Contents

1 Financial Performance Analysis of Sainsbury 2015-2016

1.1 Executive Summary

The report on financial analysis of Sainsbury aims at examining the financial performance of J Sainsbury Plc for year 2015 and 2016. The main purpose of this report is to measure the financial performance of J Sainsbury Plc for helping the investors in their decision regarding investment in stock of Sainsbury. The financial ratios that will be used in analysis include profitability, liquidity, efficiency and investment ratios. For having better understanding of company performance, the company leading competitor Tesco plc in the retail market was selected and its financial ratios were also calculated. The findings of J Sainsbury ratio analysis are interpreted in relation to the findings of competitor's performance.

The findings of Sainsbury financial and non-financial performance during the year 2015v and 2016 revealed that company has performed well for retaining its leadership in the UK retail market. J Sainsbury plc has earned high earnings for its investors through efficient utilizations of its assets and capital employed, reduction in production and operational costs. The company although liquidity position is weak but management has taken necessary steps for meeting the short term obligations on time. Due to company less reliance on debt, firm is less exposed to financial risks. The company positive earnings, increased profitability, less exposure to financial risk and offer of dividends make the company more attractive for investment purposes. The report suggest the investor to investment in shares of Sainsbury as the financial and non-financial analysis prove that company is strategically and financially strong.

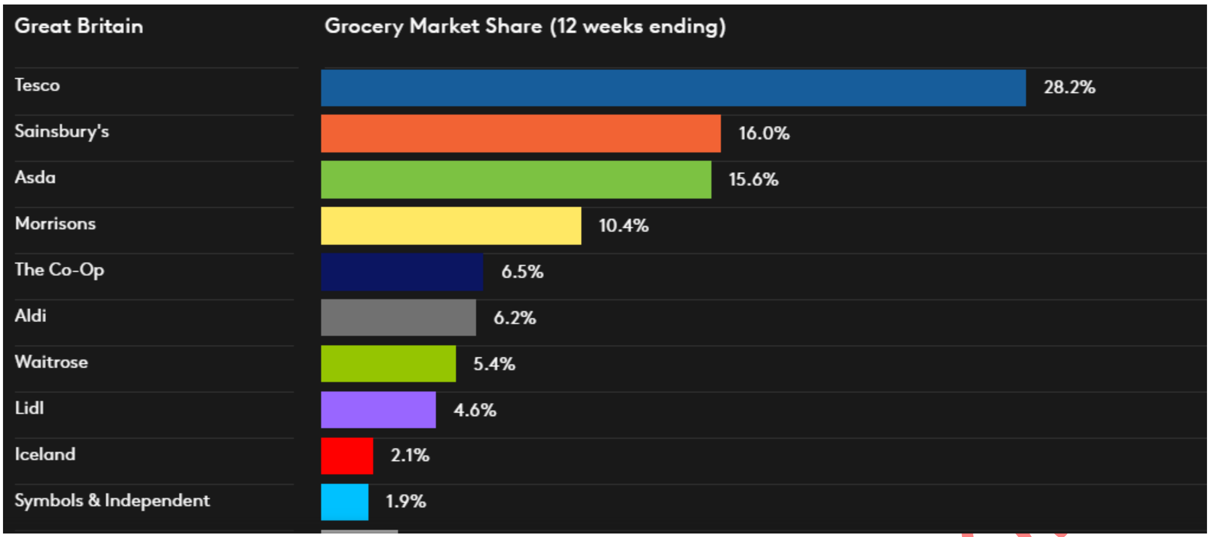
1.2 Introduction

The financial and non-financial information of the companies is usually analysed by the financial analysts for determining the company financial health and stability. The financial ratios are often calculated for examining the financial statements as it assists the potential investors of the company in determination of their investment value (Armstrong et al., 2015). The following report aims at examining the financial performance of J Sainsbury Plc for year 2015 and 2016. The main purpose of this report is to measure the financial performance of J Sainsbury Plc for helping the investors in their decision regarding investment in stock of Sainsbury. The financial ratios that will be used in analysis include profitability, liquidity, efficiency and investment ratios. For having better understanding of company performance, the company leading competitor in the retail market was selected and its financial ratios were also calculated. The findings of J Sainsbury ratio analysis are interpreted in relation to the findings of competitor's performance.

1.2.1 Sainsbury Background

Since the establishment in 1869, J Sainsbury Plc is doing well in the UK retail market by fulfilling its commitment to assist the customers in living well at less cost. Presently, the company operates in UK with more than 1200 stores, general merchandise operations and well set online grocery. The company is listed on the London Stock Exchange and is making its customers way of living better by offering quality product and services at reasonable prices when and where they want. J Sainsbury now operate in UK as leader in retail stores with its food and non-food products and services through their fast network of delivery (Sainsbury, 2016). According to market report of Kantar world Panel, the share of Sainsbury is 16%, the second largest grocery share in UK grocery stores. BBC (2015) reported that Sainsbury is among the top four leading retailers of UK on the basis of its sales volume and market share. Recently, the company has taken over the Asda and now operates in the retail market on second position after Tesco.

