**COVER PAGE AND DECLARATION**

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**Introduction**

The financial management of any company is the cornerstone of it, as it is the source of planning and has a major role in implementation, as well as monitoring and control, and in the closing stages. In other words, it is the vision of every company and where it is going, in the language of numbers that no one can lie.

In the world of finance and business, financial analysis is one of the important tools for evaluating the financial performance of companies and investments.

Financial analysis: concept and importance

Financial analysis deals with the study of financial information of companies and markets to determine their strength, stability, and ability to achieve growth and profitability. Investors and financial analysts use this information to make informed investment and management decisions.

**The company whose financial statements we are going to analyze:**

(Levels), is a local Saudi company, specialized in contracting and furnishing for hotels and commercial projects. 2008 was their beginning, and they were able to prove their worth and ability through professional work which is based on quality and speed, within a short period of time. In (Levels) they have a very ambitious and efficient leadership vision that enabled us to work with the largest local and international companies. their headquarters is located in Jeddah, while their projects are extended throughout the Kingdom.

1. **Create a performance evaluation by analyzing the following performance measures:**

Financial analysis can be classified into three main types:

- Vertical analysis: compares a company's financial data with its previous data for a specific period.
- Horizontal analysis: compares the company's financial data with data from similar companies in the sector.
- Ratio analysis: It uses financial ratios to analyze financial data and provide a clear picture of financial performance.

**Vertical analysis and its importance:**

Vertical analysis aims to study the company's performance over time and determine the changes that have occurred in its financial positions. This type of analysis allows analysts to understand a company's financial and operational developments and identify areas that need improvement or attention. Vertical analysis can be used to analyze annual, quarterly, and monthly financial data, by comparing current data with previous data for similar time periods.

**Horizontal analysis and its importance:**

Horizontal analysis aims to compare a company's performance with other companies in the same sector or market. This type of analysis helps determine how strong and quality a company is compared to its competitors. Horizontal analysis can be used to evaluate growth, profitability, liquidity, and the ability to provide returns to investors.

**Ratio analysis and its importance**

Ratio analysis uses a set of financial ratios to evaluate a company's financial performance. These ratios include profitability, liquidity, ability to provide dividends, and gearing. Analysts can use these ratios to determine how financially strong a company is and evaluate how good it is as an investment.

The generality exceedingly used financial performance indicators:

- gross profit margin: a total amount of income made from sales and marketing after subtracting manufacturing price, and the % price a firm gains per Saudi ryals of sales.
- net profit margin. this total of income comes from sales after lay all concerning business expenses, and the belong ratio of earnings per Saudi ryals of income.
- Working capital. promptly available or big liquid funds, for finance day-to-day process
- process cash flow. the total of cash being created by regular work operations
- Current ratio. a measurement of solvency—all assets divided by all accountability

1. **A) Profitability**

Accountants can make financial forecasts by analyzing customer orders, analyzing sales, and determining changes in the value of customers in the market. Entrepreneurs will regularly use this information to ensure that they can supply enough goods or services to meet customer demand at current prices. It also helps their interests and leads to competition in the economic financial situation. This would reduce the company's financial income from operations.

**Return on assets**

Return on assets measures the profit of each riyal invested in assets, whether short-term or long-term and is used to compare the performance of enterprises over the financial period.

(The reason for this is that net profit as a number does not help in the comparison process due to the difference in the sizes of establishments).

How to calculate the rate of return on assets:

Net profit/average assets

Note: Depreciation expense is added to net assets to arrive at total assets before calculating the average.

If the company does not have sufficient profits to cover the interest, the burden of interest may result in converting the company's profit into a loss if the profits are insufficient, or increasing losses if the company achieves losses before covering the interest.

How to calculate the interest change rate:

**Net profit before zakat, tax, and interest + interest / interest**

Note: The numbers are extracted from the company's income statement, and the interest is under the name of financing costs.

**Interest coverage ratio**

This ratio measures how much net profit covers the interest due on debts acquired by the company.

The reason for the importance of this ratio lies in:

***Funds Flow Statement***

Refer to Levels, for MAY 2021, KSA. long-term mutual funds and exchange-traded funds have total inflows of SAR 30 million. KSA large-growth funds typically look for redemptions or outflows, which took in $9.6 million that month.

Still, due to previous months' low inflows, the first quarter of 2021 was the weakest for inflows since the first quarter of 2021.

Despite a bit of not-bad news, such as for long-term authority's bond funds, which take at SAR 8.8 Million (a 9.9% one-month growth rate), Levels concluded that those low level of cash in reflects softening sentiment and investor warning.

