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AN EVALUATION OF THE COMPANY'S PROFITABILITY BASED ON FINANCIAL STATEMENTS FROM LAST THREE YEARS OF A COMPANY: CASE OF OMAN

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Abstract

This case study focuses on the financial performance of a company and analyzation of the financial statement of the selected company with the help of different financial ratios ranging from balance sheet ratios, income statement ratios, and cashflow statement ratios with the aim of finding out the profitability of the company during the pre, in, and post pandemic. This case study uses both quantitative and qualitative data ranging from interviews to journal articles. An interview was conducted with an employee of the company who answered the query in regard to the objectives of the case study. This study is concluded with the remarks of this research along with the recommendations to future researchers who shall be doing their research regarding the financial performance of an industry.

Keywords: Banking financial performance, Financial performance, Financial statements, Financial Ratios

Introduction

Covid-19 had affected so many countries economic world widely. Moreover, in middle east some countries had economic collapse, and their banks had faced bankruptcy and shut off. In Oman there is a company which had been affected because of covid. So, the aim of this research is to examine how this company performed during covid, post covid, and current time situation.

Moreover, the discussion will be about profitability according to income statement, balance sheet, and cashflow statement. Furthermore, checking companies assets and liabilities status. In addition, interests, taxes, net operating activities, and net investing activities using different kind of ratios to measure this numbers. Finally, the used ratios are used to determine banks financial health situation and to help them to examine their financial status, and to identify whether their status is in negative or positive.

Statement of the Research Problem

The case study is being done on a company in Oman. The research problem for this case study is to find and evaluate the profitability of a bank during the last three years. These years consist of financial statements of the company during covid, after covid, and current financial statement of the company. This case study will be able to give up a broad understanding of how the banks were affected due to this recent pandemic.

A bank's profitability can be affected by the change in results of ratios like capital ratio, REO (Return on Equity), liquidity of bank, and net interest margin of the bank (Al-Abedallat, 2017).

This case study will be beneficial for the financial industry of the country, to the general public, the company, and the potential investors in this sector. The case study will include Balance sheet, Income statement, and Cashflow ratios to assess the portability of the company and the study will also consist of an evaluation of the last three years based on the numerical results of the financial ratios.

Objectives of the Study

1- To identify the different financial ratios affecting the profitability of the company.

2- To identify and evaluate the tools used for financial statement evaluation.

3- To evaluate the financial performance according to the evaluation financial statements.

4- To propose a suitable framework that will evaluate the company's profitability based on Financial Statements for Last Three Years.

Research Questions

1- What are the different ratios affecting the profitability of the company?

2- What are the tools used for evaluation of financial statements?

3- What is the performance of the company in accordance to ratios of financial statements?

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4- What is the suitable framework to evaluate the company's profitability based on financial statement ratios?

The Scope of the Study

This report focuses on performance of the bank. Moreover, it will analyze the company's performance. To explain, this research will analyze company's performance to find the best performance of the company over the last three years. Finally, the data analyzation will be presented using tables and graphical presentations. For example, pie charts, bar charts, and other presenting data styles. Finally, the scope of this study is to analyze the banks last three year statements, which were during covid, post covid and current period using income statement ratios, balance sheet statement ratios, and cashflow statement ratios. There was only one limitation in this study which is time limitation. To explain, there was no enough time to collect data and analyze it. So, the time period of data collection and analyzing had been scheduled specifically to meet with this issue.

The Relevance and Significance of the Study

It is keen on this, and this is evident in establishing the education sector as one of the main areas within the framework of the Oman Vision 2040. The company attaches great importance to supporting educational programs through various initiatives and exchanging different ideas, and since the company believes in the institution's commitment towards social development, the company seeks to contribute meaningfully to social development. The company continues its leading role in supporting initiatives that come under the umbrella of corporate social responsibility, especially those aimed at enriching various segments of society with knowledge, the company recently signed an agreement to sponsor the Data Academy training program, which aims to train 40 children from the Child Care Center. The training program will focus on several areas such as programming, arts, science, and mathematics, and will include two categories; The first is intended for children in the age group from 5 to 10 years, and the second targets children from 11 to 15 years of age, so that each category is dealt with based on the knowledge level of students in that age group.

