Financial Statement Analysis for Jury's Inn

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[Name of the Institution]

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The organization selected for the current assignment is Jury's Inn that owns many restaurants in different parts of the world. A financial statement analysis is undertaken to assess the financial performance of an entity. The financial performance is then compared with the past and is also used to forecast the figures for the future(Tracy, 2012). The financial analysis involves the numbers from the income statement and a balance sheet. When a ratio contains figures from both an income statement and a balance sheet, an average of the income statement amount is used (Raiyani, 2011). The following lines shall provide a detailed financial ratio analysis for the above-mentioned company.

Current ratio

The basic purpose of a current ratio is to assess the liquidity of a business or its ability to pay off all the short-term debts if they all become due at the same time (Weygandt, et al., 2015). The basic formula for the ratio is to divide the current assets by current liabilities (Basioudis, 2019). The standard for this ratio is 2:1, which means that an entity should have $ 2 of current assets against each dollar of current liabilities (Bragg, 2019). The following table shows the current ratio for the business for 2020 and 2019.

Table 1: Current ratio for Jury's Inn for 2019 and 2020

	2020	2019
Current Assets	3065	3024
Current Liabilities	1339	1616
Current Ratio	**2.29**	**1.87**

The above table shows that the business has improved on the current ratio from 2019 to 2020. In 2019, there were $ 1.87 of current assets against each dollar of the current liabilities, whereas, in 2020, there were $ 2.29 of current assets against each dollar of current liabilities. The improvement can be attributed to two major reasons; either an increase in the number of current assets or a decrease in the number of current liabilities. An assessment of the balance sheet reveals that there has been a decrease in both current assets and current liabilities(Fabozzi & Peterson, 2012). However, the decrease in the current liabilities was much higher than the decrease in current assets, causing an increase in the current ratio. The detailed analysis of current assets reveals that there has been a decrease in all items except stock. In the current liabilities, all the available items have experienced a decrease. A major decrease in the current liabilities has been observed in the bank overdraft.

Quick Ratio

The quick ratio is used to assess the extreme liquidity position of a business by comparing the quick assets to current liabilities (Dauderis & Annand, 2015). The quick assets form a part of the current assets but do not include the inventory or stocks. As a result, the quick assets are most easily convertible to cash(Franklin, 2019). The standard for this ratio is 1:1, which means that a business must have $ 1 of quick assets against each dollar of current liabilities at any given time (Holtzman, 2013). The following table shows the quick ratio for the business for the years 2020 and 2019.

Table 2: quick ratio for Jury's Inn for 2019 and 2020

	2020	2019
Quick Assets	1615	1820

Current Liabilities	1339	1616
Quick ratio	1.21	1.13

The table above shows the company's quick ratio for 2020 and 2019. The company has improved the quick ratio from the year 2019 to 2020 as it had $ 1.13 of quick assets against each dollar of current liabilities in 2019 and $ 1.21 in 2020. The change can be due to an increase in the number of quick assets or a decrease in current liabilities. An overview of the balance sheet shows that both quick assets and current liabilities have decreased, but the decrease in current liabilities is lower than the decrease in quick assets, causing an increase in the ratio.

Inventory turnover Ratio

The next category of ratios involves the activity of the business. The inventory turnover ratio is the first ratio within this category. The major purpose of calculating this ratio is to assess whether the business is efficiently converting its inventory to sales (Kumar & Sreekantha, 2018). There are two variants of this ratio; one is calculated as the number of times, whereas the other is calculated as the number of days (Mulls & Orloff, 2017). The ratio is calculated by dividing the net sales by the average inventory for the company. Since only two years of data are available in the current scenario, it will be assumed that the actual figures for inventory are equal to the average. Therefore, the following formula is used to calculate the ratio.

Inventory Turnover ratio = Sales/ Average Inventory

Table 3: Inventory Turnover ratio for Jury's Inn for 2019 and 2020

	2020	2019

Sales	5500	6000
Inventory	1450	1420
Inventory turnover ratio	3.79	4.22

The above table shows the inventory turnover ratio for the company for the years 2020 and 2019. The calculations show that the company has decreased the inventory turnover meaning that the company has not been able to convert the inventory to sales very effectively. The reasons for this decrease in this ratio are the decrease in sales. Another variation is to calculate the number of days the company takes to sell the average inventory takes. The following table shows the calculations.

