

Financial and Operational Recommendations for the future Growth of Sheffield Limited

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COMM602 – Principles of Accounting and Finance

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9 June 2024

Abstract

This report provides an analysis of the financial and operational for Sheffield Limited to give to analyses the financial position of the company and provide recommendations on what actions should be taken to improve the financial position of Sheffield Limited.

The analysis includes evaluation of Windwhistle Model 230E investment project, choose equity financing to maintain financial stability and optimize supply chain management to reduce costs. Enhance competitiveness by improving production efficiency, enhancing market expansion, and optimizing financial ratios. This report also predicts the main challenges in the next 5-10 years and proposes corresponding response strategies to ensure the company's long-term profitability and success.

Introduction

The purpose of this report is to provide Sheffield Limited with strategic financial and operational recommendations to help the company's future growth. The report first evaluates the company's production ability improvement and monetary impact by analyzing the feasibility of the Windwhistle Model 230E investment project. Then, the report compares the advantages and disadvantages of long-term loans and equity financing and chooses the more appropriate financing option. Finally, the report analyzes the company's financial ratios and proposes some optimization measures. With these analyses, the report provides strategies for the company to stay competitive in the market

Financial analysis

Heading levels 1-3 get their own paragraph, as shown. Headings 4 and 5 are run-in headings used at the beginning of the paragraph. Include a period at the end of a run-in heading. Double-space all text, including headings. Use descriptive headings to help readers identify sections of your paper.

Operating decision

This section will analyze whether the Sheffield soil testing kit should be introduced, focusing on its financial viability, including *break-even point (BEP)* and target pre-tax profit.

cost-benefit analysis

Based on the data provided: Fixed costs: \$36,000 per month; Variable costs: production cost per unit is \$120; cost of sales per unit is \$40; Selling price: \$400 per unit. Break-even calculation formula: $Break - Even Point(units) = \frac{Selling Price per Unit}{Variable Costs per Unit} \times Fixed Costs$

Total Variable Costs: $\$120 + \$40 = \$160$

Contribution Margin per Unit: $\$400 - \$160 = \$240$

Break-Even Point Calculation: $\$36,000 / \$240 = 150$

Which means that Sheffield needs to sell at least 150 soil testing kits per month to break even. Market analysis suggests Sheffield Limited could sell 200 units Per month. This exceeds the 150 units needed to break even, showing that the product has the potential to be profitable.

Financial forecasting and profit analysis

Assuming that the company can sell 200 units as predicted, calculate the expected profit:

Total income = $200 \times 400 = \$80,000$

Monthly variable costs = $160 \times 200 = \$32,000$

Monthly profit before tax = $80,000 - 32,000 - 36,000 = \$12,000$

According to the set goal, Sheffield Limited has a targeted before-tax profit for the product of \$16,000 per month. According to the current forecast, it can only reach \$12,000, which is lower than the target.

suggestion

Although market analysis showed Sheffield soil testing kits had sales potential, actual profits fell short of expectations based on current prices and costs. Therefore, Sheffield Limited is advised not to introduce Sheffield soil testing kits to avoid financial risks and failure to achieve the expected benefits.

Investing Decision

This section will analyze whether Sheffield should accept a capital expenditure offer to purchase a new Windwhistle Model 230E machine. To achieve this, there are several key factors to consider:

Financial metrics (PP, NPV, IRR).

net present value (NPV)

A positive NPV indicates that the investment will bring net benefits to the company. The NPV of the Windwhistle Model 230E is \$107,183. This means that at a discount rate of 9%, the present value of the expected future cash flows exceeds the initial investment cost.

Payback Period (PP)

A shorter payback period means lower investment risks and faster return of funds. The payback period for the Windwhistle Model 230E is 3.11 years. The payback period is slightly higher than the 3-year standard set by management, but still within the acceptable range.

Internal rate of return (IRR)

The IRR is 9% higher than the company's discount rate, indicating that the return on the investment project is higher than the company's cost of capital. The IRR of Windwhistle Model 230E is 16.95%. Therefore, this project is attractive and has profit potential.

