financial Planning And Analysis:

A Study of Pfizer Product Limited

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DECLARATION

I hereby declare that the project is a product of my research findings and that I am responsible for any error of commission and/or omission.

I have duly acknowledged in the reference all works consulted in this research project.

Lawal Sanusi

Sig.

CERTIFICATION

This project titled, "FINANCIAL PLANNING AND ANALYSIS"; A CASE STUDY OF PFIZER PRODUCTS LIMITED" BY LAWAL SANUSI meets the regulations governing the award of degree of masters of Business Administration (MBA) of Ahmadu Bello University Zaria and is approved for its contribution to knowledge and literacy presentation.

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DEDICATION

I wish to dedicate this work to the two families that I am always proud to be a member, these are: Sambo family of Zaria and Nadabo family of Katsina. And I also wish to dedicate the work particularly to my Uncles from both families, most especially Alh. Umaru Idris, late Alh. Abdullahi Kankara and Bishir Bello Kankara.

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ABSTRACT

This study will aim at evaluating the performance of a business organization with regards to the essence of using its potentials in adequately implementing the concept of financial planning and analysis to Business organization to achieve optimal results. It has to a far reaching policies which are hence required to be implemented in a Business organization.

Since finance is one of the most scarce resources required by a Business organisation thus study will be restricted to financial indices of the study, with reference to a specific pharmaceutical and Bio-medical producing company (PFIZER PRODUCTS LIMITED). The scope with going to the primarily useful in critical variables such as profitability determination and how well the Business is doing well as regards to its application of the principles of adequate financial goals. The work is arranged into five (5) chapter. Chapters one introduced the topic by stating the background of the study, statement of the problem, objectives of the study, significant, scope, limitation of the study, brief history of the company under study (PFIZER), definition of some key terms and chapter preview. Chapter two is the chapter that brings the literature review of the same study and contribution related to the same field under study by some scholars and conceptual framework. Chapter three is the chapter that contained the research methodology. After introduction general research methodology has been explained such as survey, case-study, historical and experimental research method. And method of data collection, which include, direct observation, interview etc.

Chapter four is data presentation and analysis. Here we start bv introducing and presenting all the relevant variables/tools that will be use for the financial planning and analysis - Budgeted financial statements, Discussion of results; ;were followed immediately to justify the analysis made by each comparison.

Chapter five is the chapter that contains the summary, and critical evaluation of findings, conclusions and recommendations, followed by bibliography and appendices.

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Chapter One

1.0 INTRODUCTION

Financial planning and analysis is concerned with the determination, acquisition and arrangement of all facilities necessary for future financial operations. It is therefore founded on what exist and develop to fit what is expected to exist. Business activities must be planned, results properly interpreted to give useful deductions which will aid the setting of new course of action for appropriate evaluations and implementation.

There are several business activities of an enterprise, among these are: production, finance, marketing, etc. Out of these activities finance plays an important role, it raises capital funds, and use them to generate income and pays return to the suppliers of funds. Therefore, finance can be defined as the effective and efficient acquisition and utilization of funds for the attainment of organizational objectives. The job of the finance manager therefore is an important one and his responsibility involves taking decisions as regards to investments. The firm should make, how these investments should be finance and how the existing resources of the firm should be managed, so that the maximum benefit could be derived.

To be able to carry out these functions in the most effective and efficient manner, the financial manager needs some tools for financial planning and analysis. One of the tools available to the financial manager is "financial ratio analysis". And financial planning and analysis is aimed

at identifying the weakness in the firm's financial health that could lead to future problems and to determine any strengths the firm might capitalize upon. A financial manager wants to know through financial planning and analysis whether the firm can reasonably afford to borrow all or part of funds needed to finance a planned expansion, find out causes of changes in operating income relative to its competitors, etc. Financial planning and analysis is a yard stick used in evaluating the financial position and performance of a firm.

Accounting figures as reported in the various financial statements do not provide adequate understanding of the performance and the actual financial position of a firm until when they convey meaning related to specific information. Take for instance, a firm that declares a N20,000,000 net profits. This figure may look impressive, but the firm's performance can be good or bad only when the net profit figure is related to the firm's investment.

Financial planning and analysis establishes the relationship between the items of the balance sheet and profit and loss account. Financial planning and analysis can alternatively, be undertaken by outsiders that is, investors who wish to determine the credit worthiness or investment potentials of the firm. For example trade creditors are interested in the fact that the firm should be able to meet their claims within a short period of time. These analysis, therefore, will focus on the firm's liquidity position. On the other hand, the suppliers of long-term funds will be interested in the firm's long-term solvency and survival, hence they analyze the firm's profitability over time. That is, the firm's ability to

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generate cash to be able to pay interest and return on their claims. Shareholders on their part are interested in the firm's earnings. They have more confidence in those firm's that show steady growth in earnings and therefore, they concentrate on the firm's present and future profitability. Financial planning and analysis serve as useful tools to managers and investors in assessing the financial health of firms.

1.1 BACKGROUND OF THE STUDY

Financial planning and analysis is not a new topic in the concept of financial management, but its applicability is new in the Nigerian business environment. The most popular way of analyzing financial statement is by the use of ratio analysis, which relate balance sheet and income statement items to one another, permit the charting of a firm's history and evaluation of its present position. It also allows the financial manager to anticipate reaction of investors and creditors and thus to gain insight into how attempts to acquire funds are likely to be received.

A ratio is not a meaningful number in and of itself. It must be compared with something before it becomes useful. The two basic kind of comparative analysis are (1) trend analysis which involves computer ratios of a particular firm for several years and comparing the ratios over time to see if the firm is improving or deteriorating; and (2) comparisons with other firms in the same industry. Trend analysis is the one we are going to concentrate on in this study. To compare the trend of activities of Pfizer product Limited for five(5) consecutive years to see its performance over those years in relation to the budgeted statements of

other years respectively.

Planning is the key to the financial manager's success. Financial plans may take many forms, but any good plan must be related to the firm's existing strengths and weaknesses. The strengths must be understood if they are to be used for proper advantage, and the weaknesses must be recognized if corrective actions are to be taken. For example, are inventories adequate to support the projected level of sales. Does the firm have too heavy an investment in the trade debtors, and does this conditions reflect a lax collection policy? The financial manager is expected to plan future financial requirements in accordance with the forecasted and budgeted procedures. To further compound the problems, many decisions affect finance. This them imposes a burden of capital budgeting and rationing on the business organization which can only be achieved when there is a fairly accurate analysis and planning of financial resources available to the organization in the past, at present and what trends they likely to follow in the future.