Stakeholders have to select where to assign their investment capital and always place them in financial fields that they expect to be gainful. If they then consider a downturn in the markets, they may extract them investment capital and any gain.

That locomotion of investment capital is the fund flow of cash in the financial fields.

Investors and market analysts watch cash flows to criterion investor sentiment relating to specific fields, or the market at all. For example, net cash flow for bond funds that are negative during a given year by a big amount might signal broad-refer pessimism for the fixed-income fields.

***Cash Flow Statement***

Cash flow ratios constitute an important method of analyzing cash flows and evaluating performance in various establishments. It is noted that the development of these ratios and their uses has been slow compared to the traditional financial ratios associated with statements of income and financial position, as this is due to the delay in considering the statement of cash flows as a basic statement. The establishments are required and obligated to issue this list along with other lists, and the cash flow ratios gain their importance from the importance of the cash flow list, as this list includes information about cash flow, which is information that can be relied upon better than the static information included in traditional lists, especially in It relates to the areas of judging the liquidity and continuity of enterprises

The importance of using cash flow ratios has been proven in many cases, especially when these ratios predicted the bankruptcy of some companies, despite the traditional liquidity ratios (current ratio, quick ratio) showing that there are no financial problems in those companies.

1- The ratio of cash flows from operating activity to current liabilities

It is also known as the cash flow adequacy ratio, and we take this ratio as the following formula:

Cash flow adequacy = net operating activity flows / current liabilities

Where the numerator consists of the net cash flows generated from operational activity, and the denominator is the sum of current liabilities, which are the obligations that the entity must pay during one financial period, such as short-term loans, notes payable, and the due parts of long-term debts, etc.

The most important thing that this ratio measures is the facility’s ability to generate the cash flows necessary to meet and cover short-term obligations. A high indicator of this ratio expresses the facility’s good liquidity. The indicators of this ratio are measured in times, and in all cases the indicator of this ratio must be judged by By comparing it with the industry average to which the establishment belongs, because these rates differ from one sector to another.

The ratio of cash flows from operating activity to total liabilities

And take the following formula

= Net operating activity flows / total liabilities

This ratio differs from the previous one in that the denominator includes all obligations owed by the establishment, whether those obligations are current or fixed. As for the numerator, it is in the previous ratio, which is the net flows of operating activity. The higher the index of this ratio, the better it is, which shows the ability of the establishment. to cover its obligations, so we see that the ones who resort to this ratio the most are lenders and those responsible in financial institutions for granting loans to customers.

3- Retained operating cash

This ratio includes in its numerator the remainder of the net operating activity flows, which is what is extracted after subtracting the cash dividends from the net operating activity flows. The denominator consists of the current liabilities that the establishment is required to pay during one financial period (12 months). This ratio takes the following formula:

= (Net operating activity flows – cash dividends)/current liabilities

The most important characteristic of this ratio is a demonstration of the ability of establishments to repay their short-term debts from net operating flows after paying cash dividends to shareholders. The situation here is as is the case in the previous ratios, where obtaining a high number of times shows the establishment’s success in providing the cash necessary to repay debts.

***Cost-Volume Profit***

Levels's working salary and net pay are influenced by changes in expenditures and volume, according to a cost-volume profit study. There are a few assumptions made throughout this investigation, one of which is that the project price per unit would remain constant. The cost per project of variable costs is constant. The total fixed costs are fixed. The production has been sold. Changes in activity have an impact on costs. Levels does a cost-volume-profit analysis to determine what modifications are required in terms of expenditures, working salary, and net pay.

### 1. B) Efficiency

Efficiency is the most effective use of available resources to accomplish a certain volume or level of output at the lowest possible cost, and it is one of the most critical indicators of an organization's success in meeting its objectives. Efficiency is the logical, optimum, and cost-effective use of an organization's resources, whereas effectiveness is the degree to which the organization accomplishes its goals for the least amount of money and time.

Companies confront five primary issues in practically every industry: increased pricing competition, decreased consumer loyalty, rising operational expenses, and increasing technological complexity.

Unless these businesses provide a set of goods and services that set them apart from the competition, they will find it more difficult to compete on the basis of the value of their solutions. Many organizations are seeking for less costly external resources to cut the prices of their products and services in response to these commercial demands, but the building of global supply chains imposes a set of capital expenditures and operational complexity in and of itself. As a result, new network infrastructures are required to support current servers and systems, allowing for the creation and deployment of a new set of business applications.

