**Question one**

**Introduction**

When evaluating a company's financial success, financial statements are crucial. The Trading, Profit and Loss Account offers important data regarding earnings, costs and total profitability. This report will compute and explain the relevance of key financial ratios generated from the provided data.

1. **Gross profit:**

Gross Profit Ratio= (Gross profit)

\_\_\_\_\_\_\_\_\_\_\_\_\_ ×100

Sales

= (200000)

\_\_\_\_\_\_\_\_\_\_\_\_\_ ×100

500000

= **40%**

Significance: A key measure of a business's operational effectiveness is the gross profit ratio. It is computed by taking the Gross Profit and dividing it by the Sales followed by reporting the percentage result. ABC Ltd.'s gross profit ratio is forty percent. This implies that 40% of the company's sales contribute to covering the cost of goods sold leaving a substantial margin for other operating expenses and net profit.

A higher Gross Profit Ratio is generally favorable as it indicates effective cost control in production and distribution. ABC Ltd's 40% suggests that the company has a healthy margin after accounting for direct costs.

1. **Expenses Ratio**

This percentage of operational expenses to revenue is called the expenses ratio. Financial Expenses, Selling and Distribution and Administration are added, the total is divided by Sales and the result is multiplied by 100.

Expenses Ratio: (Administration Selling and Dist. Financial Expenses) ×100

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Sales

= 101,000+12,000+7,000

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

500000

**= 24%**

The ratio of operational expenses to sales is measured by the expenses ratio. Financial, selling and distribution, and administrative costs are all included. ABC Ltd's expenses ratio is 24%, meaning that these running costs are paid for with 24% of total revenues.

A lower Expenses Ratio is desirable, as it signifies efficient management of operational costs relative to sales. ABC Ltd's 24% suggests effective cost control in these areas.

1. **Operating Ratio**

Operating Ratio = (COGS+Operating Expenses)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Sales

= (76,250+315,250+101,000+12,000) ×100

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

500,000

**= 101%**

An overall view of the business's operations is given by the operating ratio. It is computed as a percentage by adding together the COGS and operational costs then dividing by sales. ABC Ltd.'s is 101% meaning that its COGS and operating expenses somewhat outweigh its sales.

A Ratio above 100% raises concerns as it implies that the company is operating at a loss. ABC Ltd should investigate and address the reasons behind this situation to improve operational efficiency.

1. **Net Profit Ratio**

Net Profit Ratio = (Net Profit) ×100

\_\_\_\_\_\_\_\_\_\_\_\_\_

Sales

​ 84,000 ×100

\_\_\_\_\_\_\_\_\_\_

500000

= **16.8%**

The Net Profit Ratio evaluates the company's overall profitability after all costs associated with sales have been subtractedThe ratio means that 16.8% of the total sales go toward net profit.

A higher net profit ratio is preferred since it shows profitability and effective management. This indicates a robust profitability ratio.

1. **Operating (Net) Profit Ratio**

Operating (Net) Profit Ratio = (Net Profit - Non-operating Incomes)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Sales

= 84,000− (1500+3750+750)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ×100

500000

= **16%**

The Operating (Net) Profit Ratio concentrates on core operational performance after removing non-operating income. The Ratio is 16% which means that after subtracting only operating expenses, 16% of total sales go toward net profit.

This ratio offers more precise information about the company's capacity to turn a profit from its main lines of operation. ABC Ltd could contemplate enhancing this ratio even further by optimizing its non-operating expenses and profits.

In conclusion, the financial analysis of ABC Ltd for the year ended 31‐12‐2019 provides a comprehensive view of the company's performance while the Gross Profit and Net Profit Ratios indicate healthy margins and profitability, the Operating Ratio above 100% warrants attention. ABC Ltd should focus on optimizing operational efficiency and addressing underlying issues to ensure sustained profitability and financial health.

**Question 2**

**Introduction**

The balance sheet gives a summary of a business's financial condition at a specific point in time with equity, liabilities and assets of ABC Auto Limited are being displayed on its balance sheet.

1. **Current Ratio**

This liquidity ratio evaluates how well a business can use its short-term assets to pay its short-term debt.