Although financial analysis primarily concerned with the future or expected behaviour of a number of crucial variables, it entails a scrutiny of historical information from financial statements.

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1.2. STATEMENT OF THE PROBLEM

Managers in Nigeria are operating under a very volatile economic situation. Because of the dynamic nature of our economy, decisions taken by managers should be based on hard facts instead of guess work as is the case study.

Several managers have realized too late their firms are heading for liquidation as a result of financial problems which should have been foreseen if some evaluative techniques for forecasting future trends had been employed.

A good number of managers make financial decisions based on information provided in financial statements, but financial statements information will not provide a clear idea as to future trends. For example, the gross profit figure in the profit and loss statement could only be meaningful for decision making only when compared with the assets employed in generating such profits.

This study is intended to find out whether the firm under study employs financial planning and analysis is forecasting the firm's financial position. If ratios are employed, to what extent has the firm been successful in their application.

If not, what has been the effect of non-application of financial planning and analysis on the decision making process vis-a-vis efficient and effective financial planning and control.

1.3. OBJECTIVES OF THE STUDY

- To investigate the financial planning and analysis procedures of Pfizer product limited.
- To use financial planning tools like budgets, and financial ratios for five (5) years.
- To set goals by analyzing, present, and interpret the results.
- Take the results into consideration in planning activities.

- To ensure attainment of goals.
- To ensure assessment of the organization (Pfizer) as well as trend by the use of financial data.
- Use the results to answer questions relating to the growth rate of assets, level of productivity, extend of delay in payment, labour turnover rate and how to cope with envisaged expansion programmes.
- So many variables will be involved in the financial planning and analysis, we are limiting the study to Pfizer Product Limited.
- Also, we are limiting the study to the financial aspect of the business.
- To determine the means of future financial growth.
- To established a set of assumptions based on all the factors that may influence the way in which the organization's basic objectives are achieved.
- To test the validity of some of the financial tools mentioned in the introduction.
- To review existing literature or imperical studies, the theory of finance, approaches to financial planning and analysis, basic concepts and types of planning tools, Data presentation and analysis, an overview of Pfizer Product Limited, problems of financial planning and analysis encountered by Pfizer.
- To advance some recommendations to the policy makers of Pfizer Product Limited.

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1.4. SIGNIFICANCE OF THE STUDY

Ratio analysis which are found in te financial statements (Balance Sheet and profit and loss account) is one of the most powerful tools of the financial planning and analysis. The aim of calculating ratios is to appraise the financial health of the firm in order to know whether the firm has an actual or a potential financial problem, since decisions currently being made might relieve or accumulate the problem. Therefore, the manager must diagnose the financial situation of the firm from time to time in order to foresee financial problems in advance and take remedial actions before the problems become uncontrollable.

Financial planning and control is also used by various groups to determine a particular financial characteristics of the firm in which they are interested. For example the ability of a firm to meet its current financial obligations, the extent to which the firm has used its long-term solvency by borrowing funds; the efficiency with which the firm is utilizing its various assets in generating sales revenue, and the overall operating efficiency and performance of the firm.

Ratio analysis therefore, serves as a convenient, consistent, and discipline approach to financial planning and analysis.

1.5. SCOPE OF THE STUDY

The Pfizer product Limited has limited branches in this Northern part of the country. The only branches are in Kaduna and Jos, even in these two branches they are using the name Nemeth instead of Pfizer.

Therefore, for the purpose of our study we shall confine our scope to Kaduna Branch of Pfzer product Limited, because of the assess to any relevant data for this research. The period of study will be determined from 1996 to year 2000.

1.6. LIMITATIONS AND DELIMITATIONS OF THE STUDY

Some of the limitations encountered during the course of carrying out this study are as follows:

- Nigeria after fourty years of independence is yet to develop industry ratios or averages with which a company's ratios could be compared. Comparison between the company's ratios with that of the industry has therefore not being possible.

- Financial ratios have their limitations which inevitably apply to this study. Therefore, the ratios analyzed must be interpreted with caution, even though financial planning and analysis are to a large extent quantitative while the firm does not operate in a purely mathematical environment.

- Time probably, constituted the most serious limiting factor, as the study had to be concluded within a short period of time hence, the analysis of only five years financial statement, 1996 - 2000.

The limitations of this study is contained in any business organization with special reference to a study of bio-medical product called Pfizer products, and it is related toward proper managerial and financial approaches, the management and approaches through which financial planning and analysis could be an implementing factor in necessitating adequacy to a large extent in running a business organization. The financial statements collected related to 1996-2000 financial years. Findings within this limits are therefore mentioned.

1.7 BRIEF HISTORY OF PFIZER PRODUCT

Pfizer Product Limited, an affiliate of Pfizer product world wide, was incorporated in Nigeria on 23rd June, and commenced business on 1st July, 1972 (Ref Nemeth Business reference and fortune magazine of August, 1998) under the name Pfizer product limited. The Company has its head office at Ojata, two factories in Illupenu and Agbara, and distributes its products through a network of twenty-three (23) sales depots in strategic locations throughout Nigeria.

The company's products include many popular brands. At the Ulupeju factor, established in 1972, OTC Medicine, Pharmaceutical and oral care products are being manufactured. The list include phensic, Ashton, and parsons, rental, Halfan, Tegument, macleans and Aquafresh. At Agbara, opened in 1982, Health drinks are produced. These are as of today, Locozade, Ribena and Boost.

The change of name to Nemeths Limited resulted from the acquisition of Nemeths (UK) by Pfizer product Limited (USA) in 1989.

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Following the merger, two of their affiliated Nigerian companies, orange and French Nigeria Limited and Onmipharm Limited went into voluntary liquidation while the biggest affiliate, Pfizer product limited become the operating unit of the ex-employees of OR and F and Onmipharm were then employed in 1990 to form the Nucleus of the newly created pharmaceutical division of the Nigerian company in accordance with the product mix of international company.

The origin of Pfizer had its origin in Thomas Henzes Product Pfizer of Boston (Bown in 1850 ref. Pfizer book of reference 1980), who through self development and handwork and later with the assistance of his son, Joseph, built the company into a renowned face in the heath care industry. On the other hand, Pfizer grew out of a joint ventures in 1865 (Ref. book of ref. Pfizer, 1980). The business went through acquisition with Nemeths. Today the transnational company has over 300 products being marked all over the world in over 130 countries.

1.8. DEFINITION OF TERMS

PLANNING : The process that companies use to commit their resource in order to achieve a desired objective and opportunities in the future.

FINANCIAL PLANNING: This is concerned with the determination, acquisition and arrangements of all facilities necessary for future financial operations.

