Name of the Student

Institutional Affiliation

Course

Tutor

Date

## 1.0 Introduction

SSP Ltd. is a business in the food manufacturing sector that specializes in processing premium meat products and supplying them to well-known grocery chains. The company has witnessed a recent growth in sales and wants to continue developing by establishing a new processing factory in Glasgow, despite suffering difficulties in the past few years due to food scares like BSE and Foot and Mouth illness. The company places a high priority on the health and safety of its workers as well as the certification of its products by Her Majesty's Inspectorate because it is a responsible employer. Also, the board of directors of the company has agreed to limit dividends this year in order to preserve profits for growth and reduce the risks connected with excessive borrowing. The financial statements of SSP Ltd will be analyzed and interpreted in this report in order to assess its financial performance and offer suggestions for its further success and expansion.

## 2.0 Users of Accounting Information

### 2.1 Auditors

In order to evaluate the precision and thoroughness of a company's financial records, auditors require financial accounts. To find any financial abnormalities, such as fraud or accounting problems, they need this information. Income statements, balance sheets, and cash flow statements are statements that address their needs.

### 2.2 Tax authorities

To make sure that businesses are paying the appropriate amount of taxes, tax authorities want financial records. They use this data to determine a company's tax obligations and to spot any instances of tax fraud or evasion. Income statements and tax returns are examples of statements that meet their demands.

2.3 Owners of businesses

Owners of businesses must keep track of their revenue, expenses, profits, and losses using financial records. To make wise decisions regarding the future of their company, such as investing in new machinery or recruiting more employees, they need this knowledge. Income statements, balance sheets, and cash flow statements are statements that address their needs.

2.4 Investors

Before agreeing to invest in a firm, investors need to assess its financial standing and stability. In order to calculate the prospective return on their investment, they also need this information. Income statements, balance sheets, and cash flow statements are statements that address their needs.

**3.0 Sources of Finance**

3.1 Short-term Sources of Finance

3.1.1 Bank Overdraft

Bank overdrafts are a type of short-term loan that let businesses take out more money than they have in their accounts. It is typically applied to resolve immediate cash flow issues. In 2014, SSP applied for a bank over draft of 86,000 pounds

3.1.2 Trade Credit

Trade credit is a short-term financing strategy that enables a business to purchase goods or services from its suppliers on credit. It is normally provided with a brief repayment period, usually between 30 and 90 days. SSP had 42.48 billing days in 2013 and 27.66 in 2014. The length of the payment terms was cut by roughly 15 days. The trade payables will drop by $139,000 between 2013 and 2014, from £544,000 to £405,000, according to the SSP company.

### 3.2 Long-term Sources of Finance

#### 3.2.1 Debentures

Debentures are long-term debt instruments issued by companies to raise funds from the public. They typically offer fixed interest rates and have a fixed repayment period. In 2013 and 2014, SSP had the same 156,000 pounds worth of debentures.

#### 3.2.2 Retained earnings

Retained earnings is a form of internal financing that involves using profits generated by the company to reinvest in the business or pay off debt. It provides a permanent source of funding, but may limit the company's ability to pay dividends to shareholders. Over the past two years, SSP's retained earnings have climbed by 420 000 pounds, reaching 935,000 pounds in 2013 and 1,355,000 pounds in 2014.

## 4.0 Financial Performance and Position

### 4.1 Profitability Ratio Analysis

Analysis of a company's ability to turn a profit from its operations is known as profitability analysis. To determine a company's profitability, it entails analyzing many financial measures like gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE). Generally speaking, a business with a high profitability ratio is more successful than one with a low profitability ratio.

4.1.1 Gross Profit Margin

The gross profit margin remained relatively stable between 2013 and 2014, with a slight increase from 59.96% to 60.06%. This suggests that SSP company is able to generate a consistent level of profit from its sales.

4.1.2 Return on Capital Employed (ROCE)

The ROCE decreased from 31.86% in 2013 to 23.33% in 2014, indicating that the company's profitability decreased in relation to the amount of capital employed. This may be a cause for concern for investors, as it suggests that SSP company is not making effective use of its capital.

4.2 Liquidity Ratio Analysis

The ability of a business to satisfy its short-term financial responsibilities, such as paying bills and loans, is assessed through liquidity analysis, a branch of financial analysis. To determine a company's liquidity, it entails analyzing different financial factors such the current ratio, quick ratio, and cash ratio. A business is often thought to be more stable financially and capable of satisfying its short-term financial obligations if it has a high liquidity ratio.

4.2.1 Current Ratio

The current ratio increased from 1.56 in 2013 to 1.78 in 2014, indicating that the company's liquidity position improved. This means that SSP company is better able to meet its short-term financial obligations.

4.2.2 Quick Ratio

The quick ratio decreased from 0.77 in 2013 to 0.64 in 2014, indicating that the company's ability to meet its short-term obligations without relying on inventory decreased. This suggests that SSP company needs to reassess its inventory management practices.

### 4.3 Efficiency Ratio Analysis

This branch of financial analysis evaluates how effectively a business can use its resources and assets to produce revenue. To determine a company's efficiency, it entails analyzing different financial ratios, such as the asset turnover ratio and the inventory turnover ratio. A business is generally thought to be more successful at utilizing its resources and assets to produce income if it has a high efficiency ratio.