Current Ratio= Current assets

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Current liabilities

= Stock+ debtors+ cash in hand

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Current liabilities

= 12000+12000+4000

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

16000

**= 1.75**

This liquidity metric is used to evaluate a company's capacity to pay short-term debt with its available cash. The computed Current Ratio of 1.75 for ABC Auto Limited indicates that the business has more current assets than current liabilities. The ratio being greater than one indicates that ABC Auto Limited has sufficient cash at hand to cover its immediate liabilities. It indicates that the company has operational flexibility which implies it can take advantage of opportunities, successfully manage continuing operations, and get beyond unforeseen challenges without largely relying on outside finance. On the other hand, an overly high current ratio can point to resource inefficiency.

1. **Quick Ratio**

This is a more stringent measure of liquidity as it excludes inventory from current assets.

Quick Ratio= Quick assets

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Current liabilities

Quick ratio = 12000 + 12000

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ **= 1.5**

16000

Its significance lies with emphasis on the most liquid assets that can be quickly converted into cash thereby offering insights into the company's resilience in meeting its obligations without relying on slow-moving inventory. The Ratio of 1.5 suggests an approach to managing short-term liquidity ensuring that the company has an ample buffer to cover immediate financial needs.

The conservative nature is particularly beneficial for stakeholders including creditors and investors as it paints a more cautious picture of the company's liquidity position. This indicates a healthy level of quick assets, it also prompts a balanced assessment considering the specific operational and financial characteristics of the industry in which ABC Auto Limited operates.

1. **Debt‐Equity Ratio**

This measures the proportion of a company's debt to its equity.

Debt-Equity Ratio = Total debt

\_\_\_\_\_\_\_\_\_\_\_\_

Equity

Debt-Equity Ratio = 32000

\_\_\_\_\_\_\_\_\_\_\_\_ **= 0.7**

40000+8000

This Ratio is a measure of the proportion of a company's financing that comes from debt compared to equity. A ratio of 0.7 for ABC Auto Limited implies a somewhat cautious strategy meaning the business depends more on equity funding than debt.

These type of values are generally preferable as they signify a lower level of financial risk and contribute to a healthier financial structure. This is because a lower ratio indicates that the company has a smaller portion of its capital derived from debt obligations, reducing the risk of financial distress and potential bankruptcy.

The significance of the Ratio of 0.7 extends beyond immediate financial health. It reflects a strategic decision to balance the capital structure by minimizing the reliance on debt financing..

1. **Proprietary Ratio**

This measures the proportion of total assets financed by equity.

Proprietary Ratio = Equity

\_\_\_\_\_\_\_\_\_\_\_\_

Total assets

= Equity Share Capital+ Capital Reserve

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Total assets

= 40000+8000

\_\_\_\_\_\_\_\_\_\_\_\_

120000

**= 0.4**

A Ratio of 0.4 suggests that the company maintains a balanced capital structure relying significantly on equity financing to support its assets. This signifies a more robust financial position which shows that a larger proportion of the company's assets is funded by shareholders rather than external sources like debt.

**Question three**

**Key Stages of the Transaction Process for a Majority Acquisition**

**Introduction**

The process involves various intricate stages that demand meticulous planning, negotiation and execution. A situation where an acquiring entity aims to obtain more than half of the ownership of the target company is a significant strategic move that can reshape the landscape of both entities. The key stages of the transaction process would be delved into thereby providing insights and examples to elucidate each stage in this report.

**Strategic Planning and Decision Making:** The initiation is marked by strategic planning and decision-making. In this initial phase, companies define the objectives and rationale that drive the acquisition. The motivations behind seeking a majority stake can vary widely, encompassing strategic goals such as expanding market share, diversifying product offerings or gaining a competitive advantage (Frankel, 2017).

An instance is Facebook's 2014 acquisition of WhatsApp. The goal was to increase Facebook's user base worldwide and strengthen its mobile messaging capabilities. The acknowledgment of the WhatsApp's broad appeal and ability to smoothly enhance its current portfolio of features served as the foundation for the choice (de Oliveira Costa, 2018). By carefully playing to WhatsApp's advantages, they hoped to strengthen not just the messaging app but also their place in the ever-changing social media landscape.

**Target Identification and Screening:** This phase involves a comprehensive assessment of various factors including financial health, market position and strategic fit. Companies employ a set of criteria often including considerations such as revenue growth, market share and synergies with existing operations in order to evaluate and screen potential targets (Welch et al., 2020).