BUDGET: Financial plan done by public and private individual usually for one year.

PROFIT: Is the difference between production expenses and the selling price of a product.

RATIOS: These are financial tools that compare tow or more values of an items to determine their relationship.

FINANCIAL ANALYSIS: Examines financial strength and weakness through financial statements such as balance sheet and income statement and compares trend, historical and industrial figures.

CAPITAL STRUCTURE: Is the term used to refer to the total outstanding long term securities of both equity and debt.

FINANCIAL MANAGEMENT: Is that management activity which is concerned with the planning and controlling of firm's financial resources.

TOOLS: Is said to mean instrument held in the hand(s) and used by workmen or persons used by another for honest or dishonest purpose.

1.9. CHAPTER REVIEW

The chapter started by introduction in which it explained the intricacies of a business as a going concern and defining financial planning and analysis as concerned with the determination, acquisition and arrangement of all facilities necessary for future financial operations. Business activities must be planned, results properly interpreted to give useful deductions which will aid the setting of new course of action for appropriate evaluations and implementations.

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The background of the study talks more on financial planning and analysis as a concept in financing management, which has a new application on the Nigerian business environment - bu the well applicable

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of financial analysis by the use of ratio analysis, which relate balance sheet and income statement items to one another. It also stated that financial analysis primarily concerned with the future or expected behaviour of a number of crucial variables, it entails a scrutiny of historical information from financial statement. The objective of the study listed the basic objectives of the research from investigation of the financial planning and analysis procedure of Pfizer, the use of financial ratios etc. setting of goals by analyzing present results and interpretation. Such as using financial data to undertake anon-the-spot assessment of the Pfizer product limited as well as trend of performance to determine the means of future financial growth and finally to advance some recommendation to the policy makers of PFIZER.

The significant of this study is based on how to implement financial planning and analysis in attaining business goals, since finance stands as a fundamental basis for substantial sustenance of the organization. And the research would stand as a useful purpose to businessmen, students etc.

The purpose of the study will confine itself to Kaduna Branch of Pfizer product limited because of the assess to any useful available data for the research. The period of the study will be determined from 1996 - 2000.

The limitation of the study starts from the constraint on the gathering of accounting data which stands as a building blocks of financial analysis which have different interpretations and manipulations. Non synchronization of financial years etc. Others are:- Nigeria after fourty years of independence is yet to develop industry ratios or averages with

which company's ratios could be compared. Time probably, constituted the most serious limiting. The limitation of the study is contained in any business organization with special reference to a study of Bio-medical product called Pfizer Products.

Finally, a brief history of Pfizer Product Limited is given and definition of some eye relevant terms that would be use in the study in order to familiarize ourselves with the main concept of the study. Ideas such as budgets, profit, financial planning, forecasting ratios etc. are defined in this section.

Chapter Two

LITERATURE REVIEW

2.0 INTRODUCTION

Financial planning involves analyzing the financial flows of a company. Forecasting the consequences of various investment, and dividend decisions, and weighing the effects of various alternatives. The idea is to determine where it is going not only the most likely course of events, but deviations from the planning is that it forces management to take account of possible deviations from the company's anticipated path.

The planning horizon depends on the company. Most firms have a horizon of at least one year. Many will produce detailed plans for one year and more general financial plans for three (3) to five (5) years. Some companies will plan ahead ten (10) or even more years. For the purpose of this study the time horizon is five (5) years.

2.1 METHODS OF ANALYSIS

This chapter looks through the tool kit for financial planning and the analysis of past financial progress. One of the valuable aids is a funds flow statement.

Fund flow statement is the tool with which a financial manager or a creditor may evaluate how a firm uses funds and may determine how these uses are financed. In addition to studying past flows the analyst can evaluate future flows by means of a funds statement based on forecasts.

Such as statement provides an efficient method for the financial manager to assess the growth of the company and its resulting financial needs as well as to determine the best way by which to finance those needs. In particular, funds statements are very useful in planning intermediate and long term financing.

The funds statement is a method by which we study the net funds flow between two points in time. These points conform to beginning and ending financial statement dates for whatever period of examination is relevant a quarter, a year, or five years (like in our own case). We must emphasize that funds statement portrays net rather than gross changes between two comparable financial statement at different dates. For example, gross changes might be thought to include all changes that occur between the two statement dates, rather than the sum of these changes the net change as defined. Although an analysis of the gross funds flow of a firm over time would be much more revealing than an analysis of net funds flow, we are usually constrain by ;the financial information available, namely, balance sheets and income statements that span particular period of time. Funds may be defined in several different ways depending on the purpose of the analysis. Although are often defined as cash, many analyst may treat funds as working capital, a some what broader definitions are possible. In the research we are going to analyze funds flow on a cash basis.

Funds statement on a cash basis - basically, one prepares a statement on a cash basis by (1). Classifying net balance sheet changes that occur between two point in time, changes that increase cash and

changes that decrease cash. (2) Classifying from the income statement and shareholders equity statement, the factors that increase cash and the factors that decrease cash, and (3). Consolidating this information in a source and use of funds statement form. In the first of these steps, we simply place one balance sheet beside the other and compute the changes in the various accounts.

CASH BUDGET

A cash budget is arrived at through a projection of future cash receipts and cash disbursements of the firm over various intervals of time. It reveals the timing and amount of expected cash flows and outflows over the period studied. With this information, the financial manager is better able to determine the future cash needs of the firm, plan for the financing of the needs and exercise control over its cash and liquidity. While cash budgets may bi made for almost any interval of, monthly projections for a year are most common. This enables analysis of seasonal variations in funds flows. When cash flows are volatile, however , the interval may be shortened to a week.

The cash budget is indispensable to the financial manager in determining the short term cash needs of the firm and accordingly in planning its short term financing. When cash budgeting is extended to include a range of possible outcomes, the financial manager can evaluate the business risk and liquidity of the company and plan a realistic margin of safety. This margin of safety might come from adjusting the firm's liquidity cushion rearranging the maturity structure of its debt arranging a line of credit with a bank or combination of the three. Cash budgets

prepared for a range of possible outcomes are valuable also appraising the ability of the company to adjust to unexpected changes in cash flows. The preparation of preforms balance sheet and income statement enables the financial manager to analyze the effect of various policy decisions on the future financial condition and performance.

PROFORMA FINANCIAL STATEMENTS

This embodies forecasts of all assets and liabilities as well as of income statement items. Much of the information that goes into the preparation of the cash budget, however, can be used to derive a preforms statement . As before the key to accuracy is the sales forecasts.

