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Researchers
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FINANCIAL ACCOUNTING

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INTRODUCTION

Financial analysis is most crucial for the organization as it helps in knowing the present performance of the entity. Further, in the modern era with the rise in the level of competition in the market, it has become necessary for every business to indulge in the practice of financial analysis such as calculating ratios with the help of which present performance can be compared with the past[CITATION Bai17 \l 1033]. The present study carried out is based on Woolworths Ltd where the description of the organization has been provided regarding background, history, etc. Auditor and director report of the organization has been analyzed along with the financial statements so as to know overall performance. Apart from this, various ratios have been calculated.

Brief of the company

Woolworths group plc is a British firm that owns high street retail chain in the market of Australia. The company other owns another type of entities that are book and resource distributor, entertainment distributor, etc. Woolworths limited was founded in the year 1924 on September 22 where its key founders are Percy Christmas Stanley Chatterton Cecil Scott Waine George Creed Ernest Williams[CITATION Woo171 \l 1033]. The organization is based in New South Wales, Australia. Further, the key areas served involves Australia, India and New Zealand. The stores through which company operates are popular in every type of market. In the year 1955, the first self-service store of the organization was opened with the motive to deliver the high experience to the target market. The organization manages some of the most trusted brands in the Australian market and at present company has more than 28 million satisfied customers worldwide. Woolworths employs 205,000 team members and has trusted partners which involve manufacturers and local farmers.

The company is one of the largest supermarket chains where 995 stores are operated across Australia. Company sources 96% of the fresh fruits and vegetables from the farmers present in the Australian market. All form of retail products is offered by the organization that involves food, clothes, grocery items, etc. In short, all the items that are used in day to day life of the consumers are offered by Woolworths in the market, and this allows business to satisfy the need of its target market in the proper manner[CITATION Woo172 \l 1033]. Time to time new products are added in the existing range of products so that level of brand loyalty can be well maintained with the help of this and through this Woolworths can manage its overall

performance in the market where overall operations are being carried out. Therefore these are some of the key insights associated with Woolworths for the year 2016[CITATION Blo17 \l 1033].

Which section dominate

Considering the annual report of the enterprise it has been found that the financial section dominates the entire report Woolworths group has highlighted its financial performance appropriately so as to deliver the right information to its stakeholders that involve shareholders, customers, supplier, financial institutions, etc[CITATION Bai17 \l 1033]. The Company has focused on key areas that involves profit level, dividend per share, earning before interest and tax, sales from different sources such as hotels, drink group, new Zealand group, etc. Group sales have been highlighted that undertakes the different type of areas such as BIGW, New Zealand food, hotels, Australian, etc. All these are key areas in which company operates, and they are managed appropriately.

Group profit and loss account have been reflected in the entire report that considers the main expenses and income sources of the through which it has been known that income level of the enterprise is high and firm has control on its major expenses. Generally, for every type of company operating in the market it is necessary to highlight the financial performance properly for the benefit of the parties that have the direct interest in the firm. The section of Australian food and petrol has been highlighted differently with the help of its sales and EBIT. It has been known that this section is most important for the business on the basis of the sales level. The Endeavour drink group and New Zealand food section have also been highlighted separately by the business[CITATION Kan13 \l 1033]. So, in this way, the financial section of the business dominates the entire report of the organization and highlights how the organization is performing efficiently in the market. Apart from this, the financial section provides a base for comparison where present performance can be compared with the past. Due to this reason this section is most crucial.

Main directors

The key directors of Woolworths limited are Mr. Bradford Leon Banducci who is CEO of the company, Mr. David Paul Marr who is CFO, Mr. Martin Smith who is managing director of Endeavour drinks and Ms. Claire Peters who is managing director Woolworths supermarket[CITATION Woo161 \l 1033]. All these directors are indulged into the practice of

developing the strategic plan for the business, and they take various crucial decisions for the welfare of the entire organization. CEO of Woolworths limited named Bradford Banducci takes investment decisions and ensures whether financial resources are utilized efficiently or not. Role of every director present within the Woolworths plays the different role[CITATION Kan13 \l 1033].