An illustration is the strategic acquisition of Whole Foods by Amazon in 2017. This was primarily motivated by Amazon's objective to gain a substantial foothold in the physical food industry. They acknowledged the brand's well-established position in the organic and natural foods industry which fits in perfectly with their mission to provide their clients with a wide selection of superior products (Nadar, 2018).

The success that can arise from a well-executed target selection and screening process, where strategic alignment serves as the foundation for a mutually advantageous acquisition is best illustrated by the synergy between Whole Foods and Amazon.

**Due Diligence:** This phase is akin to peeling back the layers of a potential partner, meticulously examining every facet to gain a comprehensive understanding. This exhaustive investigation into the financial, operational, legal and cultural aspects of the target company is akin to turning over stones to reveal both hidden gems and potential pitfalls. The primary goal at this stage is to unveil any lurking risks, liabilities, or synergies that might significantly impact the success of the impending acquisition (Howson, 2017). In essence, due diligence is the discerning eye that guides informed investment decisions.

A poignant example involved is observed in Disney's acquisition of 21st Century Fox. The enormity of Fox's media assets ranging from film studios and television networks to streaming services demanded a careful examination. Disney, in its quest for knowledge delved into the intricate details of these assets (Howson, 2017). This process wasn't just a mechanical checklist, it was a strategic exploration to discern potential synergies that could amplify Disney's content capabilities while also scrutinizing the landscape for any regulatory or legal challenges that might lie beneath the surface.

It involves asking probing questions and seeking answers that go beyond the surface. The process requires scrutinizing every clue and ensuring that no detail is too small to escape scrutiny. It's a journey into the unknown, armed with a flashlight to illuminate potential risks and a magnifying glass to zoom into the finer intricacies.

**Valuation and Pricing:** This involves a judicious examination of the target company's intrinsic value which acts as the compass guiding negotiations toward a fair and equitable deal. Various sophisticated methods including discounted cash flow analysis, comparable company analysis and precedent transactions come into play to unravel the layers of the target's financial landscape (DePamphilis, 2010).

An example unfolds in the story of Microsoft's acquisition of LinkedIn in 2016, where the art of valuation became a paramount consideration. In this narrative, Microsoft taking on the role of a discerning appraiser delved into the depths of LinkedIn's intricacies (Kumar, 2019). The focus wasn't just on financial metrics; it extended to evaluating the platform's expansive user base, forecasting future growth prospects and deciphering the revenue streams that fueled its operation (Bekhuis, 2023).. The valuation process became a strategic exploration akin to assessing the value of a rare artifact. Microsoft acknowledged the unique qualities of LinkedIn and recognizing its potential, paid a premium above the market value to secure the acquisition.

**Negotiation and Deal Structuring:** In this phase, both entities engage in discussions seeking to find common ground. The negotiation process extends beyond a mere exchange of figures; it involves determining the purchase price, sculpting the payment structure and integrating contingent payments based on future performance—each element a brushstroke in the canvas of the deal (Frankel, 2017).

A poignant illustration of negotiation prowess unfolds in the acquisition tale of Time Warner by AT&T. Here, negotiation took center stage, akin to a diplomatic summit addressing regulatory concerns. The dialogue was not just about numbers, it was a strategic discourse on deal structure navigating the intricate landscape of antitrust considerations (Kumar, 2019). The negotiation process became a symphony of legal minds, weaving a carefully crafted agreement that addressed regulatory apprehensions, ultimately providing the green light for the acquisition to proceed.

**Regulatory Approval:** This involves submission of the acquisition proposal to antitrust and competition authorities, transforming the process into a diplomatic endeavor aimed at aligning with regulations and upholding fair market practices.

A vivid example of the regulatory approval saga unfolds in the narrative of Bayer's pursuit to acquire Monsanto. In this regulatory odyssey, Bayer found itself facing a significant hurdle due to scrutiny by global bodies concerned about potential market concentration in the agricultural industry (Michaeli, 2022). The regulatory authorities, acting as vigilant overseers thoroughly examined the proposal to ascertain that the acquisition would not lead to a monopoly or stifle fair competition. The scrutiny became a trial of sorts, a rigorous examination where Bayer's intentions and the potential impact on the agricultural market were laid bare.