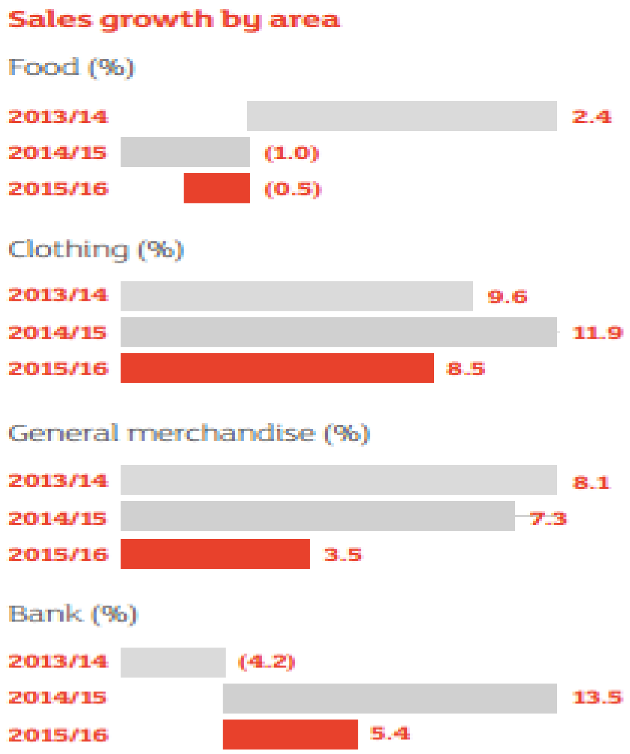
Figure 1: Great Britain Grocery Market Share 2016



(Source: Kantar WorldPanel, 2016)

The company vision it to be the most trusted retailer in the UK retail market. For increasing the value of their shareholders, the company is making difference with its dedicated workforce of 161000 for more than 145 years of its service. The company has more than 2000 food and 1000 non-food suppliers. With its 3000 own branded products, J Sainsbury is meeting the needs of its customers in 707 convenience stores (Annual Report, 2015). The core areas of J Sainsbury business are grocery, clothing, general merchandise and financial services. Dentor (2016) reported that since 2013, Sainsbury is doing best for coming on the top and enjoying a growth in sales by 0.5% as compared to its leading competitors Tesco, Asda and Morrisons in UK retail market. The year on year sales growth of J Sainsbury by business area is given below

Figure 2: Sales growth by Area



(Source: Annual Report, 2016)

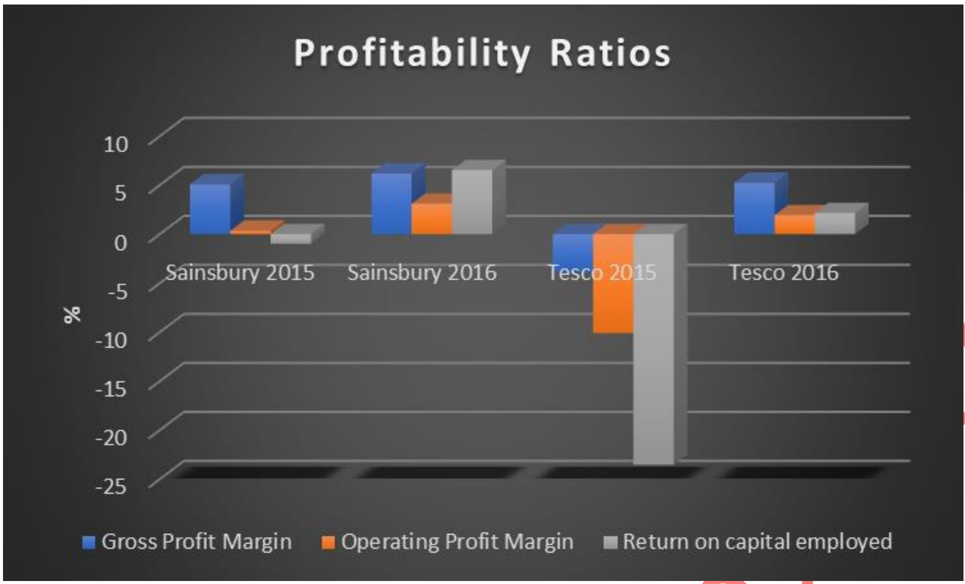
1.3 Financial Performance of Sainsbury

For analysing the financial performance of Sainsbury in Year 2015 and 2016, key financial ratios from the group of profitability, liquidity, efficiency, gearing and investment ratios were calculated. The critical discussion on findings of these financial ratios is carried out below in the following section of report. See appendices at the end of report for J Sainsbury Financial statements and financial ratios calculations.

1.3.1 Profitability Ratios

The determination of firm profitability is important for investors as it determines that how well the company has utilized its resources for generation of positive earnings and maximization of wealth of their investors (Brigham and Houston, 2012). The profitability of J Sainsbury was measured by calculating gross profit margin, operating profit margin and return on capital employed. For comparison purposes, these profitability ratios were also estimated for Tesco Plc, which is leading competitor of J Sainsbury in the UK grocery market (Kantar, 2016). The firm with greater profitability values will be more attractive for investors as compared to the other. The findings of profitability ratios suggest that Sainsbury has performed well as compared to its competitor Tesco Plc as the values of its profitability ratio are high. The results of profitability ratio summarized below in graph 1 shows that J Sainsbury being more profitable is more attractive for investors in the UK retail market.

Graph 1: Profitability Ratios



1.3.2 Gross Profit Margin

Among the profitability ratios, the gross profit margin for J Sainsbury and Tesco PLc was calculated by dividing the gross profit (Net Sales – Cost of Goods Sold) from sales revenue (Sievers et Al., 2013). The results of gross profit margin are presented below in Table 1.

Table 1 show that the value of gross profit margin is increased for J Sainsbury in the period of analysis. There is an increase in gross profit margin value of Sainsbury by 1.08% as the value was 5.08% in 2015 which increased to 6.19% in 2016. This increase in gross profit value accounts for decline in cost of goods sold. Although the company sales volume decline by 1.1% as sales revenue was GBP 23775 million in 2015 which decreases to GBP 23506 million in 2016. The sales volume was high in business area of online and convenience stores. In addition to this, the beginning of Netto brand has also shown an increase in company sales volume. However, this decline in company sales growth comes from the area of supermarket stores. But the company efficient management of cost of production leads to an increase in gross profit margin values. J Sainsbury cost of revenue was GBP 22567 million in 2015 which decreases to GBP 22050 million in 2016 showing a decrease of 2.29% in value. The company has controlled its cost of revenue through significant cost savings that are £140 million and due to decline in prices of few food raw materials (Annual Report, 2016). This decline in production cost resulted in retaining the Sainsbury competitive position in the market. The comparison of Sainsbury gross profit margin with Tesco Plc proved that company has earned high gross profits as compared to its competitor in both the years of analysis. Tesco Plc gross profit margin was -3.87% and 5.24% in 2015 and 2016 which were comparatively less than the margin values of Sainsbury. Sainsbury has retain its leadership in terms of gross profit margin because of its investment in the area of product prices and growth in the channels of convenience stores and online grocery stores by 9% (Annual Report, 2016). The high gross profit margins of Sainsbury make Sainsbury highly attractive for investment reasons as firm has the potential to maximize the value of its shareholders by generating high revenues from sale of its products and with focus on minimization of production cost.