The preforms income statement is a projection of income for a period of time in the future. As was true of our cash budgets, the sales forecast is the key to scheduling production costs. The analyst may wish to evaluate each component of the cost of goods sold. A detailed analysis of purchases, production wages, and over head costs is likely to produce the most accurate forecasts, often, however, costs of goods sold are estimated on the basis of past ratios of costs of goods sold to sales. Selling, general and administrative expenses are estimated next. Because these expenses usually are budgeted in advance estimates of them are fairly accurate. Typically, these expenses are not overly sensitive to changes in sales in the very short-run, particularly to reduction in sales. Next, we estimate other income and expenses as well as interest expenses to obtain net income before taxes. Income taxes are then computed-based in the applicable tax rate and deducted to arrive at estimated net

income after taxes. All these estimates are then combined into an income statement.

The preforms income statement need not be based on a cash budget. Instead one can make direct estimates of all the items. By first estimating a sales levels one can multiply historical ratios of cost of goods sold and various expenses items by the level in order to derive the statement. Where historical ratios are no longer appropriate, new estimates should be employed.

SUSTAINABLE GROWTH MODELING

Here we determine wether the sales growth objectives of the company are consistent withe its operating efficiency and with its financial ratios. This powerful tool of analysis allows us to simulate the likely effects of changes in target ratios when we move from a steady state environment. The integration of marketing operational and financial objectives permits better management of growth.

The management of growth requires careful balancing of the sales objectives or the firm with its operating efficiency and financial resources. Many a company overarches itself financially at the alter of growth , the bankruptcy counts are filled withe such cases. The tricks is ti determine what sales growth is consistent with the realities of the company and of the financial market place. In this regard, sustainable growth modeling is a powerful planning tool and has found enthusiastic use in companies. In the way of definition, the sustainable growth rate (SGR) is the maximum annual percentage increase in sales that can be achieved based on target

operating debt, and dividend pay out ratios. If actual growth exceeds the sustainable growth rate, something must give, and frequently it is the debt ratio. By modeling the process of growth we are able to make intelligent trade-offs.

FINANCIAL RATIOS

The firm's purpose is not only interval control but also better understanding of what capital suppliers seek in financial condition and performance from it.

Financial ratios can be derived from the balance sheet and income statement. They are categorized into five types, liquidity, debt, coverage, profitability and market value. Each type has a special use for the financial or security analyst. The usefulness of the ratio depends on the ingenuity and experience of the financial analyst who employ them. A comparison of ratios of the same firm over time uncovers leading clues in evaluating changes and trends in the firm's financial condition and profitability. The comparison may be historical and predictive. It may include an analysis of the future based on projection financial statements. Ratios may be also judged in comparison with those of similar firms in the sane time of business and when appropriate, with an industry average. from empirical testing in recent years, it appears that financial ratios can be used successfully to predict certain event, bankruptcy in particular.

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2.0 FINANCIAL THEORY

Financial theories begins with policy determination which are general plans laid down in advance to conform with certain general principles, therefore financial administration, since it goes about the financing of long term capital must not only be alert to internal but also to external changes, since different principles and new policies may become an order of the day, hence successful business organization must begin life soundly conceived financial structure.

THE CAPITAL STRUCTURE

The term capital structure is used to refer to the total out standing long-term securities of both equity and debt. While capital planning is used to describe all long-term capital including capital stock, surplus, individual profits, surplus and funded debts.

Financial plans is used when discussing all liabilities, short-term and funded as well as capital stocks and network reserves.

Financial structure is the broadest term of all and includes every item on both sides of the balance sheet.

The capital expenditure budget is variously referred to as the capital addition budget, plant and equipment budget, construction budget, capital outlay budget, investment budget or plant addition budget respectively.

The capital expenditure budget has considerable significance from management planning and control view point.

Top management is constantly faced with the problem of determining the amount of funds to be invested in fixed plant. The basic

problem involves around the necessity to maintain adequate facilities for growth and for meeting planning and analysis necessary to prevent :

1. Idle operating capacity.
2. Over investment in operating capacity and
3. Investment in assets, that will produce a low return on the funds invested or committed.

These by theoretical view in financial analysis are with regards to discussions relating to capital expenditure budgeting, financial structure and investment decision policies and how this views can be appropriated or evaluated to meet investment decision in the organization.

2.4 APPROACHES TO FINANCIAL PLANNING AND ANALYSIS

There are sequence of approaches to financial planning and analysis. As a first step, we define carefully the objectives for which the financial analysis would be required. Specific questions whose answers are needed in the achievement of the objectives are formulated, a decision is then taken on the tools and techniques of the analysis most appropriate in working at the particular decision of a problem at hand.

We interpret the data such that the results will form a basis for decision making and action " interpretation is a process or investigating, evaluating, and observing the realities which lies behind the figures examined!

A typical flow chart showing the building blocks approach to financial analysis and planning is given in the figure below.

	Defined objectives
	Pick a relevant ratio
	Make forecasts
Performance Evaluation	Determine actual results
	Make comparison and interpret results
	Arrived at decision and advice
	Implement

(Sources : Financial Management by Pandy I.M 5th Edition)

The figure shows building blocks approach to financial analysis.

This approach involved in financial planning and analysis requires time, effort and funds. As such forms the basis necessary to undertake such approach or process.

In continuing our examination of the analytical tools of the financial manager, we looked at ratio analysis in which insight is obtained when balance sheet and income statement items are expressed as percentages. The percentages can be in relation to total assets or total sales or to some base year called common size analysis and index analysis respectively, the idea is to study trend in financial statement items overtime. And since our concerned is in the managerial perspective of the financial planning and analysis we are going to use ratio analysis for short-term and medium term only. While fund statement will be use for long-term and medium term by looking at sources and uses of funds. The funds statement on a cash basis

or fund statement on working capital gives the financial analyst considerable insight into the uses of funds and how these uses are financed over a specific period of time. Fund flow statement analysis is valuable in analyzing the commitment of funds to assets and in planning the firms intermediate and long-term financing.

The flow of funds studied, however, represents net rather than gross transactions between two points in time.

- Cash budget proforma financial statements and sustainable growth modeling will not be applied due to their compliancy and lack of enough data.

- Measure of short-term solvency: However profitable a business might be in the long run, its survival depends amongst other things on its immediate ability to pay its bills as and when they are due. If its funds are over invested in fixed assets (i.e it is under-financed relative to its scale of operations) these may not be possible. Creditors may thus be given the power to foreclose. The current ratio and the liquidity ratio are important measures of short-term solvency.

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It is very important that current and liquidity ratio are kept to an appropriate level given. The nature of the business activities and its financial situation.

