Financial Statement Analysis Assignment: A Comparison Between Jb Hi-Fi And Harvey Norman

Question

Using JB HiFi's annual reports analyse the company's liquidity and bankruptcy risk from an accounting viewpoint. In 2017, JB HiFi's takeover of Good Guys retail operation worried investors. Its share price dropped in February 2018 after company reported slower Good Guys sales. (See https://www.insideretail.com.aui/news/jb-h-i-figets-holiday-boost-nz-venture-rebounds-201802).

In a 2000-word essay, you must utilise the IDEALS framework to assess JB HiFi's performance and insolvency risk. Essay essentials:

1. Calculate all the liquidity ratios presented in class and the Altman's Z-score for JB HiFi and Harvey Norman Holdings over the previous three years.
2. Using the liquidity ratios, determine three major financial performance concerns that JB HiFi should address to improve financial performance and reduce bankruptcy risk.
3. Compare the three primary performance concerns to Harvey Norman Holdings using data from the financial report, operating and financial evaluations, and retail industry standards.
4. Identify JB HiFi's most pressing financial concern to avert insolvency.
5. In your final self-reflection, discuss the function of financial and non-financial information in company annual reports.

The reference list is essential but not counted. Academic honesty and plagiarism policies apply if you provide unreferenced knowledge. All matters will be forwarded to the Faculty Discipline Committee under university policy. EndNote and APA 6th Style is necessary for citations.

Summary:

The research report demonstrates discipline knowledge, critical, analytical, and integrative thinking, and effective communication. This formative evaluation is for Research Report Part 2.

Answer

Introduction: Financial statement analysis helps determine a company's liquidity and solvency. This financial statement analysis assignment might help compare rivals' liquidity and solvency. Ratio analysis is the most effective way to compare a company's financial statement. Size and revenue generation might complicate comparisons. Ratio analysis reduces these elements' impact. This financial statement analysis assignment analyses JB Hi-Fi Limited's liquidity and solvency condition (Wahlen, Baginski & Bradshaw, 2014). This analysis compares Australian retailers JB Hi-Fi with Harvey Norman. This study will also compute both organisations' Altman's Z scores to further explain their financial status in Australia. This financial statement analysis assignment analyses financial and non-financial elements to compare firms.

Position liquidities:

This financial statement analysis assignment discusses the current ratio and quick ratio to analyse a company's liquidity condition. JB Hi-Fi Limited and Harvey Norman Limited will calculate both ratios to analyse their liquidity.

Particulars	Harvey Norman			JB Hi-Fi		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**
Current Assets	1605.547	1112.433	1317.618	702.400	1167.500	1210.500
Current liabilities	1279.012	829.964	829.964	446.800	885.800	917.200
Inventories	315.746	315.968	345.287	546.400	859.900	891.100
Prepaid expenses	0.000	0.000	0.000	0.000	0.000	0.000
Quick assets	1289.801	796.465	972.331	156.000	307.600	319.400
Current ratio	1.255	1.340	1.588	1.572	1.318	1.320
Quick ratio	1.008	0.960	1.172	0.349	0.347	0.348

Harvey Norman's liquidity is stronger than JB Hi-Fi Limited's in Australia's retail industry, according to this review. Examining these ratios in detail: -

Current ratios- Current assets and current liabilities of a corporation are used to pay off current liabilities. This ratio demonstrates a company's capacity to pay its following year's dues. The optimal current ratio is roughly 2:1, but varies per organisation and industry. Australian retail current ratios are 1.5:1. This ratio suggests a corporation should have 1.5 times current assets for current liabilities (Brigham, Ehrhardt, Nason & Gessaroli, 2016).

In both fiscal years, Harvey Norman's current ratio is better than JB Hi- Fi's. Harvey Norman's present ratio is optimal in 2018; however JB Hi- Fi's isn't (JB Hi-Fi Limited, 2018). Harvey Norman's liquidity is superior based on this evaluation.

Quick ratio- Businesses can't or won't sell certain present assets in the next 12 months. The company's management may not be able to sell inventories in the coming years. So, inventories and prepaid costs aren't included in fast assets (Weygandt, Kimmel & Kieso, 2015). The quick ratio evaluates a company's short-term liquidity using quick assets instead of current assets. The optimal current ratio is roughly 1:1, but varies per organisation and industry. Australian retail current ratios are 0.5:1.

Harvey Norman's quick ratio is far greater than the optimal quick ratio in both years (Harvey Norman, 2018). JB Hi-Fi limited hasn't achieved optimal quick ratio in both years. It shows that JB Hi-liquidity Fi's is lower than Harvey Norman's.

Altman's Z score is a credit rating system used by businesses to determine a company's credit strength based on its latest financial statements. This financial statement analysis assignment analyses five important ratios that can be easily determined from financial statements. Each ratio is given a weight based on its importance to the company's liquidity situation (Altman, Iwanicz-Drozdowska, Laitinen, & Suvas, 2017).

