KP snack financial statement and ratio analysis

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Abstract. This research looks at the current situation and development of the snacking industry from a company perspective (taking KP snacks as an example). First, the paper analyses the financial statements based on the balance sheet, income statement and statement of cash flow. The reason is analysis of financial statements is one of the most important aspects of company management, it can help in optimize the financial management of the company. Secondly, this research is based on the annual report of "KP snacks" between 2017 to 2022 and uses the data from the reports to calculate several ratios, to analyse the profitability, operating conditions and capital management of the company. Based on those analyses, the revenue of the company is forecasted for the next 5 years. According to the study, KP Snacks has strong profitability, but cash flow is not being handled well. However, the company's profitability is expected to increase over the next few years.

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1 Introduction

As the demand for quality of life is increasing, eating snacks becomes an indispensable part of people's lives. To understand the development of the snack industry, KP snacks was chosen as an example for this study. Profitability was assessed by analyzing the company's financial statements. Analysis of financial statements is the best way to understand the profitability of the company, it is the earning ability of the company of the daily operation. To deepen the understanding of the company's financial position and operating results, the company needs to conduct a comprehensive analysis of its profitability in order to make the most appropriate decisions [1].

2 Financial statements analysis

2.1 Analysis of balance sheet

A balance sheet is a statement used by a company to record the assets consumed in the development of its operations and the financial flows [2]. The balance sheet contains information on current assets, current liabilities, and non-current liabilities, etc. This information reflects the development and changes in the size of the business, the scale of financing of the business, etc. The balance sheet is an important basis for analyzing the business development and profitability of a company for a given period. It also provides an analysis of the balance sheet for planning the future development of the company [3].

Table 1. KP Snacks Assets Between 2019 to 2021.

	2019	2020	2021
Current Asset	131,880,000	117,773,000	98,622,000
Non-Current Asset	544,164,000	499,579,000	456,401,000

From Table 1, total assets of KP Snacks in nearest 3 year are continue decreasing. As for current assets, it decreased from £131,880,000 in 2019 to £117,773,000 in 2020, and then decreased to £98,622,000 in 2021. At the same time, the non-current assets have the same trend, decreasing from £544,164,000 in 2019 to £499,579,000 in 2020, and then decreased to £456,401,000 in 2021. Even though looking for the amounts, it is continuing to decrease, as the non-current liabilities as a percentage of total assets, it shows increase trend. From 80.49% in 2019 to 82.23% in 2021. The company's liabilities have been decreasing in the last three years, but the main decrease was generated in 2020, from £454,192,000 to £358,597,000. The data shows that it is mainly due to the decrease in borrowing, both current and non-current liabilities, that the amount of borrowing has decreased significantly.

2.2 Analysis of income statement

The income statement is used to record the results of a company's operations over a period and provides detailed information about earnings. Managers can use the income statement to forecast future earnings [2]. It includes revenues, costs, various period expenses, taxes. Help to understand the level of total profitability and various sources of profit and their structure.

Table 2. KP Snacks Revenue and Cost of Sale Between 2019 to 2021.

	2017	2018	2019	2020	2021
Revenue	345,669	377,073	474,226	479,429	524,751
Cost of sale	196,192	212,945	262,023	256,949	274,410

There are three main acquisitions in recent years, which are Largo foods UK limited, Tyrrells Potato Crisps Limited and Glennans Limited, the third is Popchips Limited. As can be seen in Table 2, through the acquisition, the company's operating profit and net profit have increased from 2018 to 2021. 2018 revenue increased by 9.08% from last year. 25.77% increase in 2019. 2020 increased by 1.10%. 2021 increased by 9.45%. This may be due to the steady progress of KP snacks through acquisitions and various efforts to strengthen the speed and quality of advancing the company's product innovation [4]. With the rise in revenue, the cost of sales is basically increasing. The cost of sales in 2018 increased by 8.54% from last year. In 2019, it increased by 23.05% compared to last year.

2021, it increased by 6.80%. From the percentage of increase, the increase of operating cost is mostly close to the ratio of revenue growth, so the company can save costs while expanding the sales in the future, which can make the profit continue to rise.