**Execution and Closing:** This decisive stage involves finalization of all legal and financial transaction, transforming the acquisition from a strategic vision into a tangible reality. The scene is set for the crafting and signing of definitive agreements, the symbolic transfer of ownership and the completion of financial transactions—a symphony of actions that culminate in the official closing of the acquisition process (Frankel, 2017)..

**Post-Acquisition Integration**: Post-acquisition integration in the majority acquisition journey is akin to orchestrating a harmonious union where the acquired entity and the acquiring company dance together towards a shared future. This critical stage unfolds after the legal and financial aspects are finalized, and it is here that the acquiring company assumes the role of a conductor aligning the operations, cultures and systems of the acquired entity with its own (Vancea, 2011).

An insightful instance of a successful post-acquisition integration emerges in the narrative of Procter & Gamble's acquisition of Gillette. In this chapter of corporate synergy, P&G playing the role of a thoughtful orchestrator directed its efforts towards streamlining product portfolios, optimizing supply chains and aligning marketing strategies with the newly acquired entity (Kumar, 2019).

**Conclusion**

The majority acquisition process involves a series of well-defined stages each with its own challenges and considerations starting with strategic planning to post-acquisition integration, companies must navigate these with precision and diligence to ensure the success of the acquisition. The examples provided illustrate how prominent companies have approached and executed major acquisitions, highlighting the strategic importance of each stage in the overall process.

**Question four**

**Profitability, Solidity and Solvency and Liquidity**

In the financial tapestry of a company's operations, three critical dimensions—profitability, solidity and solvency and liquidity unveil distinct facets of its health and resilience. Understanding the nuances of each and recognizing why attention must be paid to all three is paramount for a comprehensive analysis of a company's financial statements.

**Profitability**

It stands as the beacon illuminating a company's success in converting its operations into earnings which reflects the efficiency of the business model and its capacity to generate profits. Key metrics such as net profit margin, return on equity and return on assets offer insights into different facets of it (Penttinen et al., 2011).

Consider the scenario where a company proudly exhibits a robust net profit margin—a metric calculated by dividing net profit by revenue thereby indicating its adeptness at retaining a substantial portion of revenue as profit after covering expenses. This isn't merely a numerical figure; it resonates as a testament to operational efficiency (Carrillo et al., 2019). The company's ability to navigate through the complexities of cost management and revenue generation implies a strategic prowess that extends beyond the mere survival in the market.

**Solidity and Solvency**

Solidity, in this financial symphony the bedrock upon which the company stands. It refers to the proportion of equity within the capital structure, a measure of how much the company relies on its own funds rather than external sources. A company boasting high solidity signifies a robust financial foundation. Much like a sturdy fortress, it showcases financial stability and a reduced dependence on external financing. This resilience provides the company with a buffer against market uncertainties and economic fluctuations, offering a sense of security in navigating the volatile terrains of business (Vicarelli et al., 2023).

Solvency, the companion to solidity extends its scrutiny to the company's ability to meet long-term debts and obligations. It's the financial acrobat ensuring that the company maintains its equilibrium on the tightrope of debt management. Solvency metrics such as the debt-to-equity ratio become the tightrope walker's balancing pole shedding light on the company's ability to navigate long-term financial commitments responsibly (Rismala et al., 2022).

**Liquidity**

Liquidity emerges as the lifeblood that courses through its company's operational veins, ensuring vitality and adaptability. This dimension assesses the company's agility in meeting short-term obligations by converting its assets into readily available cash—a litmus test for its ability to sustain smooth operational continuity.

It is pictured as the circulatory system ensuring that the necessary resources are readily available to fuel its day-to-day functions. It becomes a barometer of the company's resilience and responsiveness to the ebb and flow of business demands (Bentemessek et al., 2019). The common tools used to measure this vital sign are liquidity ratios, current ratio and quick ratio acting as diagnostic tools in the financial health check.

Considering a situation where a company proudly exhibits a healthy current ratio, a metric calculated by dividing current assets by current liabilities. This numerical expression is not merely a statistic, it represents the company's preparedness to handle short-term obligations (Penttinen et al., 2011).. A robust current ratio suggests that the company's current assets including cash are more than sufficient to cover its short-term liabilities.

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