Considering the director report of the business the background of every director has been provided in the report which involves their educational background, the career as a leader and another type of crucial information that is significant for the business. The principal activities of the organization have been highlighted in the director's report which involves Australian food and petrol, BIGW, petrol, New Zealand supermarkets and Endeavour drink group. Dividend declared in the financial year 2016 has been shown where the high amount of dividends were paid in the year 2016 as compared with the previous year[CITATION Woo17 \l 1033]. Director interest in share and performance right part has been shown in the report along with meetings of directors that held during the financial period ended 26 June 2016. Along with this environmental regulations have been highlighted in the report where it has been highlighted that all the operations of the Woolworths group are as per the environmental regulations. Apart from this, the remuneration report of the directors has been reflected in the director's report that highlights the salary paid to the top executives of the company. Moreover, the range of KPI undertaken for every individual has also been shown in the report.

Auditor opinion

The main auditors of Woolworths limited are Ernst & Young Inc, Deloitte and SAB&T Inc where both these companies hold the responsibility to audit the financial statements of the company in order to know overall performance in the market. The audit committee of the Woolworths limited carries out different functions that take into consideration reviewing reports that are presented by the treasury committee, reviewing the interim results, considering the independence of the external auditors, etc[CITATION Woo162 \l 1033]. In short, each and every function of the audit committee is quite crucial, and they ensure whether the organization is carrying out every financial function in the proper manner or not. The committee has reviewed the annual financial statements of the group and is satisfied with the business activities as its practices comply with the international financial reporting standards.

Further, the entire committee also reviewed the assessment of the going concern status of the group, and it has been suggested to the board that group will be a going concern for the foreseeable future. Considering the audit opinion, the entire committee has audited the consolidated and separate financial statements of the Woolworths holding limited where the responsibility of the auditors have been highlighted. It is ensured by the auditor that they comply with the ethical requirement and carry out all the audit practices as per the regulatory requirement. It has been analyzed by the auditors that financial information has been represented in a fair manner and no unethical practice has been undertaken so as to highlight the company's performance in the wrong manner[CITATION Woo16 \l 1033]. Apart from this, it is recommended to the Woolworths group to maintain this performance for the longer period. Therefore, this highlights the overall opinion of the auditor of Woolworths group where they are satisfied after auditing the financial statements of the business.

Sales increased or decreased

After undertaking the annual report of Woolworths Ltd for the year 2016 sales of the organization has been known. In the year 2016 the group sales were 60,186 \$M, and in the year 2015, it was 60,679 \$M where the decline in (0.8%) has been witnessed in the overall sales of the enterprise. The major change has been witnessed in the fuel sector where less amount of petrol has been sold by the company in the year 2016 as compared with the previous year. Apart from this, the sale of another sector such as food, the drink has enhanced in the present year as compared with the past[CITATION Woo162 \l 1033]. The possible reason for the decline in the sales volume of the enterprise can be competition in the market. This issue is adversely affecting organization where Woolworths Ltd is not able to accomplish its key goals and objectives.

Apart from this, the company is required to focus more on marketing and the promotional medium through which it is possible to attract customers towards the range of its products, and this can surely act as the development tool for the enterprise[CITATION Mer16 \l 1033]. Further, sales of the group have been segregated into different areas which involve Australian food, petrol, drinks group, etc. All these are the main sources of income of Woolworths limited.

