- *Name: Iqtidar Ali*
- **Roll no: 15581**
- **Instructor: SIR DR ENGR ZEESHAN AHAD**
- **Subject : financial management**
- **MID TERM EXAMINATION**
- **IQRA NATIONAL UNIVERSITY**

Balance Sheet / Annual Financial Statement for Nestle, Pakistan

Consolidated balance sheet as at December 31, 2019

before appropriations

In millions of CHF

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	12/16	7 469	4 500
Short-term investments	12	2 794	5 801
Inventories	6	9 343	9 125
Trade and other receivables	7/12	11 766	11 167
Prepayments and accrued income		498	530
Derivative assets	12	254	183
Current income tax assets		768	869
Assets held for sale	2	2 771	8 828
Total current assets		**35 663**	**41 003**
Non-current assets			
Property, plant and equipment	8	28 762	29 956
Goodwill	9	28 896	31 702
Intangible assets	9	17 824	18 634
Investments in associates and joint ventures	14	11 505	10 792
Financial assets	12	2 611	2 567
Employee benefits assets	10	510	487
Current income tax assets		55	58
Deferred tax assets	13	2 114	1 816
Total non-current assets		**92 277**	**96 012**
Total assets		**127 940**	**137 015**

Figure 1: Balance Sheet of Nestle, Pakistan

In millions of CHF

	Notes	2019	2018
Liabilities and equity			
Current liabilities			
Financial debt	12	14 032	14 694
Trade and other payables	7/12	18 803	17 800
Accruals and deferred income		4 492	4 075
Provisions	11	802	780
Derivative liabilities	12	420	448
Current income tax liabilities		2 673	2 731
Liabilities directly associated with assets held for sale	2	393	2 502
Total current liabilities		**41 615**	**43 030**
Non-current liabilities			
Financial debt	12	23 132	25 700
Employee benefits liabilities	10	6 151	5 919
Provisions	11	1 162	1 033
Deferred tax liabilities	13	2 589	2 540
Other payables	12	429	390
Total non-current liabilities		**33 463**	**35 582**
Total liabilities		**75 078**	**78 612**
Equity	17		
Share capital		298	306
Treasury shares		(9 752)	(6 948)
Translation reserve		(21 526)	(20 432)
Other reserves		(45)	(183)
Retained earnings		83 060	84 620
Total equity attributable to shareholders of the parent		**52 035**	**57 363**
Non-controlling interests		827	1 040
Total equity		**52 862**	**58 403**
Total liabilities and equity		**127 940**	**137 015**

Case Study: Nestle Pakistan -Company Brief:

Nestle Pakistan is a Pakistani food company which is a subsidiary of Swiss Multi-national company Nestle. It is active dairy, confectionery, coffee, beverages, infant nutrition and drinking water. It is based in Lahore, Pakistan.

The company was founded in 1988 by Nestle in a giant venture with MilkPack. In 1992, Nestle acquired MilkPack. It's one factory is located in Sheikhapura joyanawala morr near khanpur canal 32 kilometers from Lahore and second in Kabirwala.

Financial Analysis:

Financial position of the company depends on its assets, liabilities and equity. The economic-strength of a company at a particular time (usually the last date of fiscal year of the company) is depicted by its Balance Sheet/ Annual Financial Statement. It is the statement of the assets, liabilities and business capital (Equity or Net Worth), detailing the balance of income and expenditure over the preceding period. It is the comparison of the financial health of a company for at least two consecutive fiscal years.

To analyze Nestle Pakistan financial position, balance sheet (Fig 1) for the fiscal year 2018-2019 is considered. Financial soundness is dependent on the following indicators:

1. Assets
   1.1. Current Assets
   1.2. Fixed Assets
2. Liabilities
   2.1. Current Liabilities
   2.2. Long Term Liabilities
3. Equity (Net Worth)
4. Working Capital
5. Current Ratio
6. Under Billing & Over Billing

1. Assets:

A business asset is an item of value owned by a company. Anything tangible or intangible that can be owned or controlled to produce value and that is held by a company to produce positive economic value is an asset.