1.3.2.1 Operating Profit Margin

Operating profit margin expressed in terms of percentage determines that how much the Sainsbury has earned from its operations in relation to the operation cost which include marketing expenses, administration expenses and other expenses (Fairfield and Yohn, 2001). The results of operating profit margin calculations for Sainsbury and Tesco for year 2015 and 2016 are given below

The results presented in Table 2 shows that operating profit margin of Sainsbury is increased during 2016 to 3.1% from 0.34% of 2015. The review of company annual report shows that this increase in operating profit margin was due to an increase in operating profit to £65 million in 2016 from £62 million of 2015. The company focus on growth in area of financial and non-food services also accounts for Sainsbury increase in operating profits. The clothing area of Sainsbury grows by 8.5% and there was an increase in general merchandise by 3.5%. The income from the Sainsbury Bank area was increased by 5%. Beside growth in these business areas, the company has shown operational efficiency due to an increase in its operational cost savings. The company strategy of regular review of their expenditures and organizational set ups has resulted in having operational cost savings of £225 million during the 2015/2016. The comparison of Sainsbury operating profit margin with Tesco shows that Sainsbury OPM was 0.34% in 2015 which was far greater than the operating profit margin of Tesco that was -10.10%. In the same way, the company operating margin remains high during 2016 as Sainsbury operating profit was 3.1% which is greater than 1.92% of Tesco Plc. The results show that Sainsbury management is doing well as compared to its competitor as it has earned more earnings for its shareholders through generation of high profits and minimization of operational costs. It is observed that firm with high operating profit margins are attractive for investment as investors perceive that this firm will perform well in future as well as it has done in past. So, the investor decision of investment in Sainsbury will be of great value as he/ she can draw more income per share in Sainsbury stock in comparison to other retail sector firms.

1.3.2.2 Return on capital employed

Return on capital employed is the third profitability ratio that was calculated for assessing the profitability of Sainsbury in relation to average capital employed during the year 2015 and 2016. The findings of return on capital employed are given below in table 3.

The results presented in Table 3 shows that the return on capital employed of Sainsbury was high in 2016 as compared to 2015. The return on capital employed was 0.97% in 2015 which increases to 6.53% in 2016. The increase in return on capital employed accounts for an increase in company operating profitability during the year 2015/2016. The increase in ROCE by 5.56% drives from the 1.3% sales growth in the area of new space development. There was also a reduction in the core capital expenditures during 2015/2016 by amount £542 million. This shows company efficient working in accordance with the Strategic review announced during 2014. Earlier, the core capital expenditures were £947 million during 2014/15. The high values of return on capital employed during 2016 indicates that Sainsbury management has made efficient use of its capital employed and has done a best job for creation of value of its shareholders. In comparison with the competitors, the return on capital employed of Sainsbury remain high as compared to Tesco in both the years of analysis. Tesco Plc ROCE was -23.54% in 2015 which was far less than Sainsbury ROCE 0.97% in 2016. Although, Tesco management was successful in making efficient use of the capital employed during 2016 as the ROCE for 2015/2016 was 2.15%. But, the high values of ROCE for Sainsbury Plc in contrast to competitors make Sainsbury more attractive for investors as the values reflects that company management has maximized their shareholders wealth through efficient use of capital employed.

From the findings of ROCE, gross profit margin and operating profit margin, it is obvious that Sainsbury financial position is strong in the Grocery market of UK. Due to its high profitability margins and efficient utilization of company resources, the investors are recommended to make investment in the shares of Sainsbury. The firm on the basis of its strong profitability attract a large set of potential investors in the market.

1.3.3 Liquidity Ratio

The liquidity position of the Sainsbury was analysed by calculating the liquidity ratios. Liquidity ratios help the investors in knowing about the potential of company to meet its short term obligations on time (Patel, 2016). Among the liquidity ratios, the current ratio was used for this purpose. The findings of liquidity analysis are discussed in detail below

1.3.3.1 Current Ratio

Current ratio obtained by dividing the current assets from current liabilities shows the ability of company to meet its current obligations from current assets. It is general rule of thumb that the currents assets of the company should be double of current liabilities for having strong liquidity of company (Michalski, 2013). The results of current ratio calculations for Sainsbury and Tesco are summarized below