Cash flow analysis

Cash from operating activities helps in knowing the inflow and outflow of the money from the main activities of the enterprise. Further, it helps in knowing whether the organization is effectively carrying out its main operations or not[CITATION Phi16 \l 1033]. Considering the

cash flow statement of Woolworths ltd for the year 2016 the operating activities of the enterprise has been undertaken where it is showing positive outcome with the inflow of 2,357.5 \$M, and this is the favorable situation for the organization. As compared with the previous year the cash inflow which was 3345.1 \$M in the year 2015 from the operating activity has been declined by 29.53 percent. The main reason behind the same is the decline in the level of receipts from customers. It is indicating the Woolworths group is efficiently carrying out its major operations, and this is one of the main reason behind the success of the enterprise in the market where it operates. In terms of money and percentage both cash, inflow has changed in the year 2016 as compared with the previous year. Therefore, it is recommended to the entire group to maintain this performance for the longer period.

Retained profit

On the basis of financial analysis of Woolworths limited for the year 2016 it has been found that organization has incurred the loss of 2,347.9 \$M in the year 2016 and in the year 2015 the company earned the profit of 2137.4 \$M. One of the valid reasons behind the decline in profitability level of the enterprise is the decrease in sales volume that has influenced profits. Apart from this, the main expenses of the enterprise have adversely affected the business such as income tax, movement in translation of foreign operations taken to equity, etc[CITATION Pri16 \l 1033]. Due to this reason, the retained earnings of the company has also declined where in the year 2016 it was (5.6) \$M and in the year 2015 it was 11.3 \$M. This is clearly representing that organizational performance is not up to the mark and improvement is needed in every possible manner.

The company has no control over its major expenses and due to this reason profitability level is not maintained by the enterprise by conducting its overall operations in the market. One of the best ways is to focus on the practice of enhancing sales as in case if sales will increase then it will positively influence the profits of the entity and in turn can assist to accomplish the desired goals of the business[CITATION Ros17 \l 1033]. Further, Woolworths Limited has to identify the major areas where the level of costs can be reduced easily for the overall benefit of the organization in the market.

Ratio analysis

Profitability

Ratio	2016	2015
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Net margin	(2.12)	3.53
Operating margin	2.3	5.0
Return on invested capital	(7.63)	(15.40)

Above shown are the financial ratios of Woolworths Ltd that highlights overall performance of the business in the market. Profitability ratio highlights whether profits earned by the company are adequate or not. Liquidity ratios highlight that enough cash is available within the organization so as to conduct overall operations. Net margin of the company has decreased in the year 2016 as compared with the previous year. It is showing that adequate amount of revenue is not present with the business after deducting all the expenses[CITATION Woo162 \l 1033]. Operating margin of the Woolworths has also declined which indicates ineffective pricing strategy of the enterprise. Return on invested capital of the entity is also adverse that reflects that company is not able to obtain the high return on the invested funds.

Liquidity

Ratio	2016	2015
Current ratio	0.83	0.84
Quick ratio	0.16	0.23

Above shown are the liquidity ratios of Woolworths ltd. Further, current and quick ratio of enterprise has declined in the year 2016 as compared with the past. It is reflecting the organization is not having sound cash position.

Asset turnover

Ratio	2016	2015
Return on asset	(5.06)	8.66
Asset turnover	2.39	2.46

Return on asset ratio of Woolworths Ltd is negative and it has declined in the year 2016 as compared with the past. Apart from this asset turnover of the company has also declined. This is clearly representing that company is not able to utilize its assets and due to this lower return is obtained.

Leverage

Ratio	2016	2015
Financial leverage	2.77	2.34
Debt/Equity	0.46	0.28

Financial leverage of Woolworths ltd is indicating that organization is using higher debt to acquire additional assets and this is considered to be risk for the business[CITATION Pri16 \l 1033]. Company has high dependency on loan and this can have adverse impact on the organization. Debt equity ratio of company is also high which reflects more ratio of debt which is not favorable.

CONCLUSION

The entire study carried out has supported in knowing the financial position of Woolworths Ltd in the market. Further, with the help of ratio analysis, it has been identified that organization is not operating efficiently in the market where its profitability, liquidity, leverage position is adverse, and improvement is needed. Moreover, the auditor report has shown that financial statements are prepared by the company in the proper manner as per IFRS. Therefore, business is efficient, but improvement is needed in the financial position.

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