2.3 Analysis of statement of cash flow

The cash flow statement is the financial statement of a company that specifically records the cash flow [2]. The management of cash flow statement is very important. There are many companies that have gone out of business and bankrupt because of poor cash flow management. The management objective includes all cash receipts and expenditures of the company. Companies can solve cash flow problems through cash flow forecasting, budgeting and optimizing the cash flow management process. Cash flow forecasting means forecasting future cash flows based on the analysis of existing cash flow statements to ensure the stability of cash flow statements. Cash flow management refers to optimizing the company's cash flow management process to improve the efficiency and stability of cash flow [5].

Table 3. Cash and Cash Equivalents of KP Snacks Between 2018 to 2021.

	2018	2019	2020	2021
Cash and Cash Equivalents	288,000	69,000	0	0

According to Table 3, KP Snacks has managed its cash flow quite well in 2018. There is enough cash and cash equivalents for contingencies. But in 2019, cash and cash equivalents dropped sharply, down to 69,000 from 288,000 in 2018. This means that the company have less assets that are liquidity, indicated that the company is exposed to significant cash flow risk. Cash flow risk control can protect its operations. If cash flow risk control is ignored, it may lead to bankruptcy and collapse of the company [6]. It is crucial to ensure that there is enough cash and cash equivalents on the financial statements. It can be used to cope with short-term debt crises that might otherwise face a credit crisis. Therefore, it is vital to ensure a healthy cash flow no matter how much profit the company earns.

2.4 Financial ratio analysis

Financial ratios can be divided into four categories. The four ratios are profitability ratios, efficiency ratios, liquidity ratios, and investment ratios. This paper analysis the company's situation through these four ratios. First are profitability ratios. Profitability ratios include gross profit margin, net profit margin, return on equity and return on capital employed. The most important are the gross profit margin and net profit margin. Gross profit margin = (Gross Profit / Revenue) x 100%. This ratio shows % of sales left over after taking away costs of buying in materials and costs relating to processing the materials. The table below shows the gross profit margin from 2018 to 2021.

Table 4. Gross Profit Margin Between 2018 to 2021.

2018	2019	2020	2021
43.53%	44.70%	46.70%	47.70%

According to the Table 4, the gross profit margin has continued to increase in these 4 years. The increase in gross profit margin indicates that the profitability of KP snacks is also increased. It means that the company gets more profit from the sale of products and is more efficient in the transfer of the raw materials to revenue. Net profit margin has the same trends as gross profit margin. Net Profit margin = (Net Profit / Revenue) x 100%. It is showing in Table 5.

Table 5. Net Profit Margin Between 2018 to 2021.

2018	2019	2020	2021
3.60%	4.30%	7.20%	7.60%

Second is efficiency ratios. It includes inventory holding period, receivables collection period, payables payment period and working capital cycle. The most important are the inventory holding period, receivables collection period. Inventory holding period (in days) = (Average inventory / cost of sales) x 365, which is shown in Table 6. This ratio measures the number of days that should be used to sell the inventory purchased. Receivables collection period (in days) = (Trade Receivables / Revenue) x 365. This ratio measures the number of says that should be used to receive the account receivable from the sale of goods. From the results, the company has a quick turnover in inventory and can receive payment from customers quite short. This is a good phenomenon; it means that the company has a low risk of obsolescence, and it can collect the account receivable in time.

Table 6. Efficiency Ratios Between 2018 to 2021.

	2018	2019	2020	2021
Inventory holding period	27.15	25.47	31.74	29.97
Receivables collection period	79.86	86.12	69.48	51.25

Third is liquidity ratio. It includes the current ratio and quick assets ratio. Current ratio = Current Assets / Current Liabilities. The current ratio shown in Table 7 compares the firm's level of liquid assets to its upcoming liabilities. Often said that the current ratio should be around two. The current ratio dropping below 1 may be a problem [7]. However, the company's ratio is far from standard, which means KP Snacks is not able to cover its current liability quickly and easily. That is because the current liabilities are more than current assets. The company may face the problem of insolvency. Because there are too few liquid assets, in the event of an urgent debt repayment situation, it may default because it does not have enough cash.

Table 7. Current Ratio Between 2018 to 2021.

2018	2019	2020	2021
0.54	0.66	0.83	0.54

Table 8. Quick Ratio Between 2018 to 2021.

2018	2019	2020	2021
0.45	0.56	0.66	0.43

Quick assets ratio shows the same problem. Quick assets ratio = (Current Assets – Closing Inventory) / Current Liabilities. Traditionally 1:1 is viewed as optimal, but Table 8 shows that KP snacks has not gotten 1 ever. These two ratios show that the company faces some problems with cash flow. Cash flow is the basis for maintaining sustainable development of the entire company's production and operation [8]. That's why the management of cash flow is crucial for a company that wants to grow sustainably. Cash flow management is a way to manage and control cash flow, which covers all cash receipts and expenditures of a company [5]. Failure to pay attention to cash flow risk control will make the company unable to resist losses or even face the risk of collapse.

