of March: 6 hours on zoom – to finalise

# REFERENCES

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[2]- Tony Deutsch. Shorten your cash conversion cycle to boost your business' bottom line [online]. Concannon Miller. 2017. [Accessed 4 March 2021]. Available from:

<https://blog.concannonmiller.com/4thought/shorten-your-cash-conversion-cycle-to-boost-your-businesss-bottom-line>