- Measure of performance of working capital management : Where management operates a policy of managing the which it grants to customers the average collection is important to note that stock turn-over is an average figure and may conceal important differences between one type of stock turnover for different types of materials.

- Rate of return on capital : This rates of return on capital is sometimes regarded as the ultimate test of business success. It is calculated as follows:

$$\text{Rate of return} = \frac{\text{Net profit}}{\text{Average capital employed}} \times 100\%$$

According to technicalities that make this a notoriously unreliable figure, where the accounting statement are prepared on a consistent basis trends in the rate of return on investment may be of some significance but, even then its absolute level must interpreted with extreme care.

Many financial calculations, example, those relating to financial structure and to profitability, are based on this idea. Ratios computed from financial accounts are just one more application of this principles.

Ratios must not be used blindly as they can mislead if too simply interpreted. In particular overall average ratios may conceal important detail and ratios based on conventional accounting valuation may be inappropriate where decisions involve entering the have been taken.

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2.5 BASIC CONCEPT AND TYPES OF FINANCIAL RATIOS

Ratios means a relation to measure one item to another or it compare one item with another. It usually has a numerator and denominator, the final analysis from this is called the ratio.

There are two approaches to the use of ratio analysis :

1. **Financial History and operation.**

(a). This is how the organization has been performing over time or certain period of time. This is called the time series analysis.

Are there any befits expected to accrue from such expenditure or time and effort? Some benefits for which approach are in financial analysis and planning are briefly summarized.

Financial analysis and planning serves as basis for organization output/ input comparability, preparing budgeted forecast of sales, production, income standard statement and balance sheet. It reveals the strengths and weakness of the organization and serves as a guide in performance evaluation of divisions and its management.

Also financial analysis is an aid in estimating the financing of present liquidity and growth of the company in question. The organization needs funds to acquire assets for the continuous existence and operation of sell these assets to yield revenue if the need arise to support and keep on expanding its assets base. This can be depicted as a cash flow cycle.

FIGURE 3 CASH FLOW CYCLE

It is definitely true that " a growing profitable organization is likely to require additional cash for investment in receivables, inventories and fixed assets. Such an organization can have a cash claw problem unless required finance is identified on a timely basis.

There are potentially a large number of approaches to financial analysis, and planning. Some of which include the following

1. Fundamental measures of commercial effectiveness through the use of gross profit-rates. This can be calculated as the percentage-rate with gross profit loan to sales turnover. So

$$\text{Gross profit rate} = \frac{\text{Gross profit}}{\text{Sales}} \times 100\%$$

Other things being equal the higher the gross profit rate the more effective the basic profit earning activity of the business. No general view can, however be taken on an appropriate target value.

It should be noted that a business can, within limits, select its own gross profit rate through its pricing policy. If it is a profit maximiser, this freedom will be constrained by the market situation.

An unexpected reduction in gross-profit rate should be taken seriously by the organization, and it may be sign of any of the following:

a. Careless stock control in inappropriate stock control leading to losses and pilferage of stock.

b. Defalcation of cash received from sales

c. Rising costs which have not been passed on to customers in the higher prices.

(b) Comparisons of the operation or performance one organization with another firm in that same industry or another industry. This type of approach to ratio analysis is called the cross-sectional ratio analysis.

Financial ratios which are sources of computation for pinpoint strengths and weaknesses utilize this to plan for further consolidation or corrective actions in the organizational structure.

There are many types of ratios, attention should be focused on their relevance to the business interest or the climate. Each type of analysis has a purpose or use that determines the different relationships emphasized in the analysis. The analysis may, for example, be a banker considering whether or not to grant a short-term loan to a firm. He is primarily interested in the firm's short-term, or liquidity, position, so he stresses ratio that measure liquidity. In contrast, long-term creditors place fr more emphasis on earnings capacity and on operating efficiency. They know that unprofitable operations will erode assets value and that a strong current position is no guarantee that funds will be available to repay a twenty-year debenture issue. Equity investors are similarly interested in long-term profitability and efficiency. Management is, of course, concerned with all those aspect of financial analysis - it must be able to repay its debts to long and short-term creditors as well as earn profit for shareholders.

TYPES OF RATIOS

Ratios are categorized into six broad areas. But for the purpose of our study we are going to concentrate on four out of the six.

1. Liquidity Ratios
2. Leverage Ratios
3. Activity Ratios
4. Profitability Ratios.

1. **LIQUIDITY RATIOS:** This is a ratio that measures how liquid an organization is, i.e. will the organization be able to meets it current liabilities? Can these liabilities be met? Tow commonly use liquidity ratios are presented below:

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(a) **Current Ratio (C.R.)**

The current ratio is computed by dividing current assets by current liabilities. Current assets narrowly include cars, quoted investment, trade debtors and stocks; current liabilities include trade creditors, short-term loans, maturing long-term liabilities, corporation tax due and other accrued expenses (principal wages). The current ratio is the most commonly used measure of short-term solvency, since it indicate the extent to which the claims of short-term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims.

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The calculation of the current ratios is shown below:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Industry-average quick ratio is 1.

2. **LEVERAGE RATIOS:** This is divided into two:-

a. **Financial and Operating Leverage:** Financial leverage, measures the degree of debt that is used to finance the organization, while, the operating leverage measures the degree of change in the earnings before interest and taxes (EBIT) or free tax profit to hanges in sales or total output. Here you have things like:

i. **Debt Ratio:** This measure the contribution of the creditors in the financial of the organization (i.e. it measure the degree of external funds in the organization).

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

ii. **Debt Equity Ratio:** This measure the relationship between the long-term funds of the organisation provided by the creditors to those of equity holders in the organization.

$$\text{Dept Equity Ratio} = \frac{\text{Long term debt}}{\text{Networth/Equity/Stockholders equity}}$$

(iii) **The Debt to total capitalization Ratio:-** This measures the same thing as debt to equity ratio.

$$\text{DTCR} = \frac{\text{Long Term Debt}}{\text{Total Capitalization}}$$

Note: Capitalization = Long-Term Debt + Equity.

Coverage Ratio: This measure the ability of the firm to meet its debt obligations in terms of interest and principal payments.

a. **Time Interest Earned Ratio:-** This measure the ability of the organization to pay its interest promptly.

$$\text{Time Interest Earned} = \frac{\text{EBIT}}{\text{Total Annual Interest Payment}}$$

b. **Total Debt Coverage:** This measures the ability of an organization to settle its current interest charges plus the principal payments.

$$\text{Total Debt Coverage} = \frac{\text{EBIT}}{\text{Annual Interest Payments} + \frac{\text{Principal Payment}}{\text{1-t (Tax-rate)}}}$$

3. **ACTIVITY RATIOS:-** This measure how effectively the firm employs the resources at its command. These ratios all involve comparisons between the level of sales and the investment in various asset accounts - stock, debtors fixed and others.