Expected Outcome

The expected results in the company is to improve the financial capacity of the organization, to prioritize results, to track financial capabilities in general, and to provide customers with appropriate and comprehensive information on the correct use of the offered products and services, This allows assessing the adequacy of the proposed contract for their needs and financial situation, reducing the number of hassles a consumer has to go through to sign up for a financial service or better framing messages to attract them, It may be more effective than those that focus only on increasing knowledge of a particular financial issue.

Literature Review

Financial Statement Ratios

In this research paper, the research is using the financial statements ratios to get the financial performance of the different banks in India from April of 2011 till March of 2014. The main focus of this study was to evaluate the financial performance of selected banks in India with the use of financial statement ratio which can be used as comparison between these banks. The objective of this research paper was to decide the leverage, activity, profitability, liquidity, and market value ratios for the ICICI, AXIS, FEDRAL, and HDFC banks. Along with this the study also focused on finding comparative financial analysis between the banks and using the DuPont analysis to find the financial performance of these banks (Bansal, 2014).

There were different articles read for the literature of this research article and the main finding was the financial ratios used to determine the financial performance of banks. These ratios range from liquidity ratio, market-based ratios, leverage ratios, solvency ratio, and profitability ratio (Bansal, 2014).

1. Liquidity Ratio

- Current Ratios

The current ratio tells the company their power to pay the obligations which are short term. Having more assets than your liability means that the company has more financial strength (Bansal, 2014).

Current Ratio = $\frac{\text{Current assets}}{\text{Current liablities}}$

- Quick ratio.

This ratio tells the company if they will be able to meet their obligations with their liquid assets in the short term (Bansal, 2014).

Quick ratio = $\frac{\text{current assets} - (\text{ marketable securities} + \text{cash and equivalents} + \text{accounts receivable})}{\text{current liabilities}}$

2. Profitability Ratios

- Profit margin

This is the profit earned by the any company after the deduction of taxes from the net sales (Bansal, 2014).

Profit Margin = $\frac{\text{Profit after tax}}{\text{Net sales}}$

- Return on shareholders' equity

It is the profit which has been retained after the payment of shareholders (Bansal, 2014).

Return on shareholders' equity = $\frac{\text{Net Income}}{\text{Shareholder's Equity}}$

- Return on Assets

It tells the company on effectively they are using the assets in order to make a profit (Bansal, 2014).

Return on Assets = $\frac{\text{Net Income}}{\text{Avg.total assets}}$

3. Market Based Ratios

- Earnings per Shares

This ratio helps the company to find their profitability and the portion of the profit is handed to shareholders (Bansal, 2014).

Earnings per Shares = $\frac{\text{Earning available}}{\text{No.of share issued to shareholders}}$

- Price earnings ratio

It helps a company to find and evaluate the current price of their shares to the earning of per share of the company (Bansal, 2014).

Price earnings ratio = $\frac{\text{Market price per share}}{\text{Earnings per Shares}}$

4. Solvency Ratio

- Debtor Turnover ratio

A company having a high debtor turnover ratio is not suitable for companies' financial performance (Bansal, 2014).

Debtor Turnover ratio = $\frac{\text{Credit sale}}{\text{Average debtors}}$

- Working Capital Turnover

It helps a company to find how effectively they are using the capital provided to generate sales over a given period of time (Bansal, 2014).

Working Capital Turnover = $\frac{\text{Sales}}{\text{Working capital}}$

- Total Assets Turnover

It helps the company to find out how effectively the company is using the assets to generate revenue (Bansal, 2014).

Total Assets Turnover = $\frac{\text{Net sales}}{\text{Total assets}}$

5. Leverage Ratios

- Debt to Equity Ratio

It helps a company to compare their debt to equity (Bansal, 2014).

Debt to Equity Ratio = $\frac{\text{Long term debt or liabilities}}{\text{Total equity}}$

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- Interest Coverage Ratio

This ratio helps the company to know how effectively they are able to pay any interest of their debt is has be outstanding (Bansal, 2014).

Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Interest expenses}}$

These are the ratios which were collected in the literature review and to measure these ratios the researcher used DuPont analysis method. The DuPont system is mainly used by the analytics to determine how effective the companies' activities and decision were in a given accounting period. Through DuPont analysis a company is able to evaluate their profit margin, equity multiplier, return on equity, and assets turnover ratio. Furthermore, it also helps a company in understanding the relation of leverage, profitability, and activity ratios (Bansal, 2014).

DuPont analysis = $\frac{\text{Profit after tax}}{\text{Total assets}}$

Moreover, for the research the researchers used the descripted design and calculated the above ratios for four years of the mentioned banks. This data is displayed into the form of charts along with a description of the charts for each bank (Bansal, 2014).

After an extensive comparison the research was able to conclude that the Federal bank was able to perform better than the other banks in current ratio, activity turnover ratio, leverage ratio, profitability ratio, assets turnover ratio, and Dupont analysis. The researcher also observed in assets turnover ratio that the federal bank keeps high assets in order to meet their debt obligations (Bansal, 2014).

Evaluation of Financial Statements

This research paper aims to highlight the effectiveness of financial statements to the stakeholders of the company, so they are able to better understand the performance of the company. Along with this the research also aims to highlight the importance of the financial statement for an organization's annual report. The researchers in the research are going to evaluate the effectiveness of financial statements of a hospital. The hospital in located in Zimbabwe and is known as Lester Lesley Limited (Newman et al., 2017).

This research article is a descriptive study and there was only the use of primary data in creating this study. The sample size for this research was calculated to be 109 people out of the population of 180, this is concluded with the use of judgmental sampling technique. The researchers created a questionnaire and booked an interview to get the information that was desired. The questionnaire was mainly handed out to accounts staff, senior and junior managers, and shareholders. This data was then presented in the form of graphs and tables for the shareholders to understand the effectiveness of the business performance with the use of financial statements (Newman et al., 2017).

The researcher added two literature review to strengthen their research. The first journal was regarding the requirement for the disclosure of financial information. In this article it is displayed that steps were taken from the international accounting standard board since 1970 to help in improvement of the use of financial statements of the companies, it was later that in 2002 that this regulation was passed and companies which were listed in the European stock market would have to provide their financial reports so they are better able to raise their capital and general public can buy and sell their stocks in a stock exchange (Newman et al., 2017).

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The second literature added by the researchers was regarding the accounting standards. Accounting standards are just the guideline and principles that are imposed by the International Accounting Stand on how an organization have to present their financial statements and how to prepare the assets, expenses, and liabilities of the organization in accordance with the guidelines. The aim of imposing these guidelines is so that the lenders, investors, and creditors are able to better understand the information being presented in the financial statement and make the decision if they want to invest in the organization or not (Newman et al., 2017).

The researchers than presented the data the collected from their questionnaire and interview and presented the questionnaire data in the form of table and graphs. The data collected from the questionnaire ranges from regulatory requirement, financial statement preparation and its audience, and more. Along with the researchers also conducted an interview and were able to get answers of 5 questions which were presented after their presentation of questionnaire data. These ranges from factors which are taken into account before displaying financial reports, reliability of exposing the financial report for performance of the business, effects of not providing the information to the need of a shareholder, and more (Newman et al., 2017)

According to the research done by the researchers they were able to conclude that preparing a financial report, its audience, and display of financial information are the factors that are taken into consideration before displaying this information, this was validated by the responses of the questionnaire that the requirement imposed by regulatory, and the users of these financial reports are the factors which are taken into account before displaying an organization financial report (Newman et al., 2017).

The researchers concluded that their study with recommendations of voluntary disclosure in this the organization can provide more information to its potential investors which can help in reducing asymmetry of information between two parties. Along with this the researchers also recommended that external and internal information should be taken into account that so that it is able to meet the expectations of the shareholders. The final recommendation made by the researchers was that the organization should also take into consideration the information needed by the shareholders when preparing the financial statements this in return will help the organization to gain the trust of these shareholders (Newman et al., 2017).