Required Data Nestle Pakistan (Fig 1):

Total Current Assets $_{(2019)}$ = 35663 M   Total Fixed Assets $_{(2019)}$ = 92277 M

Total Assets $_{(2019)}$ = Total Current Assets $_{(2019)}$ + Total Fixed Assets $_{(2019)}$

$= 35663\ M + 92277\ M$

$= 127940\ M$

Total Current Assets $_{(2018)}$ =41003 M   Total Fixed Assets $_{(2018)}$ = 96012 M

Total Assets $_{(2018)}$ = Total Current Assets $_{(2018)}$ + Total Fixed Assets $_{(2018)}$

$= 41003\ M + 96012\ M$

$= 137015\ M$

Total Assets $_{(2019)}$ = 127940 M   Total Assets $_{(2018)}$ = 137015 M

Net Increase in Total Assets = Total Assets $_{(2019)}$ - Total Assets $_{(2018)}$

$= 127940\ M - 137015\ M$

$= 9075\ M$

1.1 <u>Current Assets:</u>

Anything owned by a company that can be readily converted into cash is known as current asset. Current assets can be sold out within a year to generate money. Current assets are the measure of the short term financial health of the company, to undertake a contract and meet its current liabilities.

Required Data Nestle Pakistan (Fig 1):

Total Current Assets $_{(2019)}$ = 35663 M   Total Current Assets $_{(2018)}$ =41003 M

Net Increase in Total Current Assets = Total Current Assets $_{(2019)}$ - Total Current Assets $_{(2018)}$

$= 35663\ M - 41003\ M$

$=5340\ M$

1.2 <u>Fixed Assets:</u>

Assets that are bought for long-term use and are not likely to be converted quickly into cash are known as fixed assets. They include land, building, plants, equipment's and vehicles. They are also called as Long term Assets. The fixed asset turnover ratio (FAT) is used to measure the operating performance of the company. This efficiency ratio compares sales to fixed assets and measures a company's ability to generate net sales from its fixed asset. Higher ratio shows that the management is effectively utilizing its fixed assets.

Required Data Nestle Pakistan (Fig 1):

Total Fixed Assets $_{(2019)}$ =92277 M   Total Fixed Assets $_{(2018)}$ = 96012 M

Net Increase in Total Fixed Assets = Total Fixed Assets $_{(2019)}$ - Total Fixed Assets $_{(2018)}$

= 92277 M - 96012 M

= 3735 M

2. <u>Liabilities:</u>

Liability is defined as the future sacrifices of economic benefits that a company is obliged to make to other entity as result of past transaction or other past events, the settlement of which may result in transfer or use of assets, provision of services or other yielding of financial benefits in the future. Any obligation that a company owes to third party is liability. They include short term bank loans, bank overdraft, loans against mortgages and payments to sub-contractors.

Required Data Nestle Pakistan (Fig 1):

Total Current Liabilities $_{(2019)}$ = 41615 M   Total Long Term Liabilities $_{(2019)}$ = 33463 M

Total Liabilities $_{(2019)}$ = Total Current Liabilities $_{(2019)}$ + Total Long Term Liabilities $_{(2019)}$

Total Liabilities $_{(2019)}$ = 41615 M + 33463 M

= 75078 M

Total Current Liabilities $_{(2018)}$ = 43030 M   Total Long Term Liabilities $_{(2018)}$ = 35582 M

Total Liabilities $_{(2019)}$ = Total Current Liabilities $_{(2018)}$ + Total Long Term Liabilities $_{(2018)}$

Total Liabilities $_{(2018)}$ = 43030 M + 35582 M

= 78612 M

Total Liabilities $_{(2019)}$ = 75078 M   Total Liabilities $_{(2018)}$ = 78612 M

Net Increase in Total Liabilities = Total Liabilities $_{(2019)}$ - Total Liabilities $_{(2018)}$

= 75078 M - 78612 M

= 3534 M

2.1 <u>Current Liabilities:</u>

Current liabilities are a company's short-term financial obligations that are due within one year or within a normal operating cycle. Current liabilities are cleared through current assets.

Required Data Nestle Pakistan (Fig 1):

Total Current Liabilities $_{(2019)}$ = 41615 M   Total Current Liabilities $_{(2018)}$ = 43030 M

Net Increase in Total Current Liabilities = Total Current Liabilities $_{(2019)}$ - Total Current Liabilities $_{(2018)}$

= 41615 M - 43030 M

= 1415 M

2.2 <u>Long Term Liabilities:</u>

A long-term liability is an obligation resulting from a previous event that is not due within one year of the date of the balance sheet (or not due within the company's operating cycle if it is longer than one year). Long-term liabilities are also known as noncurrent liabilities. Long term liabilities can be settled through company's business net income, future investment incomes or cash from new debt agreements.