(a) **Inventory or Stock Turn-Over:** This measure how fast an organization turns its inventory into cash and sales. In this case the higher the ratio the better for the organization.

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Stocks (inventory)}}$$

Two problems arise in calculating and analyzing the stock turn over ratio. Firstly, sales are at market price if stocks are carried at cost, as they generally are, it would be more appropriate to use cost of goods sold in place of sales in the numerator of formulae. As this information are rarely made available to external analyst, it is necessary to measure stocks turnover with sales in the numerator.

The second problem lies in the fact that sales occur over the entire year, whereas the stocks figure is for one point in time. This makes it better to use an average stock, computed by adding beginning and ending stocks and divided by 2. If it is determined that the firm's business is highly seasonal, or if there has been a strong upward or downward sales trend during the year, it becomes essential to make some such adjustment.

b. **Average Collection Period:-** This is a measure of the debtor's turnover, is computed in two steps.

(i) Annual sales are divided by 360 to get the average daily sales, (ii) daily sales are divided into trade debtors to find the number of day's sales tied up in debtors. This is defined as the average collection period, because it represent the average length of time that the first must wait after making a sale before receiving cash.

$$\text{Sales per day} = \frac{\text{Annual sales}}{360 \text{ days}}$$

$$\text{Average collection period (ACP)} = \frac{\text{Debtors}}{\text{Sales per day}}$$

This ratio can also be calculated by comparison with the terms on which the firm sells its gods.

(c) **Receivable Turnover:** This measure the rate about which is converted to receivable or the proportion of total sales to credit sales.

$$\text{Receivable turnover ratio} = \frac{\text{Total Sales}}{\text{Account Receivable}}$$

(d) **Fixed Asset Turnover:-** This measure the degree of efficiency with which the organization is utilizing its fixed assets (plant and equipment) in the sales volume of the organization, the higher the ratio, the better for the organization. And a lower ratio implies that the organization is not utilizing appropriately its fixed assets the way they ought to have been used.

$$\text{Fixed Asset Turnover} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

(e) **Total Asset Turnover:-** This measure the contribution of total assets in organizations in the sales generating efforts. The higher the better for the organization. This is because the higher the ratio signifie, the efficient use of the assets, while a lower value signifies that the organization is under utilizing its resources.

$$\text{Total asset turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

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4. **PROFITABILITY RATIO:** Profitability is the net result of a large number of policies and decisions. The ratios examined so far reveal some interesting things about the way the firm is operating but the profitability ratios give final answers about how effectively the firm is being managed.

(a) **Gross Profit Margin:** This measure profit in relation to sales of deduction of direct production cost but before the subtraction of other expenses. It is usually calculated by way of planning gross-profit over sales.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

(b) **Net Profit Margin (NPM):** Measures what remains on every Naira of sales after all expenses have been deducted. It is calculated as shown below:

$$\text{Net profit Margin Ratio} = \frac{\text{Net profit}}{\text{Sales}}$$

$$\text{MPMR} = \frac{\text{Net Income after Tax}}{\text{Sales}}$$

(c) **Return on Total Assets:** measure the effectiveness with which the firm has employed its total resources; it is sometimes called return on investment, or ROI. on a before-tax basis, the ratio would be (EBIT/Sales). We also need to know what is left after taxes, but this introduces a complication since interest, is tax deductable.

$$\text{Return on Investment} = \frac{\text{Net Income + Interest (I-T)}}{\text{Total assets.}}$$

$$= \frac{\text{EBIT}}{\text{Total Assets.}}$$

Here the higher the ratio the better for the organization, this means that the organization is fully utilizing its assets in the generation of profits.

(d) **Return On Net worth:** The ratio of net profit after taxes to Networth measures the rate of return on the shareholders investment.

$$\text{Returns on Net worth} = \frac{\text{Net Income}}{\text{Net Worth.}}$$

2.5. STANDARDIZATION AND GUIDELINES IN FINANCIAL PLANNING AND ANALYSIS

For organization efficiency and consistency, there is need to standardize the marshaling, arranging and presenting data for financial planning and analysis. Due to diversity in practice, however ingenuity initiation and originality will be required on the part of the analyst.

There are data that are vital to financial analysis and planning. The first of such is the income statement. This give information relating to the economic and financial well being of a firm. From it, we can deduce relationships between gross-profit and net sales, inventory in stores and distribution of products line sold. More importantly, we can obtain the net operating earnings and the net incomes.

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The balance sheet summarizes the posited of firm's performance at a given moment. Its analysis reveals information about the size of the firm, the composition of its assets and the claims against these assets. Changes in ownership equity are reflected by the statement, of retained earnings, while the statement of the sources and use of funds is the summary of net working capital reflecting values of assets, liabilities and equalities. Statement of cash receipt and disbursements show the total cash balance available to the organization at the respective periods.

It is important to recognize that balance sheet is a statement of the firm's financial position at a point in time, whereas the profit and loss account or income statement shows the results of operation during an interval of time. Thus the balance sheet represent a snap-short of the firm's position on a give date, while the profit and loss account is based on a flow concept, showing what occurred between two point in time.

The statement of retained earnings indicates how revenue-reserves accounts on the balance sheet is adjusted between balance sheet dates.

Stated another way, the balance sheet item simply shows how much of their earnings the shareholders, the rough the years have elected to retained in the business. The earnings for the current year may be available for investment but the past retained earnings have been employed.

An organization's financial year starts from January 1st to december 31st. Towards the end of the financial year, it reviews the current year, looks at the budgets and actual results obtained. Based on this, a broad estimates of sales is planned for the next period. A production budget is

produced from this and hence, raw incomes are computed to give financial statements while a flow if prepared from the past patterns of receipts and Disbursements. This direct purchase patterns, arrangement to meet financial deficits and in summary the final plan of the firm.

Finally, in establishing the company's sales and production plans, adequate consideration is given to the national demand for intravenous fluids which is the sole trading activity of the organization, with a given estimate of total animal annual requirements.

Although in between the year 1999 and 2000 there was so much restriction on the activities of Pfizer products limited due to a court order that stop the use and marketing of the intravenous drugs for some reason that associated to risk.