Financial Statement Analysis Helps in Maximization of Organization Value

This case study is about what effect financial analysis have on maximization of an organizations value on Jordanian industrial companies. With the help of these financial ratio analysis the organization are able to recognize their financial performance and compare it with their competitor or compare it with average financial performance in that particular industry. The financial analysis can help an organization to recognize their weaknesses and strengths with which they can create more opportunities and work on their weaknesses. This analysis is also able to help the organization to determine the obligations and if they are able to meet these obligations. Along with the organization the stockholders also view this financial statement analysis to make a decision to whether to invest in the organization or not. This analysis also tells the stockholder is the organization is and will be able to meet their financial obligations (Al-Nasser, 2014).

The case study problem for this study is that can the manager depend on the financial statement analysis to determine the organization's real performance and are these analysis ratios able to catch the attention of these managers to the weak point of their organization and come up with a solution which can in return help the organization in creation of wealth and value (Al-Nasser, 2014).

The importance of the study is that as we know that financial analysis is using to determine the current standing of an organization and people like creditors, investors, banker, and managers use this analysis to find how effectively an organization is able function and meet their obligations. With the help of this analysis the organization is able to predict their performance in the near future and make decisions with which the organization is able to create its value and wealth. The aim of this case study is to find out how effective the investment decision making ratio analysis is and to find the organization's weaknesses and strengths using this analysis ratio (Al-Nasser, 2014).

In the literature review the researcher had given the information about the income statement and the balance sheet and talked about the major categories the ratio can be divided with which we able to determine the currenting standing of the organization and work on weaknesses in order to create wealth and value of an organization. The following categories that were mentioned are as follows (Al-Nasser, 2014).

1. Liquidity Ratios

These are the ratios which are used by an organization with which they are able to determine if they are able to meet their obligations in the given period of time. The ratios discussed here are quick ratio, inventory turnover ratio, current ratio, and lastly A/R turnover ratio (Al-Nasser, 2014).

2. Profitability Ratio

These are the ratios which are used by an organization to determine how much of a profit they are able to generate in a given time period with the operations. The ratios discussed here are assets turnover ratio, return on equity ratio, profit ratio, and lastly return on assets ratio (Al-Nasser, 2014).

3. Debt Ratios

These are the ratios which are used by an organization to determine if they are able to prevent any financial worry in a long run with the use of their financial leverage. Another name of Debt is also financial leverage due to its ability to enhance the returns of stockholders during a good accounting period and increase their losses during a bad accounting period. An organization is able to fully enjoy more if they are able to generate profit from the financed assets as its cost would decrease. The ratio discussed here are debt to asset ratio, debt to equity ratio, and lastly interest coverage ratio (Al-Nasser, 2014).

4. Cashflow Ratios

These are the ratios which are used by an organization to find out how much they are able to generate from the sale and assets and it also helps an organization to determine their capability to gain operating cashflow with its relation to net income. The ratios discussed here are cashflow to sale ratio, cashflow yield ratio, and lastly cashflow to assets ratio (Al-Nasser, 2014).

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5. Market Value Ratio

There are only two ratios discussed here. First, price earnings ratio helps an organization to determine how much the potential investors are willing to pay per dollar of the organization's current income, the higher value of ratio indicates the growth of the stock. Lastly, the market to book ratio is discussed which helps an organization to find the value of the current price per share compared to their book price per share. This helps the organization to determine how much value they were able to make during the course of the business activities (Al-Nasser, 2014).

The data collected for this case study was primary and secondary data. Primary data consist of a questionnaire which was made and handed to employees such as managers, clerks, and officers which are working in industrial sectors in Jordan. The secondary data used for this case study was collected from renowned article publishers and books were able used to collect secondary data. For the presentation of this data descriptive statistics were used as most of it was in the form of percentages. The data was presented in the form of table along this its description. With the data collected and studied the researcher was able to conclude that this is an impact of these ratios on an organization which help them with maximization of their wealth and value (Al-Nasser, 2014).