Required Data Nestle Pakistan (Fid 1):

Total Long Term Liabilities $_{(2019)}$ = 33463 M Total Long Term Liabilities $_{(2018)}$ = 35582 M

Net Change in Total Long Liabilities = Total Long Term Liabilities $_{(2019)}$ - Total long Term Liabilities $_{(2018)}$

= 33463 M - 35582 M

= 2119 M

3. <u>Equity (Net Worth):</u>

Capital invested by owner(s) of the company is termed equity. Equity represents the shareholders' stake in the company. Equity is the net worth of a company to undertake any project/business assignment. Net worth is the sum of all the investments plus the profit made by the company during business. The calculation of equity is a company's total assets minus its total liabilities. Net worth is the key factor for financial analysis of the company because it is the actual amount available for the business. The mathematical relationship is given as

Equity (Net Worth) + Total Liabilities = Total Assets

Equity (Net Worth) = Total Assets – Total Liabilities

To analyze Nestle Pakistan financial position, use the above accounting equation.

Given Data (Fig 1):

Year 2018:

Total Assets = 137015 M Total Liabilities = 78612 M Equity (Net Worth) =?

Equity (Net Worth) $_{2018}$ = Total Assets $_{2018}$ - Total Liabilities $_{2018}$

= 137015 M - 78612 M

= 58403 M

Year 2019:

Total Assets =127940 M   Total Liabilities = 75078 M   Equity (Net Worth) =?

Equity (Net Worth) $_{2019}$ = Total Assets $_{2019}$ - Total Liabilities $_{2019}$

= 127940 M - 75078 M

= 52862 M

Increase in Equity = 52862 M - 58403 M

= 5541 M

4. <u>Working Capital:</u>

Working capital is another important financial indicator of company's soundness. It is the amount available to carry current business operations or to fulfill short term financial commitments. Working capital is calculated as follows:

Working Capital = Current Assets – Current Liabilities

Given Data Year 2018 (Fig 1):

Current Assets =41003 M   Current Liabilities = 43030 M   Working Capital =?

Working Capital $_{2018}$ = Current Assets $_{2018}$ - Current Liabilities $_{2018}$

= 41003 M - 43030 M

= 2027 M

Given data Year 2019 (Fig 1):

Current Assets =35663 M   Current Liabilities =41615 M   Working Capital =?

Working Capital $_{2019}$ = Current Assets $_{2019}$ - Current Liabilities $_{2019}$

= 35663 M - 41615 M

= 5952 M

Net Increase in Working Capital = Working Capital $_{(2019)}$ – Working Capital $_{(2018)}$

= 2027 M- 5952 M

= 3925 M

5. Current Ratio:

The current ratio is the liquidity ratio that measures a company's ability to pay short term obligations or those due within one year. It is a means to maximize current assets on its balance sheet to satisfy its current liabilities. The current ratio for a construction company should be 1.3 or higher.

Current Ratio = Current Assets / Current Liabilities

Given Data Year 2018 (Fig 1):

Current Assets = 41003 M   Current Liabilities =43030 M

Current Ratio $_{2018}$ = Current Assets $_{2018}$ / Current Liabilities $_{2018}$

= 41003 M / 43030 M

= 0.95

Given data Year 2019 (Fig 1):

Current Assets =35663 M   Current Liabilities = 41615 M

Current Ratio $_{2019}$ = Current Assets $_{2019}$ / Current Liabilities $_{2019}$

= 35663 M / 41615 M

= 0.86

6. Under Billing and Over Billing:

Under billing is defined as when a contractor completes a certain amount of work but does not claim its client for full payment. Over billing is that a contractor demands more than the work completed. In balance sheet under billing is expressed as "Cost & estimated earnings in excess of billing on work in progress" under current assets. Over billing is shown in current liabilities as "Billing in excess of costs & estimated earnings on works in progress". Nestle Pakistan has shown its work in progress in current assets, so the company is going through under billing.

Findings Regarding Nestle Pakistan:

Nestlé is organized into three geographic zones and several globally managed businesses. The Company manufactures and distributes food and beverage products in the following categories: powdered and liquid beverages, water, milk products and ice cream, prepared dishes and cooking aids, confectionery and pet care. Nestlé also manufactures and distributes nutritional science products through its globally managed business Nestlé Health Science, and science-based solutions that contribute to the health of skin, hair and nails through Nestlé Skin Health (until beginning of October 2019). The Group has factories in 84 countries and sales in 187 countries and employs around 291 000 people.

Segment reporting Basis for segmentation:

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker (CODM), which is defined as the Executive Board.

The CODM considers the business from both a geographic and product perspective, through three geographic Zones and several Globally Managed Businesses (GMB).

Zones and GMB that meet the quantitative threshold of 10% of total sales or trading operating profit for all operating segments, are presented on a stand-alone basis as reportable segments. Even though it does not meet the reporting threshold, Nestlé Waters is reported separately for consistency with long-standing practice of the Group. Therefore, the Group's reportable operating segments are:

- Zone Europe, Middle East and North Africa (EMENA);
- Zone Americas (AMS);
- Zone Asia, Oceania and sub-Saharan Africa (AOA);
- Nestlé Waters.