Graph 2: Current Ratio

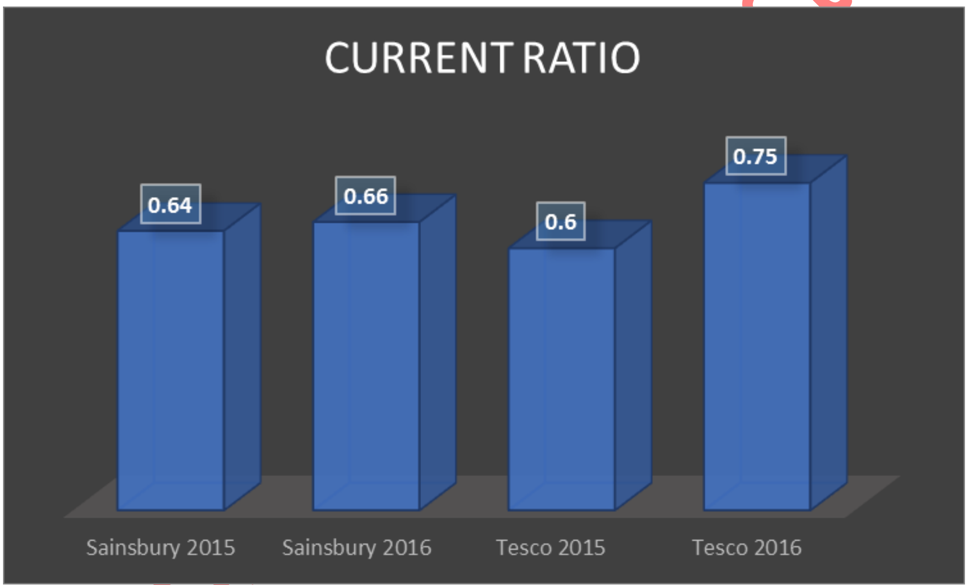


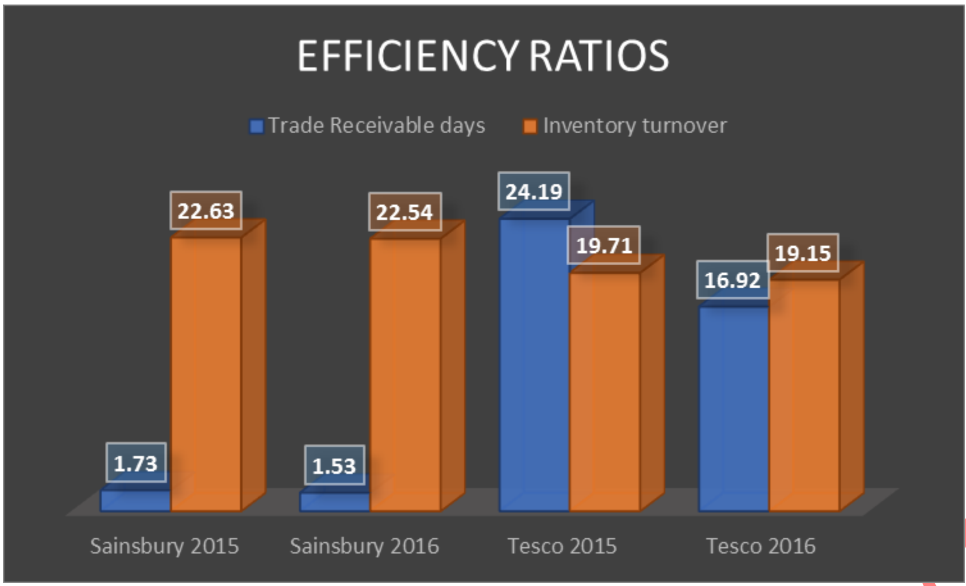
Table 4 shows that the liquidity position of Sainsbury is weak as the values of current ratio were not 2:1 in both the years of analysis. The current ratio was 0.64 during 2015 which was slightly increased to 0.66 in 2016. The current ratio value of 0.66 for Sainsbury indicates that paying every £1 of liability, there are only £0.66 of current assets available in the company. The values shows that company current assets are less as compared to current liabilities. Like Sainsbury, the liquidity position of Tesco Plc is also weak as the values of current ratio for Tesco Plc were 0.60 and 0.75 in 2015 and 2016 respectively.

The analysis of Sainsbury working capital shows that the current assets of Sainsbury include cash and its equivalents, inventories, trade receivables, amount due for Sainsbury bank customers, financial assets available for sale and derivative financial instruments. The slight increase in current ratio during 2016 accounts for increase in current assets of Sainsbury due to increase in trade receivables, available for sale financial assets and amount due form bank customers. But, this increase in current assets is not enough to cover the current liabilities of company which include trade payables, amount due to bank customers, provisions, tax payable, borrowings and derivative financial instruments. Although, there was significant decline in Tax payable to 0.93% from 1.14% in current liabilities. But, still the amount of trade payable and amount due to bank customer's percentage was increased in current liabilities of Sainsbury during 2015/16. During the review of annual report 2016, it was observed that Sainsbury management has tried to manage this liquidity risk by diversifying its sources of funds and has structured its borrowings from long term maturities. The company has made its cash flows stable from the food sector for lowering the liquidity risk of business. In addition to this, the minimum funds of amount £300 million are kept in the headroom's in accordance with the liquidity policy for meeting the liabilities due in the next 12 months. However, the Sainsbury values of current ratio being less than 1 expose the company towards liquidity risk. The investors in market can view that firm due to less availability of short term assets cannot fulfil its short term obligations on time in case of firm liquidation. Therefore, Sainsbury management is advised to pay attention in the area of liquidity management for the purpose of retaining Sainsbury attractiveness for investment.

1.3.4 Efficiency Ratios

Trade receivable days and inventory turnover ratios were calculated among the efficiency ratios for assessing the Sainsbury potential to make efficient use of current assets and current liabilities. The efficiency ratios were calculated for analysing the firm efficiency as highly efficient firms are generally assumed to be more profitable (Dolvin et al., 2012). The results of these efficiency ratios are summarized below in following graph

Graph 3: Efficiency Ratios



1.3.4.1 Trade Receivable days

Trade receivable day's measures the days that a company take for collection of customers to whom sales are made on credit basis (Martinez-Sola, 2014). The trade receivable days for Tesco Plc and Sainsbury are given below in table 5.

The trade receivable days of Sainsbury were found to be 1.73 days and 1.53 days in 2015 and 2016. The results shows that the company management is efficient is collection of receivables from customers. Although the trade receivables of Sainsbury were increased during 2016 to £ 508 million from £471 million of 2015, but the efficiency of management is increased with respect to collection of receivables. In contrast to Sainsbury, the trade receivable collection period of Tesco is found to be greater. Tesco Plc management was found to be inefficient as compared to Sainsbury as Tesco tool 24.19 days in 2015 and 16 days in 2016 for collection of amount that was due from customers. Being involved in the retail business, the trade receivables policy of Sainsbury seems appropriate and reflect good management and control of Sainsbury management on their credit policies. The short period of trade receivable collection seems desired for the company as liquidity position of the company is weak as found through the liquidity analysis. However, the flexibility in the credit policy to customers is recommended as there is an increase in competition in the grocery retail market due to opening of new discount stores in the market. This flexibility in credit sales through discount policies will help not only in retaining the existing customers but also attracting the new one from the market as well. This short trade receivable collection period signals investors that company is actively involved in management of its short term assets and creation of cash through receivable collection. So, investment in Sainsbury stock will be of great worth as firm has the potential to create more cash and income through efficient management of its trade debts.