The researcher concluded that there is a positive effect of financial analysis ratio on the managers of an organization which help the manager of these organization to make decisions which can result in increase the performance and value of the organization and with the proper use of this information they able to lower their risk and create more opportunities (Al-Nasser, 2014).

The researcher recommended that these account should be strictly monitored as it provides the information with which the business decision is made by the manager and the manager used also adopt other tools as this financial ratio also directs them to the problem and now how to handle this problem (Al-Nasser, 2014).

The Effect of Financial Statements on Financial Performance

The researchers in this case study are discussing the effect of financial reporting quality on financial performance of an organizations. These effects are discussed with the use of different presentation of financial reporting quality such as accruals quality, earnings quality, and conservatism. The main aim of these case study is to use different book/market ratio to assess the financial performance of an organization. The researchers have used the cement manufacturing originations in Pakistan to analysis their financial performance and what positive impact the financial reporting quality has on the performance of the organization (Sohail & Aziz, 2019).

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In literature revive the researcher have discussed the importance of the financial reporting quality and how it is able to have an positive effect on an organization as it would be able to give them accurate information which can help the management of an organization in making better decision for the organization, on the other hand is their financial reporting quality is not adequate than the organization will see a decrease in the liquidity and they may also face information risk which can result in poor decision-making which can cost an organization a lot of its resources. Along with this a quality financial report can help the management of the organization to make better investment decisions and by providing good financial reports the organization can also have an upper hand in the market against in competitors. The researchers also mentioned few aspects that can strengthen the financial report by adding the size of the organization, its leverage, and operating liquidity of the organization (Sohail & Aziz, 2019).

Moreover, the researchers than discussed how they will me measuring the data. The researchers used reporting quality measurement such as account conservatism, earning management, and accruals quality, the researcher adopted these as they are not fixed measurement modes for measuring the quality of the financial reports. The main aim of this case study as the researcher explained is to come up with a measurement of a quality of financial reporting and what effect this financial reporting quality can have on the financial performance of an organization (Sohail & Aziz, 2019).

The researcher uses the data from the cement industry and found out that the organization which adopt a good financial reporting system are able to better produce their financial reporting quality and are able to enjoy a positive effect on the financial performance of their organization. Furthermore, the researcher mentions three limitations of their case study first being that the data was only collected from the cement industry, secondly the future cashflow of an organization is just predicted, and thirdly the performance was only assessed using the market expectation and not other accounting means (Sohail & Aziz, 2019).

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Methodology

Purposive sampling was used in this research where researchers select a sample from its population who are the employees from selected commercial banks in Oman. As this study is about the financial performance of a company in Oman, the researchers gathered financial information from Balance sheet, Income statement, and Cashflow statement for the company.

Findings

After analyzing the results, it shows that the company is doing their best in 2022 which mean the company is having increase in their profitability. According to the result balance sheet ratios of the company's financial statements it showed that the company had more assets in the year of 2020. On the other hand, the result of the cashflow statement of the company's financial statements indicated that company had its flow of cash better in the year of 2021. After examining the income statement ratios of the company's financial statements, it showed that the company was most profitable in the year of 2022 which suggests that the company was better able to manage and use its assets along with its flow of cash to generate more profit.

Conclusion and Recommendation

Based on the group's study, the results showed that the company was doing its best in 2022. This means that the company has increased its profitability. And the year 2022 was more profitable than the year 2020 and 2021, and the general ratios show that the company was doing their best in 2020 and 2021. It was recommended that the bank should provide the overview of its income, costs, and net profit. These statistics highlight the bank's ability to make money from its assets and shareholders' equity as well as the extent to which it controls interest income. To get a better understanding of performance, compare profitability metrics with those of competitors in the same sector. This can be achieved by obtaining market data or by using financial databases that provide comparative ratios for banks with similar characteristics. Comparing two things can help in finding strengths and weaknesses. Moreover, to examine sources of revenue in order to identify the key factors that affect profitability which includes income from interest, fees, investments, and other sources. Also, to evaluate the contribution of each source of income as well as its stability and growth potential. Through comprehensive analysis of profitability performance, can by this identify areas that need improvement or strategic focus on them.

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