Table 4: Inventory Turnover in days for Jury's Inn for 2019 and 2020

	2020	2019
Inventory turnover ratio	3.79	4.22
Number of days	365	365
Inventory turnover in days	96.31 days	86.49 days

The above table shows that the inventory turnover is taking a little longer time in 2020 as compared to 2019.

Receivables turnover ratio

Just like the inventory turnover ratio, the receivables turnover ratio is calculated to assess the ability of the firm to convert receivables to cash. This ratio is important because it can directly affect the company's cash cycle (Romney, 2018). The ratio is calculated by dividing the

net sales by average accounts receivables (Trigo & Belfo, 2016). The following table shows the receivables turnover ratio for the company for 2020 and 2019.

Table 5: Receivables Turnover ratio for Jury's Inn for 2019 and 2020

	2020	2019
Receivables	1600	1800
Sales	5500	6000
Ratio	**3.44**	**3.33**

The above table shows an increase in the number of times that the business converts its receivables to cash. This aspect can be considered an improvement for the business because more cash will be generated. There has been a decrease in the sales and receivables, but there has been a higher decrease in the receivables. Another variation of the ratio is to calculate the number of days for the outstanding receivables. The following table shows these calculations for the years 2019 and 2020.

Table 6: Receivables Turnover in days for Jury's Inn for 2019 and 2020

	2020	2019
Receivables turnover	3.44	3.33
Days	365	365
Ratio	**106.1 days**	**109.61 days**

The above table shows the number of days the company took to convert the receivables to cash. There has been a slight decrease in the number of days showing a little improvement for

the business. However, the business should evaluate the ways to receive cash more quickly from the receivables.

Gross Profit margin

This is a preliminary ratio used to assess the profitability of a business. Gross profit is calculated by subtracting the cost of goods sold from the sales revenue (Warren, et al., 2016). The ratio provides the gross profit as a percentage of sales. The following table shows the ratio for the company for 2020 and 2019.

Table 7: Gross Profit margin for Jury's Inn for 2019 and 2020

	2020	2019
Sales	5500	6000
Gross Profit	5050	5150
Ratio	**91.8%**	**85.83**

The above table shows the gross profit margin for the business showing an increase in the ratio from 2019 to 2020. However, the increase has been initiated by the decrease in sales revenues and an equivalent decrease in the cost of goods sold. A more detailed analysis will be required to see which components of the cost of goods sold have not decreased much

Net profit margin

A business has to incur both direct and indirect expenses to run its operations(Needles, et al., 2019). The direct expenses are deducted from the sales revenue to get to the gross profit whereas the indirect expenses are deducted from the gross profit to get to the net profit(Warfield,

et al., 2007). The ratio shows the net profit as a percentage of sales for the business(Wild, et al., 2007). The following table shows the net profit margin for the business for the years 2020 and 2019.

Table 8: Net Profit margin for Jury's Inn for 2019 and 2020

	2020	2019
Sales	5500	6000
Net Profit	4008	4073
Ratio	**72.87%**	**67.88**

The above table shows the net profit margin for the business for the years 2020 and 2019. The ratio has increased, which is a positive aspect for the business. This increase has happened despite a little decrease in the sales revenue for the business. The business has been able to control the indirect expenses that are deducted from the gross profit to reach the net profit. Further analysis can be undertaken to see which components of the indirect expenses have experienced the most and the least change. Then, the business can form its strategy to reduce all the expenses equally.

Debt to Equity ratio

Assets are considered a business's resources used to generate revenues. These resources are financed by either outside or inside sources (Hermanson, et al., 2018). The outside sources are considered debt whereas the inside sources are considered capital or equity (Jonick, 2018). Normally, businesses use a combination of both debt and equity, but it is important to note the

percentage of both components and changes thereof(Clarke, et al., 2018). The following table shows the debt-to-equity ratio for the business for the years 2020 and 2019.

Table 9: Debt to Equity ratio for Jury's Inn for 2019 and 2020

	2020	2019
Liabilities	1489	1761
Capital	2068	2056
Ratio	**0.72**	**0.86**

The above table shows the debt-to-equity ratio for the business for the years 2019 and 2020. There has been a decrease in the ratio which shows that the business is using a lower amount of debt in 2020 as compared to 2019.

Conclusion

The company's financial position has improved from 2019 to 2020. However, there are some possibilities for improvement as well. The business should try and increase the ratios related to inventory and receivables. The business should also improve its debt position compared to the capital.

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