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### 1.C) Short-term Solvency

A corporation with sufficient cash may be able to pay its obligations, but it may be on the verge of financial catastrophe down the line. The fast ratio assesses a firm's capacity to satisfy short-term commitments using its most liquid assets, excluding inventory.

### 1.D) Long-term Solvency

These ratios are generally of significance to shareholders, bondholders, and long-term creditors such as financial institutions. These ratios are often used to examine a company's capital structure. Solvency ratios are ratios that are computed to assess an organization's financial situation in terms of long-term solvency. These ratios evaluate a company's capacity to fulfill long-term commitments and are regularly monitored by investors in order to understand and estimate the company's ability to meet long-term obligations and to assist them in deciding whether or not to invest their money in the firm for the long term.

**What is our analysis of Levels?**

A- Profitability: The company achieved profits in two consecutive years. The return on equity and return on assets are high. Net profit margin is generally considered high

B - Borrowing and liquidity: It is clear that the company does not depend much on borrowing because the ratio of borrowing to shareholders' equity is low. Therefore, the turnover ratio and quick turnover ratio are high.

C - Asset turnover: The ratios of inventory turnover, receivables, and assets are difficult to evaluate without knowing the industry average or the average of competing companies.

D - Dividend distribution ratios: The company distributes about 60% of profits, which is a high percentage, and the dividend rate per share is high. Therefore, this stock may be suitable for the investor who needs to obtain cash dividends every year.

C - Investors' evaluation of the company: It is clear that investors expect the company's continued success, and therefore the ratio of the share price to its earnings is high, as well as the ratio of the share price to its book value.

H - Development of the company's performance: By comparing net sales, gross profit margin, and net profit margin for the past two years, we find that the company achieved an increase in sales of about 16% and an increase in net profits of about 34%. Therefore, the gross profit margin and net profit margin ratio increased from 53.3% and 38.8% to 59% and 43.3%. Also, the rate of return on equity and the rate of return on assets increased by more than 5% for each

This analysis is considered an absolute analysis, meaning that we analyzed the company's financial numbers and ratios at the end of the year without looking at competing companies. Due to the lack of information on the company's financial statements in previous years, we were not able to analyze the change in the company's performance over the past years except in comparison to the previous year only.

**How do we view our company in light of these ratios?**

A - It is clear that our company is one of the very successful companies in this sector because most of our company's financial ratios exceed the sector average.

B- It seems that our trading ratios are higher than usual in this sector

C- Our company's profitability, return on equity and return on assets ratios are far superior to the industry average

D - It is clear that our company distributes a high percentage of profits compared to other companies, which raises the question of not exploiting a larger percentage of profits to expand the company's activity as long as the company is successful.

### 1.E) Market-based Ratios in Levels

This ratio was created due to the inability of the trading ratio to measure the rapid liquidity of the facility because it includes assets that are slow to convert into cash and even assets that cannot be converted at all.

Among them is inventory, which consists of three main parts. Most inventory items, with the exception of finished goods inventory, are not salable and cash cannot be obtained quickly.

Also, upfront expenses. These expenses do not bring in cash, but rather are expenses for services that will be provided in the future. Therefore, we deduct both inventory and upfront expenses from current assets to reach the quick turnover ratio.

How to calculate the quick ratio:

Current Assets – (Inventory + Advance Expenses) / Current Liabilities

Note: Advance expenses are extracted from the notes for Advances and Other Receivables.

Inventory turnover rate

This ratio is used to find out how many times a year a company's inventory is sold and replaced in an accounting time period.

The higher this ratio, the better for the company because of the speed of converting inventory into cash.

How to calculate inventory turnover rate:

Cost of sales/average inventory. The average inventory is calculated as follows:

Inventory balance for the previous year + Inventory balance for the current year / 2

**2. Suggest recommendations for improving the company business based of your report and research.**

- To achieve the best results from financial analysis, the following strategies can be followed:
- Multifactor analysis: involves looking at a set of financial indicators and ratios to determine a company's performance.
- Financial history review: involves looking at a company's financial statements over a long period of time to understand trends and patterns.
- Sector comparison: involves comparing a company's performance with similar companies in the same sector to determine The extent of its superiority or lag.
- Analysis of future expectations: It includes looking at the expectations of analysts and financial experts to determine the company's future and its growth potential.
- Reviewing news and reports: includes following up on news and reports related to the company and the sector in which it operates to identify events and changes that may affect financial performance.
- Using advanced financial analysis tools: includes using advanced financial analysis programs and tools to help investors and analysts analyze financial data and make informed investment decisions.

