Appendix

	2016	2015
NP Margin (b4 tax)	2%	3.4%
ROCE (21/308)	6.8%	11.8%
Asset turnover	1.95	1.53
Gearing	35.7%	28.5%
Current Ratio	2.5	1.2
Receivable days	92 days	128 days
Payable days	35 days	123 days

Report

To: BOD of SOP

From: Financial Analyst

Date: -----------

Subject: Areas of Concern within Itrus

This report looks at ITrus recent financial performance for Y/E 2015 and 2016 and identifying the areas of concern for SOP if they were to be engaged as vendor for the software. The report is split into two part, first looking at ITrus profitability then its liquidity.

Profitability

Overall ITrus profitability is declining as evident from its NP margin. This can be attributed to the declining sales. *Could the declining sales shows that ITrus is not competitive thus losing customer bcos they are not providing good service compared to others. Thus, the actual reason for their declining sales should be investigated b4 awarding them the contract.*

Overall as sales decline, majority of cost decline except admin and finance cost. Surprisingly the admin cost has a substantial increase. There could be many reasons for it, but it could be due to termination cost as well bcos ITrus reeduces its employee from 40 to 25 staff.

SOP must be careful about the decline in staff as ITrus may have shortage of employees to complete their job. Further, termination of employee may have negative implication on existing employee in terms of motivation and morale.

Liquidity

Although asset turnover increases but its solely due to overall decline in the asset of ITrus. The PPE and trade receivable decline significantly. The decrease in PPE shows that ITrus is disposing its asset and collecting faster from its receivable. This should result in healthier cash & bank balances but its was not the case.

It can be concluded that ITrus is raising cash from all sources just to settle to their supplier. SOP should be worried that what's the reason behind the urgency in paying to supplier. Whether ITrus can continue to source from supplier if they get out contract.

Gearing ratio has also increased by almost 10%, which may indicate they have been borrowing more in order to cover their operations which may indicate that Itrus is experiencing cash flow problems.

It seems that there are several indicator to show that ITrus has poor liquidity, thus awarding the contract to them is a risk as they may not be able to complete the contract or provide support service if they were not in going concern.

Conclusion

Based on all the above, it can be concluded that ITrus although offers lowest price but it comes with a very high risk to SOP, thus it is advisable to consider other vendors for the contract rather than ITrus who may not be able to complete the work.

Dec 2015

$'000	Flexed Budget	Actual	Variance
Volume	270,000	270,000	-
Revenue	40,500	36,450	4,050 A
DM	(17,550)	(18,630)	1,080 A
DL	(3,780)	(4,725)	945 A
O/H	(8,250)	(11,450)	3,200 A

Although sales volume has increased, it was achieved through lower SP in a competitive environ. It may be unavoidable to lower price to achieve sales in a competitive environ, but not to the extent it affects profitability.

DM cost has adverse variance indicating wastage either in terms of usage or poor purchasing. The last minute special order increases cost of purchasing bcos the co need to make urgent purchase from its supplier as well.

James also make the product more attractive, basically he is offering added features to make it attractive, this will translate to higher material cost as well.

Direct labour cost has adverse variance probably due to paying OT for staffs as to complete the special orders within a short period of time.

Finally the fixed overhead is also significantly more than the budget indicating there are wastages within the co as well.

JUNE 2015

	A	B	C	D
Total VC	14	14	12	12

Buy-in	11.5	16.5	12.5	13.5
Savings	2.5	(2.5)	(0.5)	(1.5)
Units	2000	5500	4000	3000
Savings/(costs)	5000	(13750)	(2000)	(4500)
overhead savings	4000	4000	4000	4000
Net savings/ (costs)	9000	(9750)	2000	(500)

Product B & D its cheaprer to produce in-house rather than from the supplier in Tinglia.

Outsourcing will not lead to co's cost leadership strategy bcos the supplier would have added a margin on it, thus cost will be higher.

Another issue with outsourcing is the possible late delivery of the products, causing poor reputation of the company in fulfilling orders.

Quality

if outsource production, consumer may not buy the product from Yvern, coz the consumers in Yvern prefers to buy products that produced in the region

It stresses on its contribution to local labor employment on its marketing, if outsourcing, it might need to lay off the workers, hence it might cause community dissatisfaction.

Outsourcing may cause the demand of the products to fall as the consumers in Yvern prefers local produced products.