1.3.4.2 Inventory turnover

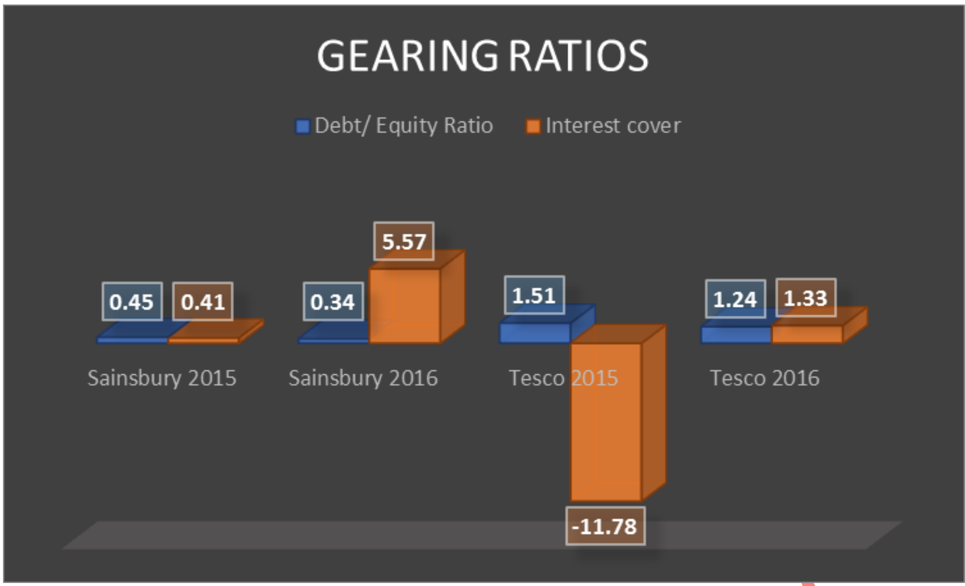
Inventory turnover ratios shows the management efficiency in creation of revenues for company through sale of inventory (Feng et al., 2014). The findings of inventory turnover ratio are given below in Table 6.

Like trade receivable days, Table 6 shows that Sainsbury management is more efficient than Tesco Plc in creation of revenues through sale of inventory. The inventory turnover of Sainsbury was 22.63% in 2015. However, the value declines a little bit to 22.54% in 2016 due to decline in inventory value from 967 million [2015/2016] to 998 million [2014/15]. This decline in inventory turnover also accounts from decline in Sainsbury revenue £23775 million to £23506 million during the period 2015/2016. However, in contrast with the leading competitor, Sainsbury inventory turnover is high as Tesco inventory turnover was 19.71% and 19.51% in 2015 and 2016 respectively. On the basis of above findings, the management of Sainsbury is recommended to retain its inventory turnover as the decline in values, if not properly managed, will lead towards reduction in revenues, increase in company inventory handling and management cost, and finally the lowering of shareholders wealth. The company is recommended to pursue intensive advertisement campaign highlighting the decline in its product pricing for retaining its lead and market share in the market. On the basis of findings of inventory turnover, investors are recommended to invest in Sainsbury stock as firm has the potential to generate revenues through efficient management of its inventory in stock.

1.3.5 Gearing Ratio

The level of financial risk for Sainsbury was analysed by calculating gearing ratios. Among the gearing ratios, the debt to equity ratio and interest coverage ratio were calculated. Gearing ratios were basically determined for giving information to the investors that how much the capital of company is financed by long term debts and shareholders' equity (Ayub, 2015). The findings of gearing ratio are summarized below in graph 4

Graph 4: Gearing Ratios



1.3.5.1 Debt/equity Ratio

Debt to Equity ratio compares the debt in capital structure of company with the equity. Its shows the company position of leverage (Ayub, 2015). The firm with high content of debt in its capital structure will be more exposed towards financial risk. The results of debt to equity ratio are given below in Table 7

The debt to equity values for Sainsbury being less than 1 for year 2015 and 2016 shows that company has less amount of debt in its capital structure. It means that the company is less exposed to risk of solvency due to debt. The debt to equity ratio was 0.45 in 2015 which further declines to 0.34 in 2016. This shows that Sainsbury has decrease the debt amount in its capital structure as total long term debt was £4075 million in 2015 which decreases to £3884 million in 2016. However, the amount of equity in capital structure was increase as shareholders equity worth was £5539 million in 2015 which grows up to 6365 million in 2016. The debt to equity result for Tesco plc indicates that Tesco is a highly leveraged firm as it relies more on debt as a source of fund. The Tesco debt to equity ratio value was 1.51 in 2015 which decreases to 1.24 in 2016. But still the values are high as compared to Sainsbury. The findings of debt to equity ratio also prove Sainsbury attractiveness for investment purposes as firm is less exposed to financial risks as compared to competitors in the market. Being less expose to financial risk, investor investment in company will be safe as firm is not expected to bankrupt in future.