#### 4.3.1 Inventory Turnover Rate

Data for 2013's inventory turnover rate aren't available, but in 2014, it was 7.61. This reveals that the company's inventory management procedures are effective because it shows that SSP company was able to sell its stock 7.61 times throughout the year.

### 4.4 Capital Structure Analysis

Analyzing a company's capital structure allows you to determine how much debt and equity finance it uses to fund its operations. To evaluate a company's capital structure, many financial ratios including the debt-to-equity and debt-to-assets ratio must be evaluated. A balanced capital structure is often regarded as being more stable financially and less dangerous for a corporation.

#### 4.4.1 Gearing Ratio

The gearing ratio decreased from 0.35 in 2013 to 0.32 in 2014, indicating that SSP company relied less on debt financing in 2014. This may be viewed positively by investors as it reduces the company's financial risk.

**5.0 Analysis on Cashflow Statement**

The business can make significant profit margins on its products. Healthy profit margins are present. Healthy returns on invested capital are being produced by the company. A current ratio of greater than one indicates that it is in solid liquidity. This demonstrates that the business has sufficient resources to fulfill its current responsibilities. A 7.61 inventory turnover ratio indicates that the organization is employing its resources well. Last but not least, a gearing ratio below one shows a healthy financial condition for the business. This demonstrates that the organization is using internal resources to meet its financial needs rather than relying on outside resources.

The money was diminished by a total of £367,000. The corporation gave the bank an 86,000 overdraft in addition to paying down the remaining loan. This is an extremely hazardous circumstance. The previous year, SSP's bank balance was 281,000. SSP earned £877,000 in net cash from operations, or 65.2% of total cash flow. This suggests that business is continuing as usual at the company.

The interest rates on the bonds have not altered over the past two years despite the corporation not selling any new bonds. Yet, since the business is requesting an overdraft from a bank, more interest must be paid. It is prudent to refrain from issuing more bonds because doing so would push up corporate interest rates. Companies should try their best to raise money by selling their common stock whenever possible. There is an additional tax of 234,000. This project must be completed because it depends on the business's viability. The subsequent costs also included the

£984,000 purchase of fixed assets. This is the cause of the sudden decline in money. The business intends to expand during this time by starting a new processing facility in Glasgow. The usual dividend payment is £260,000. This is a decent amount that equates to 19.33% of the cash from operations. The massive acquisition of non-current assets was the cause of the sudden fall in cash. Businesses are encouraged to put expansion plans on hold until they have enough cash or funds in the bank, then resume them.

**6.0 Conclusion**

The company has strong liquidity, efficient resource usage, and good profit margins and returns on invested capital, according to the study of SSP's cash flow statement. It is crucial for the business to maintain a strong financial position by avoiding excessive borrowing and relying on internal resources whenever possible. However, the recent loss in cash due to the purchase of fixed assets and expansion plans should be closely monitored. Prudent financial management is also shown by the company's decision to avoid from issuing additional bonds and to monitor interest rates. Long-term viability and profitability of SSP Company are likely as long as it maintains a strong financial position and pursues smart expansion plans.

**7.0 Recommendations**

There are a few steps that might be made to enhance the SSP company's performance and finances based on the examination of the cash flow statement. To begin with, the business could examine its inventory management procedures in order to raise its inventory turnover ratio. This can entail creating more effective inventory management programs or lowering inventory levels that are too high. Second, to further boost its profit margins, the business should look into cost-cutting methods. Operational simplification or improved supplier negotiations may be necessary.

The business may take into account funding choices like equity financing or venture capital with regard to the expansion ambitions. The corporation might raise the required capital without taking on extra debt by issuing shares to investors. This would also disperse the risk among a larger group of investors. To support the expansion goals, another financing choice may be to apply for a loan from a financial institution or a government-backed grant or loan. It is crucial for the business to thoroughly weigh the advantages and disadvantages of each financing option and select the one that best suits its requirements.

**8.0 Appendix**

8.1 Financial analysis using six key ratios

| **Ratio** | **2013** | **2014** |
|---|---|---|
| Gross Profit Margin | 59.96 | 60.06 |
| Return on Capital Employed (ROCE) | 31.86 | 23.33 |
| Current Ratio | 1.56 | 1.78 |
| Quick Ratio | 0.77 | 0.64 |
| Rate of Inventory Turnover | | 7.61 |

| | | |
|---|---|---|
| Gearing Ratio | 0.35 | 0.32 |

8.1.2 Analysis of the cashflow statement

| | **Amount in pounds** |
|---|---|
| **Operating Cashflow** | 1,345,000 |
| Interest Paid | (234,000) |
| Tax Paid | (234,000) |
| | 877,000 |
| **Investing Cashflow** | |
| PPE | (984,000) |
| **Financing Cashflow** | |
| Dividend Paid | (260,000) |
| Decrease in Cash Equivalents | (367,000) |
| | |
| Cash balance brought down as at 31/3/2013 | 281,000 |
| Decrease in Cash Equivalents | (367,000) |
| Balance as at 31/3/2014 | (86,000) |