Title: Financial Analysis

Assignment Topic:

**CASE SCENARIO**

You are a managerial accountant who has been asked to analyse the latest Annual Report and Financial Statements (it must contain two years information) of a publicly listed company that is listed on the Australian Stock Exchange (www.asx.com.au). You must choose the publicly listed company and produce a comprehensive report for distribution to the company's management to comply with all the requirements listed below.

Note that the calculation of ratios does not earn many marks. While they are expected to be accurate, most marks will be earned by demonstrating your understanding of ratio analysis and its uses. This will be apparent to the reader from your analysis of the implications of the ratios you present and your ability to provide some explanation through the recognition of the interaction between ratios. You are also expected to make some recommendations to management based on your analysis.

Word Count:

Executive Summary:

Financial reporting systems have recently come under with major scrutiny with the occurrences of financial mishandlings, flaws in reporting systems and erroneous reports which mislead management and share holders. Yet, analysis of a company's annual report gives insight into the business accounts and acts as an indicator of the efficiency and possibly the longevity of the company.

This paper will look at the financial statements of Audsrill Limited. It will base its analysis on the data from the annual report of the company.

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## 1. Introduction

Financial analysis and the ability to discern certain important information of a company, its assets, its positioning as a key player within its own marketing sphere, is still a relevant and important aspect of good business practice and making strategic financial investment decisions. In the most recent times, global corporations, investors, shareholders, politicians and the general public have been paying more attention to the data and statistics that are released about companies and their financial status.

This paper will look at the financial standing of Ausdrill Limited, a company on the Australian Stock Exchange. This financial analysis will be based on the following performance ratios:

- Profitability
- Efficiency
- Short-term solvency
- Long term solvency
- Market based ratios

After discussing the findings of these performance ratios, recommendations will be made accordingly to enhance organizational effectiveness and performance.

Limitations, as exists with every paper, include the availability of other information such as other factors, external to the company that may affect its performance due to lack of knowledge or availability of data.

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## 2. Ausdrill Limited

Ausdrill is an integrated mining and energy services group providing exploration, mine development, surfacing and underground mining, manufacturing, energy and infrastructure services globally. Ausdrill was started in 1987 by Managing Director, Ron Sayers, with a single drill rig operating from Kalgoorlie in Western Australia. By 1991 the company had expanded its drilling operations into Africa, and two years later added contract mining to its services.

In 1994 the company was floated on the Australian Stock Exchange and in the years since has continued to expand and diversify its services across the mining and energy sectors. (Ausdrill Limited, 2013)

One of the major challenges within Australia is that junior exploration companies are having difficulty raising funds. As a consequence the demand for exploration drilling has reduced. However, as a result of their focus on production-related services under medium to long term contracts, combined with their strategy of working for the major mining houses, the effect on the Company should be minimal. (Ausdrill Limited, 2012).

## 3. Financial Analysis Report

To: Corporate Management

From: Management Accountant

Date: 20th May, 2013

Subject: Financial Analysis of Ausdrill Limited

Introduction: This report has been prepard on the basis of the two most recent statements of comprehensive income and statement of financial position of Ausdrill Limited covering the years 2011 to 2012. Ratio analysis used in the report is based on the calculations in the appendix attached.

**Profitability**

The sales have increased by 26% over the past year. The net profit has increased by 53% over the past year however the operational expenses increased from 2011 to 2012.  The increase in operating cost could be investigated as to  the reason so that Management could be able to control this further increase. (reword)

Return on capital employed has increased by a steady 3%  due to the fact that the profit before income tax as well as the total assets have increased, as evident in the ratio calculation in the appendix.

**Efficiency Ratio/ Short Term Solvency**

The receivables ratios and inventory turn over give a useful infidcation how the company is managing its current assets. Ausdrill Limited takes 69 days to pay its creditors whilst their debitors takes an average of 78 days to pay their outstanding balances. The collect period has increased from 74 days in 2011 to 78 days in 2012. The accounts payable however, has decreased from 73 days to 69days.

When reviewing Ausdrill Limited's liquidity the situation has improved over the past year. The current ratio measures the company's ability to meet its current liabilities out of current assets. A ratio of at least 1 should be expected and Ausdrill Limited met this expectation in both years.

The ratio is misleading as inventory is included in the current assets. Because inventory can take some time to convert into liquid assets, a second ratio , the quick ratio, is calculated which excludes inventory. The quick asset ratio has not seen any improvement within the past year, which indicates that the current liabilities obligations, cannot be met without inventory. A major part of the current liabilities of Audsrill Limited comprises of trade and other payables and borrowings which shows that the company is relying on continuing support on short term funding.

**Debt and Long Term Solvency Ratio**

The debt to equity ratio shows the ratio of Ausdrill Limited total debt to its shareholders' equity . This has been a steady increase over the past year from 63% to 83% which shows an increase in the company's long term borrowings as compared to its captial contributions from shareholders. The borrowings of Audsrill Limited, has increased as well as the total assets over the past year. But the purchasing of these assets were done under finance leases.

**Market Based Ratios**

Earnings per share has increased from $27.13 to $37.28 as well as an increse in dividends paid to shareholders.

4. Recommendations

The review Ausdrill's Limited showed that it has been performing satisfactorily over the past year. The revenue from operating income has increased as well as its net profit. However, the operating expenditure has increased, in particular the labour expense which needs to be controlled. The earnings per share, as evident in the Statement of Comprehensive Income has increased over the year which is a promising indicator of their return of investment. The cash and cash equivalent of Ausdrill's Limited has decreased over the year, due to the fact that the company is paying its debts faster than the creditors are settling their debts. The Statement of Financial Position has shown that Ausdrill Limited has increased its non-current assets mainly through the purchase of property, plant and equipment, either it be by cash or by the use of financing. This shows the reason as well, for the increase in borrowings shown on the financial statements.

On 24th July, 2012 the company announced that through its subsidiary, African Mining Services, MaliSARL, it had received a letter of intent for a 5 year mining contract with a value Usd 540,000,000 with a subsidiary of Resolute Mining Limited for its Syama Gold Project located in the South of Mali. This would increase the group's revenue, also causing an increase in expenditure to purchase the equipment necessary to make this venture a success. Ausdrill Limited needs to ensure that this project is managed successfully in order to maximize its investment as well as maintaining a high value of goodwill within the industry.

It may also be useful to compare Ausdrill's Limited ratios to those of other companies in the same industry in order to gain a full understanding of the industry norms.

## Conclusions

Good financial analysis requires that the person for whom the analysis is being done is clearly identified, together with the purpose of the analysis. It is unlikely to be useful if it does not take into account as many relevant factors as possible. (Bazlley and Hancock, 2013)