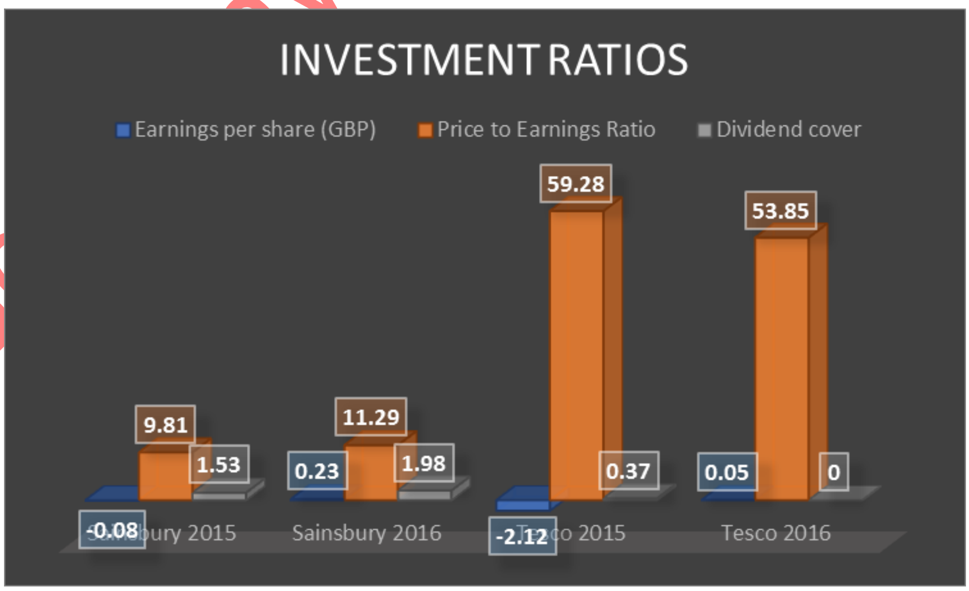
1.3.5.2 Interest coverage Ratio

Interest coverage ratio shows the firm ability to cover long term interest obligations on time (Ayub, 2015). The results presented in Table 8 further confirms that Sainsbury is less exposed to financial risk as firm is in good position to meet its interest obligations on time. The interest coverage ratio was 4.1 in 2015 which increases to 5.57 in 2015. This increase in interest coverage ratio was due to an increase in company profitability and reduction of debt in its capital structure. Tesco, being high leveraged firm and due to decline in its profitability, is found to have less potential than Sainsbury to meet interest obligations on time. The interest coverage ratio values for Tesco were -11.78 and 1.33 in 2015 and 2016 which were less than Sainsbury values of 4.1 and 5.57for year 2015 and 2016 respectively. The findings of interest coverage ratio show that Sainsbury investor's investment will be less expose to risk of losing returns due to financial risks. The investor should make an investment in Sainsbury stock as firm is generating high level of income for them at less level of financial risk.

1.3.6 Investment Ratios

To decide that it is worthy to invest in shares of Sainsbury or not, Earnings per share, price to earnings ratio and dividend coverage ratios were calculated among the investment ratios. The findings of investment ratio are illustrated below in the graphical form.

Graph 5: Investment Ratios



1.3.6.1 Earnings per share

The earnings per share was calculated to determine that how much Sainsbury shareholder earns on their investment in company shares. The results shows that there is an increase in EPS of the company by 130% as company EPS was negative in 2015. However, due to an increase in profitability during 2016, the Sainsbury has generated positive earnings for its shareholders. The company shareholders has earned £ 0.23 GBP per share during 2016. This increase in EPS is attributed to Sainsbury increase in net profitability to £471 million in 2016 from £ (166) million of 2015. In contrast to Sainsbury, Tesco has offered less earning per share to its investors in year 2015 and 2016 the EPS values for Tesco were £-2.12 GBP per share and £0.05 GBP per share. The results of EPS value also hold Sainsbury attractiveness for investment purposes as compared to other retailers in the UK market.

1.3.6.2 Price to Earnings Ratio

The results of price to earnings ratio were different than the findings of earning per share. The ratio shows the relationship of current market price of company share with its EPS. The results in table 10 shows that Tesco Plc shares has performed well on the stock market as price to earning value of Tesco was £53.85 per share as compared to £11.29 per share of Sainsbury. This increase in share price accounts for Tesco growth in international market, although having deteriorated performance in UK retail market. Whereas, the market analysts recommend selling of Sainsbury shares as due to short selling and bargain hunting it is expected that company share prices will fall further during 2016.

1.3.6.3 Dividend cover

Like price to earnings ratio, the dividend coverage ratio findings presented in table 11 suggests Sainsbury share buying as company has offered dividend to its investors on investment during the years of analysis. The dividend coverage ratio values shows that company ability to pay dividends is increased during 2016 due to an increase in its earnings. The dividend coverage ratio value was 1.53% in 2015 which increases to 1.98% in 2016. The firm is found to more attractive for investment purposes in contrast to competitors as Tesco has offered no dividend income to its investor during the financial year 2016.

1.4 Non- Financial Analysis

Besides conducting the financial analysis through financial ratios, the non-financial analysis of Sainsbury was performed by conducting SWOT analysis. The findings of nonfinancial information disclosed in annual report are summarized below through strategic SWOT analysis.

1.4.1 SWOT Analysis

Strengths	**Weaknesses**
• Diversified investment • More than 3000 own brands • Strong service supply network • Strong infrastructure • Dedicated workforce	• Prices cut down • Decline in like for like sales
Opportunities	**Threats**
• Growing international market • Increase in online services	• Growing competition from discount retail stores

1.5 Conclusion

The findings of Sainsbury financial and non-financial performance during the year 2015v and 2016 revealed that company has performed well for retaining its leadership in the UK retail market. J Sainsbury plc has earned high earnings for its investors through efficient utilizations of its assets and capital employed, reduction in production and operational costs. The company although liquidity position is weak but management has taken necessary steps for meeting the short term obligations on time. Due to company less reliance on debt, firm is less exposed to financial risks. The company positive earnings, increased profitability, less exposure to financial risk and offer of dividends make the company more attractive for investment purposes. The reports suggest the investor to investment in shares of Sainsbury as the financial and non-financial analysis prove that company is strategically and financially strong.