Management accounting systems play a critical part in an organization's performance because they enable the firm to react more quickly to financial difficulties that may arise. Levels might use a variety of strategies in order to improve their financial efficiency. These systems have benefits and drawbacks, but if effectively implemented, they may substantially benefit the firm.

When Levels has a difficulty determining how much their budget should be for costs such as items, ingredients, employees, and so on, they should utilise the cost accounting system since this sort of management accounting may aid them in calculating the entire cost of Levels's spending. So, if Levels is having trouble generating a budget for their spending, all they have to do is apply the cost accounting system, which will substantially benefit them, resulting in a rise in sales and making the firm more successful.

Another example is if Levels encounters a problem with the distribution of some of their products to their customers or other branches; this problem would be problematic for Levels because it would affect their inventory of goods; in order to solve this problem, they would need to use the inventory management system because it would help them keep track of their goods, as well as who they distribute them to. This might lead to the organization's success in terms of product distribution and a positive reputation.

Levels may also have a problem with employee payment. As a large organization with the responsibility of caring for its employees, Levels must ensure that they are given everything they require without jeopardizing the company's financial stability. If Levels has a problem where they are giving their employees too much or too little of a budget, the solution to this problem is to use the job costing system. They will be better able to distinguish the precise amount of money they should give their employees if they use this management accounting system, which will result in a better budget plan, which will inevitably lead to the organization's continued success because they will have a stronger financial foundation.

Finally, based on the examples I've provided, we can see how critical it is for firms like Levels to implement various management accounting systems since it will eventually help them react to financial challenges that the company may encounter. These systems are designed to provide businesses with a more exact approximation of all things financial, and although they may have some drawbacks, they would help Levels run more efficiently and offer them a greater shot at a long-term future with continued success in what they do.

3. **Recommend one new investment project to the company. The company wants to expand its business through an investment project, however, it can only capitalize 40% through its own capital**

Given the importance of professional successes resulting from the presence of correct financial management, all entrepreneurs and company owners must create financial management that is proportionate to the business model prepared for specific activities. Below is a set of tips that help entrepreneurs and company owners achieve successful financial management of the activities they practice:

1. Review the company's finances on a regular basis

Statistics indicate that 69% of small and medium business owners conduct regular reviews through clear financial management of the company.

Preparing a successful financial management plan makes it possible to recognize the growth in business volume or the risk of customers delaying payments by determining the frequency of financial operations occurring through a monthly and weekly financial review of revenues and costs.

2. Create a liability and tax structure

Business structures vary between individuals, companies, and partnerships. The legal and tax requirements resulting from the chosen business structure vary. The company owner may not know the structure of responsibilities and taxes necessary for the operation of the company he owns, so it is necessary to consult specialists to provide appropriate advice and prepare appropriate financial management for the chosen structure.

3. Allocate a specific budget

40% of business owners allocate an expenditure budget appropriate to the size of revenues through appropriate financial management, and review this estimate with specific steps within the rules of financial management after a period of time, and this is what helps in reaching sound administrative decisions that can shed light on the problem before it occurs; By following successful principles in practicing financial management activities.

4. Set aside a business emergency fund

A successful financial management plan allocates a fund for the company's emergencies. An amount equivalent to 3 months of operating expenses is approved as an appropriate amount within the emergency fund. The allocated amount also depends on the size of the company and its activities.

The money allocated to the emergency fund must be circulated in a way that generates revenues, and the amount allocated to the emergency fund must not be kept in a safe or within the company’s headquarters.

5. Reduce proactive debt

50% of entrepreneurs and managers of medium and small companies seek to reduce unnecessary debts, which cause the allocation of large financial blocks to be paid through financial management aimed at organizing the company’s debts and the method of paying them.

6. Allocate cash for taxes immediately

The equivalent of 48% of company owners make the mistake of mixing the money allocated for taxes with the company's financial property, which is in fact allocated to the government within which the company operates, and the company must submit the appropriate files to the Tax Authority in accordance with the established laws.

7. Allocate yourself a salary from the profits of the company's business

The term salary may be unacceptable to the owner of an establishment, but allocating a sum of money at regular intervals - from the company's account when preparing a financial management plan - without randomly withdrawing from the company's revenues helps in thinking about the company's business separately from your monthly income, which separates the personal view of matters. About the company's revenues.

8. Take advantage of the tax advantages available

Possible tax advantages must be exploited through appropriate policies within the company's financial management, otherwise the business could be negatively affected.

Many small business owners suggest preparing tax returns that take advantage of all the features of the tax system, but it is necessary for the return to be legal and followed by large companies.