Chapter Three

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Methodology is said to be the way of doing something to satisfy a purpose (By Dr. Kelvin John University of California). In broad terms a research is a method of investigation, a systematic approach to finding answers for questions raised in one's desires, to examine relationships between and among different variables in a person's environment. In variably then, any piece of research in whatever field would at least provide a better understanding of simple or complex phenomena in the environment. As summarized by Osuala: "research is simply the process of arriving at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data" Ref - Research method by Osuala.

Research whether in education or business, is oriented towards the discovery of relationships that must exist among the phenomena of the world in any given setting.

Solutions to problems are sought to enable adequate decisions to be made. Research is characterized by carefully designed procedures for observation, data collection and analysis. A systematic procedures is followed in the attempt to find answers to pressing questions (the problems is stated in clear terms): Some answers are suggested in the

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form of data collection are analyzed, findings are explained and likely courses of action based on findings are suggested.

3.1 METHODS OF SOCIAL SCIENTIFIC RESEARCH

- **SURVEY METHOD -** This is the most widely used method in social science. Survey consist of method of gathering data from usually large number of respondents, who themselves constitute s ds,[;r/ The purpose of survey is a collection of data for say but the discovery of meaning in the data collected, so that facts and events can be understood, explained and interpreted. "If you want to know what people think or know about a particular event, you must ask the people concerned". In other word it involve collecting data through asking questions or through interviews. Surveys may be used for descriptive purpose, explanatory and exploratory purposes, they are chiefly used in studies that have individual people as units of analysis. Although this other methods can be used for other units of analysis such as groups or interactions, it is necessary that some individual people are used as respondent or informants.

  Survey research method is probably the best method available in social science in collecting original data for describing a population too large to be observe directly by using research instrument e.g questionnaire, interview etc. Survey if used wisely produced useful information quickly but people may not want to respond to

questions or may not give true answers or may misunderstand the whole thing.

- **EXPERIMENTAL METHOD:-** The classical method of the physical science is the experiment. Most physical science research aimed to set up a situation in which all the variables can be control or vary at will, by varying this one and monitoring changes in their output (effects). The relationship between variables can be carefully studied and documented. In essence, the researcher seeks to vary one of several independent variables, while measuring the effects (changes) on the dependant variables.

  Simply put experiment involved, taking action and observing the consequence of that action. It is worth noting that experiment also are used in non-scientific enquiry.

  Experiment are especially well suited to research projects involving relatively limited and well defined concepts and proposition. Experimentation is a particularly desirable method when the research question takes the form of hypothesis, which states that "If (a) then (b) follows". Rather than those hypothesis that seek to describe a phenomena or where primary aim of the research is to develop a theory. Although true experiment are rare in social science research. Some approaches come close. Example it is possible to vary the instructional techniques used for training managers and to measure the achievement through the use of

matched groups. But we can not control for example their activity outside the work place, like their love life, drinking habit etc. which may well affect performance. This must be recognized and accounted for, in order to get close to the true experiment.

- **HISTORICAL RESEARCH METHOD:-** In some sense all researchers are historical i.e. it is impossible to analyze data at exactly the same time, as it is collected and interpretation is based on the past. Particular method of research is historical in approach. The historical method of research is concerned of being able to understand and explained the present and predict the future through an evaluation of available record of past events. It may take one or two forms. It may be concerned with a historical problem in management or it may be a historical approach to a current management problem. Where historical problems are concerned, particular problems are faced by the researcher (investigator). When the problem under investigation is more recent than data and fact may be available but may not be collected in a form needed to solve the problem. The problem can be looked at in one or two ways: cross-sectional study - where researcher collected data and described the field at a point in time, to highlight the circumstances surrounding the operation of the history under consideration.

  Longitudinal historical study: in which the researcher can describe a development of problem over a period of time. Example

leadership before and after independence and seek to identify changes in style. Historical research also helps to solve current problems by examining what happened in the past.

The methodology of historical research is similar to that of a scientific approach because it follows these steps as identify and defined the problem, formulate problem hypothesis, identify and collect relevant data, analyze these datas interpret and report findings.

- **CASE STUDY METHOD**: The term case study usually is an intensive examination of a single unit, such as a person, a small group of people or indeed a single company. The case study involves measuring and studying what is there and how it got there. In this sense it is historical in nature, it can enable us to explore and understand problems, issues and interrelationships. It cannot however, allow us to generalize i.e. to argue that form one case study that findings or results or theory developed, apply to other similar case studies.

The case study may be unit and therefore, not representative of other similar instances. Case studies may be use for exploratory studies or testing of hypothesis.

In this our research case study method is research methodology we are going to use, in order to achieve the desired result through these

steps - as determining the present situation, gathering background information about the past and key variable, testing of hypothesis and taking remedial actions.

3.2. METHODOLOGY OF THE STUDY

The motive behind the condition of the research work is to gain an understanding of financial planning and analysis in a business organization. (i.e. Pfizer Product Limited). The goals and objectives of any business is centered towards survival and continuity. While some organization try to measure their performance in the short-run, others prefer the long-run measurement of performance.

In the research, the methodology is case study since Pfizer product Limited is a unit or a single company and the method of data collection is going to be secondary, but some of the primary method of data collection are going t be discuss later in brief.

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DATA AND INFORMATION

In any research of this nature, the need for data collection cannot be over emphasized. Data are unprocessed facts, unevaluated messages, or informational raw-material about a situation and are therefore not directly useful for any given system purpose. Therefore, they can have a varied applications. It should be noted that even though they are often considered to be numerical value in nature they may include non-numerical perceptions observations and interpretations.

On processing a data, we obtained informations which can be defined as data acquired and arranged in order and in useful form to enhance understanding and achieve the specific purpose or the desired goal. The resulting quality information aids good managerial planning and decision making, thus ensuring successful accomplishment and attainment of goal in a business organization.

3.3. DATA COLLECTION PROCEDURE

What is Data?

Having operationized your concepts into emperical indicators, the research then proceeds to the real world to observe and make measurement of what is seen.

These recorded observations are known as data. Observation is a method of getting information about the world around us. This could involved conducting experiments, sometimes interviewing people or just visiting and watching those you are interested in.

OBSERVATIONAL METHOD: observation could be direct or indirect.

- **DIRECT OBSERVATIONS:** Here the researcher witnesses or experiences event or phenomena at first hand. This could be controlled (example laboratory experiment) or uncontrolled as in a field experiment. Controlled observations properly assumes external or independent check upon one's findings. Any chance or unsystematic observation can be labelled uncontrolled. Sometimes

a distinction is made between participant and non-participant direct observation.