2 Adoption of Activity based costing in Small and Medium Enterprises

2.1 Introduction

In the competitive global economy of today, the small and medium enterprises are embracing the accounting systems which bring cost savings and efficiencies at operational level. In enhanced accounting systems, activity based costing (ABC) is an untraditional accounting technique that organizations used for their overheads costing (Gunasekaran et al., 1999). ABC assists the organizations management in optimal decision making by analyzing the organization current level of productivity and profitability. Maelah and Ibrahim (2007) stated that the adoption of activity based costing approach is low in Small and medium enterprises as compared to large firms. The current report aims at analyzing the characteristics, impact and penetration of ABC in small and medium enterprises. In this report, critical review of literature is carried out for exploring the reasons behind the low adoption of activity based costing in small and medium enterprises.

2.2 Characteristics of activity based costing (ABC)

According to Rios-Manriquez et al., (2014), the system of activity based costing was introduced in response to companies need for having more accounting information for achieving competitive costs. It was initially designed for manufacturing industries as advancement in technology and production processes has increased overhead costs there. The ABC method of costing overcomes the weakness of traditional systems of cost in the areas of internal efficiency evaluation, quality evaluation and determination of profitability per product (Narong, 2009). Activity based management form basis for the development of activity based costing as it aims at bringing the operational efficiencies in organization through cost reduction and optimal utilization of organizational assets.

The concept of activity based costing was created by Kaplan and Cooper in 1988 for increasing the usefulness of costing techniques in better decision making by management. Kaplan and Cooper (1991) stated that activity based costing monitors the consumption of resources in organization by allocating to the overhead cost to only those items which consume them. In the ABC costing approach, the costing is allocated to ultimate outputs in steps. Everaert and Bruggeman (2007) has explained the mechanism of costing through activity based approach. First, the allocation of resources is done with respect to the activities. In the second step, the consumption estimates are set by assigning the costing objectives to activities. Lastly, these cost drivers are linked with the ultimate output activities where the determination of outputs is done through unit costs.

2.3 Advantages of ABC adoption

The key advantages of ABC adoption is that it provides timely and accurate information to the management about product costing for effective decision making. In another study on importance of adoption of activity based costing for firms, Baxendale (2001) highlighted that ABC is beneficial for firms as it enhances the understanding about overheads, give accurate report of costing system and assist in determination of non-valuable activities. Besides these advantages, there are few shortcomings of ABC method of costing as well. It is costly mechanism to implement and usually consumes a lot of time. In addition to this, it is difficult for firms to determine costs for all overheads. Still, firms adopt traditional costing approach for allocating costs to few overheads. Kingcott (1991) suggested that the system of activity based costing should not be adopted by the firms in case where its benefits of adoption are less as compared to its costs.

2.4 Impact of the ABC adoption on SMEs

Since the creation of ABC in late 1980s, it has been adopted by the different companies belonging to various sectors. ABC system was successfully adopted by the various companies due to its unique principles of implementation which are same for services, manufacturing and government firms. Another key reason behind its adoption in firms is that the system assist managers in strategic as well as operational decision making by providing accurate costing information and by enhancing their understanding about firms cost behaviours. However, it was observed that in practice rate of ABC adoption is high in large firms as compared to SMEs (Needy et al., (2003), Carenze and Turolla (2010)). Among SMEs, the ABC adoption is high in the area of wine and cook industry. Elahmman and Efi (2003) conducted a study on adoption of ABC in SMEs. According to them, the SMEs in developed countries such as UK, USA and France adopt this costing approach more as compared to the SMEs in Arab world. But, still the rate of adoption is low. The findings of Elahmman and Efi (2003) empirically supported the view that the performance of SMEs increases with adoption of ABC. In another study on SMEs in India, Gupta and Kumar (2015) noticed that few SMEs in India has adopted ABC method of costing. The key reason behind slow adoption of ABC in SMEs in India is that these small firms lack information about the advantages of ABC method of costing. In addition to this, the time and resources constraints also limit the adoption of ABC approach in Indian SMEs. Rundora and Selesho (2014) has regarded the high cost of ABC system implementation main reason behind low adoption of ABC in SMEs. Rundora and Selesho (2014) stated that these small enterprises need complete transformation of their manual costing system for having high performance. The limited capital of these enterprises also account for the low adoption of ABC in SMEs (Hughes, 2005).

The findings of Rios-Manriquez et al., (2014) also support Gupta and Kumar (2015) findings. Rios-Manriquez et al., (2014) also mentioned that the lack of knowledge about ABC approach is key reason behind low penetration of ABC in SMEs. The authors suggested that the rate of ABC adoption in SMEs can be increased by making aware them on the matter that how ABC approach facilitates them in costs reduction and to attain or retain competitive position in market. Abor and Quartey (2010) mentioned that the limited infrastructure, lack of financial and human resources are also the constraints behind less adoption of ABC in SMEs belonging to distribution, information technology and various services and manufacturing sectors. According to Stefano (2011), the ABC implementation in SME has bought less success as compared to the expected level. The reason behind this failure are both the SMEs specific internal and external issues. Few reasons of failure identified by Stefano (2011) include improper fitting of ABC system in structure of organization, lack of management confidence on system provided information, incompatibility issues among the financial and accounting tools and issues of indirect cost determination etc.

2.5 Conclusion

The critical debate on adoption of activity based costing in small and medium enterprises shows that the small and medium enterprises are embracing the accounting systems for having cost savings and efficiencies at operational level. The system adoption can increase the SMEs performance through effective decision making by management as system provides accurate information of costing system and assist in determination of non-valuable activities. The report observed that in practice rate of ABC adoption is high in large firms as compared to SMEs. Lack of knowledge, limited capital, less financial and human resources, expensive implementation are main reason behind less adoption of ABC in SMEs. The report suggests that if SMEs invest their money and time on ABC adoption and implementation, their operational as well as functional performance will be improved as management will make better decisions on the basis of costing information provided by ABC system.