Other business activities and operating segments, including GMB that do not meet the threshold, like Nespresso, Nestlé Health Science and Nestlé Skin Health, are combined and presented in Other businesses.

As some operating segments represent geographic Zones, information by product is also disclosed. The seven product groups that are disclosed represent the highest categories of products that are followed internally.

Revenue and results by segment:

Segment results (Trading operating profit) represent the contribution of the different segments to central overheads, unallocated research and development costs and the trading operating profit of the Group. Specific corporate expenses as well as specific research and development costs are allocated to the corresponding segments. In addition to the Trading operating profit, Underlying Trading operating profit is shown on a voluntary basis because it is one of the key metrics used by Group Management to monitor the Group.

Depreciation and amortization includes depreciation of property, plant and equipment (including right-of-use assets under leases) and amortization of intangible assets.

Invested capital and other information by segment:

No segment assets and liabilities are regularly provided to the CODM to assess segment performance or to allocate resources and therefore segment assets and liabilities are not disclosed. However the Group discloses the invested capital, goodwill and intangible assets by segment and by product on a voluntary basis.

Invested capital comprises property, plant and equipment, trade receivables and some other receivables, assets held for sale, inventories, prepayments and accrued income as well as specific financial assets associated to the segments, less trade payables and some other payables, liabilities directly associated with assets held for sale, non-current other payables as well as accruals and deferred income.

Goodwill and intangible assets are not included in invested capital since the amounts recognized are not comparable between segments due to differences in the intensity of acquisition activity and changes in accounting standards which were applicable at various points in time when the Group undertook significant acquisitions. Nevertheless, an allocation of goodwill and intangible assets by segment and product and the related impairment expenses are provided.

Inter-segment eliminations represent inter-company balances between the different segments.

Invested capital and goodwill and intangible assets by segment represent the situation at the end of the year, while the figures by product represent the annual average, as this provides a better indication of the level of invested capital.

Capital additions represent the total cost incurred to acquire property, plant and equipment (including right-of-use assets under leases), intangible assets and goodwill, including those arising from business combinations.

Unallocated items:

Unallocated items represent items whose allocation to a segment or product would be arbitrary. They mainly comprise:

- Corporate expenses and related assets/liabilities;
- Research and development costs and related assets/liabilities; and
- Some goodwill and intangible assets.

Revenue:

Sales represent amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Sales are recognized when control of the goods has transferred to the customer, which is mainly upon arrival at the customer.

Revenue is measured as the amount of consideration which the Group expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. The level of discounts, allowances and promotional rebates is recognized as a deduction from revenue at the time that the related sales are recognized or when the rebate is offered to the customer (or consumer if applicable).

They are estimated using judgements based on historical experience and the specific terms of the agreements with the customers. Payments made to customers for commercial services received are expensed. The Group has a range of credit terms which are typically short term, in line with market practice and without any financing component.

The Group does not generally accept sales returns, except in limited cases mainly in the Infant Nutrition business. Historical experience is used to estimate such returns at the time of sale. No asset is recognized for products to be recoverable from these returns, as they are not anticipated to be resold.

Trade assets (mainly coffee machines, water coolers and freezers) may be sold or leased separately to customers.

Arrangements where the Group transfers substantially all the risks and rewards incidental to ownership to the customer are treated as finance lease arrangements. Operating lease revenue for trade asset rentals is recognized on a straight-line basis over the lease term.

Sales are disaggregated by product group and geography in Notes 3.2 and 3.4

Conclusion:

Working capital is indicator of short term financial strength. The volume of work in progress should be ten times the working capital and for big project in progress volume of project should be five times working capital. Working capital of Nestle Pakistan is 2027 M and 5952 M respectively for year 2018 & 2019. In both the years negative trend persists and the company is under financial burden to meet its current expenses. The deficit in working capital of Nestle Pakistan is the indication financial mismanagement and unsatisfactory business performance during 2018 and 2019. The primary driver of these offsetting movements is the timing of construction project starts and the related working capital flows

Balance of payment is partially offset because current liabilities are in excess to current assets. Current ratios for both 2018 and 2019 are 0.95 and 0.86 respectively, which are less than 1.3 and has further decreased in year 2019. This is a clear indication that Nestle Pakistan‘s financial health is not satisfactory in both the fiscal years.

Nestle Pakistan with total assets of 127940 M and equity (net worth) of 52862 M has comparatively not performed well during both financial years. Due to poor performance during both years the goodwill value of the company has fallen. Currently company is comparatively in financial stress to address its short term obligations. In order to overcome its current financial constraints, either it has to resort to borrowing or dispose some of its assets or equipment's.

(THE END)