The last is investment ratios, it is shown in Table 9. It includes the earnings per share, price earnings ratio, dividend cover, dividend yield, capital gearing ratio and interest cover ratio. Because KP doesn't show market price in its report, the earnings per share ratio and dividend yield cannot be calculated. However, the earnings per share, dividend cover, capital gearing ratio and interest cover ratio can be used to analysis the investment of the company.

The gearing ratio of KP Snacks is in a safety area. It is calculated by gearing ratio = long-term debt / (shareholders' funds + long-term debt). It is not too high to face the financial risk, also not too low to miss out on tax benefits and cheaper financing. The high interest cover ratio also indicates that KP Snacks is in a relatively secure position. What's more, KP Snacks can easily cover its interest, so it has a qualification to borrow money from a bank and use that money to invest or develop. However, KP Snacks shows low dividend cover (dividend cover = profit after tax less preference dividend / ordinary dividends), which indicates that the company may not pay the dividends to shareholders. The earnings per share are increasing from 0.07 to 0.2, which shows a positive performance for the shareholder.

Table 9. Investment Ratios Between 2018 to 2021.

	2018	2019	2020	2021
Interest cover ratio	3.82	3.86	7.25	11.81
Dividends cover ratio	0	0	0	0.82
Capital gearing ratio	0.57	0.55	0.51	0.37
Earnings per share	0.07	0.10	0.17	0.2

3 Revenue forecast

The drivers of KP snack are people who would like to eat snacks. The revenue from 2019 to 2022 shows that snacks are becoming more and more popular, so the company income continues to rise. And the willingness of British people to try new snacks is very high [9]. Throughout the snack food industry, revenues have been rising steadily in recent years. Based on that, the revenue of KP snack will continue to growth. On the other hand, it is possible that the increase in revenue is also due to an increase in the volume of exported products. In recent years, communication and cooperation between countries has gradually increased. The imports and exports of products have also grown rapidly. The local snack industry in the UK may also be popular with foreigners, thus increasing revenue.

However, eating too many snacks are harmful for people's health. People begin to pursue a healthier lifestyle after several year, they will eat traditional snacks less frequently [10]. The revenue of the snack industry may decline as a result. However, this may not lead to a decline in revenue for KP snacks. This is because KP Snacks started to research and produce healthy snacks several years ago. They have reduced the use of refined vegetable oils (which contain harmful trans fatty acids), that can make their snacks more relevant to customers' needs. However, revenue may still be affected a bit because of the whole industry. So, the rate of revenue growth may decrease.

4 Conclusion

This study found that KP snacks has a good profitability, and the revenues are likely to continue to rise in the future. Looking at the balance sheet, the company has been reducing borrowing in recent years. This has led to a consistent decline in current liabilities and non-current liabilities. Perhaps because of acquisitions, the company has expanded its sales. The revenue has been continuing to rise. However, the company's management of cash flow has been poor in recent years, especially in 2020 and 2021, and there is no cash and cash equivalent on the books at present. This also means that the company is facing a large cash flow risk. If the company faces unexpected situations or cruises, they may not have enough time to raise funds and put them in serious cases, such as the risk of closure. This study analyzes the company's financial situation in more detail through ratios analysis. These ratios include profitability ratios, efficiency ratios, liquidity ratios, and investment ratios. The increase in profitability ratios shows that the company's product sales are increasing every year and the company's production process is becoming more efficient. The efficiency ratios show that the company can receive account receivable more and more quickly. This is a good improvement because the company may use those funds in other areas if they are needed. The liquidity shows some problems. The current ratio has been below the standard for the last 4 years. This implies the current liabilities are more than current assets. Company may face insolvency.

This study first examines the three statements of the company and then ratios analysis. This helps the company to understand its financial position and improve it, and at the same time, improves the management process and avoids cash flow risks.

Finally, this paper does not analyze more specifically the different categories of the company's products. Revenue is a crucial part when analyzing the profitability of a company. Analyzing the revenue of different products can make the profitability analysis more specific. In the future, the analysis can be further refined on different categories of goods to facilitate in-depth research on the topic.

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