3 List of Tables

3.1 Table 1: Gross Profit Margin

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Gross Profit Margin (%)	5.08	6.19	-3.87	5.24

3.2 Table 2: Operating Profit Margin

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Operating Profit Margin	0.34	3.1	-10.10	1.92

3.3 Table 3: Return on capital employed

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Return on capital employed	0.97	6.53	-23.54	2.15

3.4 Table 4: Current Ratio

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Current Ratio	0.64	0.66	0.60	0.75

3.5 Table 5: Trade Receivable days

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Trade Receivable days (days)	1.73	1.53	24.19	16.92

3.6 Table 6: Inventory Turnover

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Inventory turnover	22.63	22.54	19.71	19.15

3.7 Table 7: Debt/ Equity Ratio

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Debt/ Equity Ratio	0.45	0.34	1.51	1.24

3.8 Table 8: Interest Coverage Ratio

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Interest cover	4.1	5.57	-11.78	1.33

3.9 Table 9: Earnings per Share

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Earnings per share (GBP)	-0.08	0.23	-2.12	0.05

3.10 Table 10: Price to Earnings Ratio

	Sainsbury 2016	Tesco 2016
Price to Earnings Ratio	11.29	53.85

3.11 Table 11: Dividend Cover

	Sainsbury 2015	Sainsbury 2016	Tesco 2015	Tesco 2016
Dividend cover	1.53	1.98	0.37	N/A

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5 Appendices

Financial Statements for

Sainsbury

Balance sheets

At 12 March 2016 and 14 March 2015

		Group		Company	
	Note	2016 £m	2015 £m	2016 £m	2015 £m
Non-current assets					
Property, plant and equipment	11	**9,764**	9,648	**–**	1
Intangible assets	12	**329**	325	**–**	–
Investments in subsidiaries	13	**–**	–	**4,500**	7,630
Investments in joint ventures and associates	14	**327**	359	**33**	18
Available-for-sale financial assets	15	**340**	184	**35**	37
Other receivables	17a	**103**	83	**1,531**	1,363
Amounts due from Sainsbury's Bank customers	17b	**1,649**	1,412	**–**	–
Derivative financial instruments	30	**17**	21	**22**	33
		12,529	12,032	**6,121**	9,082
Current assets					
Inventories	16	**968**	997	**–**	–
Trade and other receivables	17a	**508**	471	**1,195**	1,399
Amounts due from Sainsbury's Bank customers	17b	**1,695**	1,599	**–**	–
Available-for-sale financial assets	15	**48**	–	**–**	–
Derivative financial instruments	30	**51**	69	**32**	44
Cash and bank balances	27b	**1,143**	1,285	**338**	92
		4,413	4,421	**1,565**	1,535
Assets held for sale	18	**31**	84	**1**	15
		4,444	4,505	**1,566**	1,550
Total assets		**16,973**	16,537	**7,687**	10,632
Current liabilities					
Trade and other payables	19a	**(3,077)**	(2,961)	**(157)**	(4,422)
Amounts due to Sainsbury's Bank customers and banks	19b	**(3,173)**	(3,395)	**–**	–
Borrowings	20	**(223)**	(260)	**(40)**	(87)
Derivative financial instruments	30	**(43)**	(75)	**(35)**	(57)
Taxes payable		**(158)**	(188)	**(21)**	(21)
Provisions	22	**(46)**	(44)	**–**	(2)
		(6,720)	(6,923)	**(253)**	(4,589)
Liabilities held for sale	18	**(4)**	–	**–**	–
		(6,724)	(6,923)	**(253)**	(4,589)
Net current (liabilities)/assets		**(2,280)**	(2,418)	**1,313**	(3,039)
Non-current liabilities					
Other payables	19a	**(269)**	(265)	**(692)**	(798)
Amounts due to Sainsbury's Bank customers and other deposits	19b	**(582)**	(266)	**–**	–
Borrowings	20	**(2,190)**	(2,506)	**(616)**	(764)
Derivative financial instruments	30	**(69)**	(38)	**(13)**	(18)
Deferred income tax liability	21	**(237)**	(215)	**–**	–
Provisions	22	**(129)**	(77)	**(2)**	(2)
Retirement benefit obligations	31	**(408)**	(708)	**–**	–
		(3,884)	(4,075)	**(1,323)**	(1,582)
Net assets		**6,365**	5,539	**6,111**	4,461
Equity					
Called up share capital	23	**550**	548	**550**	548
Share premium account	23	**1,114**	1,108	**1,114**	1,108
Capital redemption reserve	24	**680**	680	**680**	680
Other reserves	24	**155**	146	**31**	40
Retained earnings	26	**3,370**	3,057	**3,240**	2,085
Total equity before perpetual securities		**5,869**	5,539	**5,615**	4,461

Group income statement

for the 52 weeks to 12 March 2016

	Note	2016 £m	2015 £m
Revenue	4	**23,506**	23,775
Cost of sales		**(22,050)**	(22,567)
Gross profit		**1,456**	1,208
Administrative expenses		**(850)**	(1,132)
Other income		**101**	5
Operating profit	5	**707**	81
Finance income	6	**19**	19
Finance costs	6	**(167)**	(180)
Share of post-tax (loss)/profit from joint ventures and associates	14	**(11)**	8
Profit/(loss) before tax		**548**	(72)
Analysed as:			
Underlying profit before tax		**587**	681
Profit on disposal of properties	3	**101**	7
Investment property fair value movements	3	**(18)**	7
Retail financing fair value movements	3	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses	3	**(28)**	(37)
Perpetual securities coupons	3	**15**	–
Acquisition adjustments	3	**3**	13
One-off items	3	**(90)**	(713)
		548	(72)
Income tax expense	8	**(77)**	(94)
Profit/(loss) for the financial year		**471**	(166)
Earnings/(loss) per share	9	**pence**	pence
Basic		**23.9**	(8.7)
Diluted		**22.5**	(8.7)
Underlying basic		**24.2**	26.4
Underlying diluted		**22.8**	25.7

The notes on pages 95 to 150 form an integral part of these financial statements.