Suggestion

Because of these healthy financial indicators, Sheffield Limited is recommended to purchase a Windwhistle Model 230E machine. The investment is expected to increase production capacity and improve efficiency.

Financing Decisions

In this section, we analyze Sheffield Limited's best options for purchasing a Windwhistle Model 230E machine: long-term bank loan or shareholder equity financing. Compare the advantages and disadvantages of these two financing methods and recommend financing options based on the company's current financial situation. In addition, we will evaluate the best suppliers of chemicals required to produce Cropmaster 18 fertilizer and select the most advantageous one.

Financing options analysis

Advantages of long-term loans:

1. Choosing a loan will not dilute the shareholding ratio of existing shareholders, and shareholders' control over the company will not be affected.

2. Interest expenses are pre-tax deductions, which can reduce taxable income and thus reduce tax burden.
3. The loan has a fixed repayment plan, which facilitates financial planning.

Disadvantages of long-term loans:

1. Long-term loans will increase the company's debt level and increase financial risks.
2. Interest needs to be paid, which increases the company's financial costs.

Advantages of equity financing:

1. Equity financing does not require regular repayments, which can reduce the company's financial pressure.
2. It will not increase the company's liabilities, which helps maintain financial stability.

Disadvantages of equity financing:

1. Issuing equity will dilute the shareholding ratio of existing shareholders and may affect shareholders' control over the company.
2. New shareholders may expect to receive dividends, which may increase the company's future dividend pressure.

Company's current financial status

According to the balance sheet and income statement, the company is expected to maintain good profitability and financial stability in 2023 and 2024. Although total liabilities have decreased, there are still existing long-term debt and interest payments.

Financing advice

In view of the fact that the company's current financial situation is relatively healthy, and its future profitability is good, but based on the current debt situation, it is recommended to choose equity financing. Although equity financing will dilute the interests of existing shareholders, it will not increase

the company's liabilities and help maintain financial stability and reduce financial risks.

Supplier selection analysis

Choose the best supplier to provide the chemicals required to produce Cropmaster 18 fertilizer. The following key factors should be considered: cash discount rate, cash discount period, credit period, credit period start time. Considering the reduction of procurement costs, the company's cash flow, and capital turnover, supplier D is the best choice.

Because: the cash discount rate of 3.5% is the highest, which can reduce procurement costs; the 15-day discount period is long enough to facilitate the company's cash flow management; The 30-day credit period is moderate, not too urgent, and helps the company better manage capital turnover.

Financial Statement Analysis

This section will discuss the steps Sheffield Limited can take to improve its efficiency ratio, financial stability ratio and profitability ratio. By identifying areas for improvement, Sheffield Limited can improve its operational efficiency, enhance financial stability, and improve overall profitability.

Efficiency Ratios

Average Payment Period

18.55 days (about 2 and a half weeks) in 2023 and estimated to be 18.56 days (about 2 and a half weeks) in 2024, which is far lower than the industry average of 60.00 days (about 2 months). To Improve:

1. Optimize payment terms, such as negotiating payment terms with suppliers ^[1] and extending payment periods to improve cash flow.
2. Centrally arrange the payment cycle and reasonably arrange the payment time.

Inventory Turnover

The inventory turnover rate is lower than the industry average (expected to be 4.00 times in 2024, compared with the industry average of 5.00 times). The company's inventory management efficiency is low and inventory backlog may exist. To improve:

Implement just-in-time (JIT) inventory management and improve inventory turnover through demand forecasting and inventory control.^[1]

financial stability ratios

Quick Ratio

As can be seen from the table, the quick ratio is lower than the industry average (0.85 times in 2023 and expected to be 0.85 times in 2024, compared with the industry average of 1.00 times). This indicates that the company's current assets may have difficulty repaying short-term liabilities quickly and its liquidity risk is high. To improve:

Increase cash reserves and collection efficiency of accounts receivable, reduce short-term liabilities, improve quick ratio.^[2]

Debt to Equity Ratio

The debt-to-equity ratio is high (3.73 times in 2022, 1.20 times in 2023, 1.21 times expected in 2024, and the industry average is 0.70 times), indicating that the company is dependent on debt and has large financial risks. To improve:

When investing in the future, we should focus on equity financing, reduce debt, and increase the company's equity to balance the debt-to-equity ratio.^[3]

profitability ratios

The Gross Profit Margin, Operating Profit Margin, and Net Profit Margin are all above average.