9. Select company financing options

Financing options support investment opportunities and business development for the company. Those concerned with the company's business must establish a financial department that enables access to periodically updated financial data to be presented to business owners, potential investors, or loan granting agencies and banks, through the submission of professional financial reports that reflect the company's work.

**3-A) Indicate whether it is a good idea by using NPV and WACC.**

What is an advantage WACC? Investors research for a WACC that's extra than business's return. This is due a big WACC ratio signs the rate in which a business may supply value to their investors. A lower WACC signs that the firm  is losing amount.

What is an advantage NPV? An advantage NPV shows that the projected earnings created by a program or investment—discounted for those present amount—exceed the anticipated price, moreover in today’s dollars. that an investment with a good NPV will be profitable.

An investment with a not positive  NPV will result at the end net loss. its concepts are the foundation for the net present amount rule, which says that only investments with a positive NPV must be considered.

.**3-B) Indicate whether the company must use its own cash or use retained earnings.**

supporting the value of the firm’s shareholders. Management must goal to increase shareholder wealth in order to complete the goals of maximizing shareholder wealth.

From the present amount of the firms employer estimated upcoming returns. money will be made at exchange at these returns.

The decision to keep the earnings or to divide them among shareholders is somtimes left to the firm management. anyway, is can be challenged by the shareholders through a preponderance poll because its the actual owners of the firms.

Management and shareholders may want the firm to keep the earnings at sundry another reasons. Being good informed about the community and the firms work, the management may had a big-profit program in view, which they may understand as a candidate for creating essential returns in the upcoming days.

at the long term, such initiatives lead to good ROI for the firm's shareholders instead of those gained from share payments. Paying off big-interest loans also may be surpass by both management and shareholders, instead of ratio payments.

On the other side of coin, when a firm create overflow cash in, a side of the long-term shareholders will think few orderly incomes in the form of profit as a reward for putting their money in the firm. Traders who wait for shortterm results will also prefer dividend money that offer instant profit.

usually, the firm management takes an equal think. It involves paying out a nominal number of sharing and retaining a good portion of the earnings, which give a win for all parties.

For financial select take by the firm, such as investment, financing, and ration decisions. The denominator -related select is the majority crucial of the decisions. The financial management should select whether the firm should share or keep all earnings, or if it should distribute few of it while keeping the remaining. Maximize theorists, on the other hand, think that The distribution of profit in split form is disappointed of riches because it implies inefficiency on the side of management in terms of maximizing shareholder riches.

4. **Decide whether or not the company should pay return earnings or not.**

    If it has any opportunity of become big, a firm should  be able to ROI earnings and invest them at business ventures that, in turn, can create extra earnings. In other words, a firm that aims to become big should be able to share their fund to work, just like any business. For example you earn SR10,001 all year and put it away in a cookie jar on over of your refrigerator. You will have SR 100,001 after 10 years. If you earn SR10,001 and invest it at a stock earning 10% compounded annually, anyway, you will have SR159,001 after 10 years.

Retained earnings must support the firm value and, in turn, support the value of the amount in money you invest into it. The challenge are that most firms use their retained earnings to cover the status quo. If a firm can use its ROI earnings to produce above-average returns, it is better off keeping this earnings instead of paying those out of shareholders.
Of course, this opinion is exactly what applies to Levels Company. Our view is to follow this same methodology, because distributing amounts to shareholders in this way may create a perception of the company as being wasteful.

**Conclusion :**

Currently, the company has great awareness of the importance of the financial department according to the correct steps, unlike before, and there is great cooperation from the rest of the departments with the financial department, erasing the previous mental idea that the financial department only carries out bureaucratic work.

I picked the Levels Firm and offered a thorough response via the company's application, beginning with your financial strategy for the company, whether short or long term. I also spoke about the company's cash flow. I dealt with certain suggestions for the company's development and continuity in the marketplace, as well as some solutions and initiatives for the company's long-term viability.

I would like to add the last important points about the Finance Department playing an essential role in the company through its work on the financial statements, as follows:

- One of the most important criteria for evaluating the company's clients is the financial statements through which they can see the extent of your ability to carry out large projects, in addition to the number of equipment you have and the volume of your annual sales. Thus, the client forms a prediction about his project with you whether it is subject to failure or not.
- The Kingdom of Saudi Arabia is embarking on many projects under the Saudi Investment Fund, which is considered one of the most important requirements for evaluation, which is that there be audited financial statements, and without a doubt, the journey of creating these lists will be through financial specialists. What I want to convey is that the financial department in this period has become an important role as a sales person in addition to its basic duties as a financial person.

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