The aforementioned calculation's table is below

Particular	**Harvey Norman**	**JB Hi-Fi**
Current Assets	1317.618	1210.500
Current liabilities	829.964	917.200
Working capital (A)	487.654	293.300
Total assets (B)	4577.642	2491.700
T1 (A/B)	0.107	0.118
Retained earnings (C	2337.241	463.200
T2 (C/B)	0.511	0.186
EBIT (D)	530.172	334.500
T3 (D/B)	0.116	0.134
The market value of equity €	3879.267	2821.784
Total liability	1639.710	1544.100

(F)		
T4 (E/F)	2.366	1.827
Net Sales (G)	1993.760	6854.300
T5 (G/B)	0.436	2.751

Harvey Norman
Z= 6.56* 0.107+ 3.26* 0.511+ 6.72* 0.116+ 1.05* 2.366 = 5.6316

JB Hi-Fi Limited
Z= 6.56* 0.118+ 3.26* 0.186+ 6.72* 0.134+ 1.05* 1.827 = 4.1992

Both organisations' Z scores are over 3, indicating that they are healthy. Harvey Norman is healthier than JB Hi-Fi Limited (Almamy, Aston & Ngwa, 2016).

Three money difficulties

- **Mergers:** JB Hi-Fi purchased Good guys in 2017 to enhance its sales growth rate. The company's management harmed sales and profitability to do so. Business combinations sometimes have a negative influence on a company's financial and liquidity situation in the early years, although this may be addressed with improved management of newly acquired business segments (Dutordoir, Roosenboom and Vasconcelos, 2014).
- **EBIT/sales:** The ratio between sales and EBIT is the company's net profit ratio, which shows its financial and future liquidity. The company's net profit ratio is lower than comparable Australian retailers. The firm has a net profit ratio of 4% and generates 334 million in EBIT on 6854 million in revenue (Deegan, 2013). The company's management must control the indirect costs of supplying services and commodities to clients.
- **Equity value:** When analysing a company's financial and liquidity status, market value of stock is equally crucial. JB Hi-Fi Limited has a smaller market value of equity than its main competitor Harvey Norman.

Harvey Norman

Harvey Norman had no acquisitions, mergers, or combinations in 2016, 2017, or 2018. This is an excellent way to enhance growth and development, but mishandling can harm a company's finances. In consumer retail, acquiring new business to increase business and client base is typical (Trautwein, 2013). Harvey Norman's expansion strategy is franchising, which is more efficient than merger and acquisition. Other companies in this industry combine businesses.

EBIT/sales: Harvey Norman's EBIT-to-sales ratio in 2018 was far higher than JB Hi-Fi's. Harvey Norman's 2018 net profit is 26.5%, whereas JB Hi-is Fi's 4.8%. This gap is large between two similar businesses. This industry's optimal net profit ratio is 20-30%. (Edwards, 2013). Based on industry and JB Hi-key Fi's competition, the firm must boost this percentage or lose its competitive edge.

Equity value: The market value of an Australian stock demonstrates its demand. Harvey Norman's current share price puts its market value at $3,879 million. Harvey Norman's sum is roughly 2821 million, which puts it ahead of JB Hi-Fi.

Key financial problem

In 2017 and 2018, the company's key financial concern is net profit to total sales. This ratio was 5.5% in 2016, then 4.6% and 4.8% in 2017 and 2018. This ratio drop suggests that corporate processes must alter. Other companies in the same industry achieve 20-30% net profit, supporting JB Hi-Fi Limited's conclusion. Harvey Norman's three-year net profit ratio was 26.5%, 24.7%, and 19.5%. This is far greater than JB Hi-Fi, and the trend of net profit is rising, unlike JB Hi-Fi (Ormiston and Fraser, 2013). JB Hi-most Fi's major financial performance concern is its lower net profit ratio compared to its primary competition.

Self-reflection: After analyzing the financial reports of both firms in this financial statement analysis assignment, it can be claimed that both financial and non-financial decisions may affect a company's financial and solvency status. Current business operations affect the company's net profit ratio, as stated above. Non-financial decisions like the February 2018 acquisition of Good Guys will also affect the company's finances. This financial impact might be negative or favorable depending on how management uses synergy established by the merger.

Conclusion

Based on this financial statement analysis assignment, JB Hi-Fi Limited’s financial and liquidity situation are not very effective in the market compared to other consumer products retail enterprises in Australia. This assignment's conclusion was reached by comparing the company's financial statements to those of Harvey Norman, its biggest competitor. JB Hi-Fi Limited's ratios were compared to other firms in its industry. Our **Finance Assignment Help** professionals from major colleges develop financial statement analysis assignments to give dependable online assignment assistance.

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