Overall

To determine the future direction of Sheffield Limited, and consider several key factors that the company may face over the next 5-10 years, here are some insights:

Important Factors to Consider

1. *The company's financial health and resources:* Assessing a company's financial health, including cash flow, debt levels and capital reserves, will determine its ability to invest and expand in the future.
2. *Market Trends and Needs:* Understand current and emerging market trends. Includes analysis of consumer behavior, technological advances, and industry-specific developments.
3. *Competitors:* Analyze competitors and determine what makes the company unique and develop strategies to stay competitive.

Strategies to Stay Competitive and Successful

1. *Sustainability and ESG Initiatives:* Incorporate sustainable practices and focus on environmental, social, and governance (ESG) factors. This not only meets regulatory requirements but also appeals to increasingly eco-conscious consumers.^[4]
2. *Digital Transformation:* Embracing digital technologies to enhance operational efficiency, improve customer experience, and create new revenue streams is critical.^[5]

Biggest Challenges in the Next 5-10 Years

1. *Economic Uncertainty:* Global economic fluctuations, including inflation and market volatility, can pose significant risks to the agricultural sector. Response: Maintain risk management and diversify revenue sources to reduce economic risks. Use financial instruments such as futures contracts to hedge against price fluctuations.
2. *Technological Disruption:* Technological advances can revolutionize traditional business models, such as in agricultural technology and soil testing solutions. So, we need to stay agile and constantly upgrade. Response: Invest in technology so employees can become

proficient in modern technologies. Establish partnerships with technology companies to integrate advanced technologies into operations.

Conclusion

In summary, this report analyzes the financial and operating status of Sheffield Limited and makes some recommendations for future development. The key points and suggestions are summarized as follows:

3. Operational Decisions for Sheffield Soil Testing Kits:

Cost-benefit analysis showed that Sheffield soil testing kits had sales potential, but target profit margins were not achieved.

Advice: Do not introduce Sheffield soil test kits at this time.

4. Investing Decision of Windwhistle Model 230E Investment Project:

Financial analysis, including net present value (NPV), payback period (PP) and internal rate of return (IRR), shows that investing in a Windwhistle 230E machine is financially feasible. The NPV is positive at \$107,183, the PP is 3.11 years, and the IRR is 16.95%, indicating that the project is likely to generate a reasonable return.

Advice: Purchase a Windwhistle 230E machine.

▪ Financing Decisions:

Analysis of financing options shows that equity financing is preferable to long-term loans.

Advice: Select equity financing to fund Windwhistle 230E machine purchase.

After comparing 4 suppliers, Supplier D's terms are more advantageous due to favorable cash discount rate, discount period and credit terms.

Advice: Choose supplier D.

▪ Financial Statement Analysis:

After comparing 4 suppliers, Supplier D's terms are more advantageous due to favorable cash discount rate, discount period and credit terms.

Advice: Choose supplier D.

- Future Challenges and Strategic Responses:

The report identifies some of the key challenges that Sheffield Limited may face and corresponding responses.

References

- [1] KredX Editorial Team. (2023). Best Working Capital Management Strategies. Retrieved from [KredX](#).
- [2] Finance Strategists. (n.d.). Quick Ratio. Retrieved from [Finance Strategists](#)
- [3] Finance Strategists. (n.d.). Debt to Equity Ratio. Retrieved from [Finance Strategists](#)
- [4] EY. (2021). "Sustainability and ESG in Business". Retrieved from [EY](#)