- **INDIRECT OBSERVATION:** In this type of observation the observer does not actually perceive the given social phenomena but rather depend upon persons who directly observed or experienced these to reconstruct them for him. Indirect observation is perhaps the most popular data gathering procedure in social science. the prime reason is the impossibility of the researcher observing directly certain kind of behaviour. For example highly complex systems can often only be surveyed through the eyes of members of the system functioning at the various levels.

INTERVIEWS: Interviews as data collection method or techniques are meetings in which the investigator direct questions at the subject and records the obtained responses. These are often face-to-face interaction, although they can as well take place on the phone. Unlike the questionnaire, the researcher asks the question and records the answers. However, when questionnaire is used to conduct interview, it is called an interview schedule.

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QUESTIONNAIRE METHOD: The questionnaire is probably the most used method of data collection. The questionnaire is a device for obtaining answers to research relevant questions from a sample of respondents by using a form which the respondent fills himself. In the

questionnaire, questions are presented with exactly the same wordings, and in the same order to all respondents. The aim is to ensure that all respondents reply to the same questions and this helps to get the same type of information from a large number of respondents.

- Questionnaires may be delivered directly to the respondents or through post. Questions in the questionnaire may be opened or close ended.
- Open-ended questions: are designed to permit a free response from the respondent rather than one limited to stated alternative.
- Close-ended questions: is one in which the responses of the subject are limited to stated alternatives.

DOCUMENTARY SOURCES: Documents - both published and unpublished are vital sources of data for a researcher. A review of related literature like books, journals, official reports, etc does not only sharpen our understanding of the research problem and formulation of hypothesis but is also a vital source of data. It indeed makes it possible to collect all data needed to draw valid conclusions on research problem entirely from documentary sources. Though we have a poor attitude towards record keeping and retrieval of information in Nigeria. This include among others earlier listed above: official gazette, staff list, digest of statistics, official reports and end of year company reports, economic indicators, Nigerian trade summary, yellow pages etc. There was a fairly depth literature of the relevant topics at the libraries, and many students wrote on the topic but with different method of approach in depth and simplicity.

Chapter Four

4.0 INTRODUCTION

The analysis and interpretation of raw data of an investigation are the means by which the research problems are answered. This technique of research refers to the breaking down of data into a constitution, down and up-grading it into information that can be understood by all readers. The researcher has the following techniques available to him, statistical procedures, flowcharting, description graphing, tables, charts etc.

All together these techniques are basically diagrammatic representations of interrelated operations showing the type and sequence along which the operations flow. They also provide a suitable means of portraying a procedure either in its entirety or sectionality. From these techniques a researcher can easily detect any weakness or unnecessary operations execution of task. The result of either of the techniques represents the values of the statistical and mathematical computation.

4.1 DATA PRESENTATION AND ANALYSIS

In the process of financial planning and analysis, companies or business organizations take a critical look at performance entitles, as components parts of the Business organizations, and in the context of the general economic environment. The Nigerian economy is peculiar in being turbulent and highly unpredictable. Even though, the organizations may not officially admit the difficulties in such an economy that is highly

volatile, the results are there to see from a thorough examination of their annual reports and accounts.

Though Business organizations either public or private concern do place a strong emphasis on sales and profitability. We will now go ahead and study the data and the product in this respect.

4.2. (a) AN OVERVIEW OF PLANNING AND ANALYSIS IN PFIZER

Financial year of a firm is from December 1st to November 30th. Towards the end of the current year, guidelines or targets and operating procedures for the next financial year is produced and circulated to the management staff in the appropriate departments such as marketing, accounts, production and administration. This documents are referred to as operating plan - letter of comment and it provides a target and simultaneously serves as an appraisal of performance. Each department expands the relevant section for its staff. By many (middle of the year), there is a review of results and targets with special notes being taken of the annual events which might continue till the end of the year as well as sporadic occurrence which though mit not necessarily be repetitive will require skillful analysis of management, since they occur as emergencies. This review is then utilized to plan for the rest of the planning period.

A budget is made for the realizable sales revenue under three conditions of optimistic, pessimistic and realistic perception. Budgeted expense are collected from the department for materials, overheads, research and development, Administration, marketing and distribution etc.

Other income and expenditure from short-term positions or deposit, bank charges and taxes are also estimated. These are then used in preparing budgeted income statement and balance sheet, which on analysis will yield computation of liquidity, profitability, growth and so on. This will form the standards on which analysis of actual result will be based on.

(b) TOOLS OF FINANCIAL PLANNING AND ANALYSIS USED BY PFIZER

Relevant Ratios in chapter two such as Return on investment, net profit margin, gross margin dividend per share, average collection period, liquidity ratio, profitability ratios etc are the tools purely used in the analysis of this part and other deductions from balance sheet and income statements (budgeted) and actual are to be presented and interpreted in the next part of the study. Both the two parts presentation and discussion of the results will be the concluding part of each study.

This section is aimed at primarily computing the ratios already selected in chapter two. This is going to be done by using the financial statements of Pfizer Product Limited. The ratios from the actual financial statements are going to be compared with one another over the years to see the trend in the development of the company (Pfizer). The ratio of the year 2000 is going to be used as a standard for the comparison to the rest of the years. The range of the years will be 1996 - 2000 financial year. As indicated in chapter two, the ratios to be calculated and interpreted are grouped into four: these are:

(1) Liquidity ratios

(2) Profitability ratios

(3) Efficiency ratios

(4) Leverage ratios.

(1) LIQUIDITY RATIOS

This group of ratios provides the basis for answering the questions, does the firm have enough cash and near cash assets to pay its bills on time? Under this category, two ratios will be calculated, that is, current ratio and quick ratio.

(a) **CURRENT RATIO:-** This is measured by current assets over current liabilities.

Year	1996	1997	1998	1999	2000
Current Assets	41,673	41,343	86,093	97,123	110,688
Current Liabilities	31,575	28,060	42,335	76,125	93,860
Ratios	1.32	1.47	2.03	1.30	1.18

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(b) **QUICK RATIO**

This is measured by current assets less stock divided by current liabilities. For the Pfizer Product Limited the quick ratios for the relevant years are:-

Year	1996	1997	1998	1999	2000
Current Assets	31,595	31,265	64,998	76,028	89,593
Current Liabilities	31,575	28,060	42,335	76,125	93,860
Ratios	1.0	1.11	1.54	1.0	0.95

(2) **PROFITABILITY RATIOS**

This group of ratios will be divided into two. There are:

(a) **GROSS PROFIT MARGIN**

This ratio is measured by gross profit divided by net sales

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
Gross profit	30,710	28,967	29,745	26,063	25,466
Net sales	50,343	48,280	58,540	66,053	95,938
Ratios	0.61	0.60	0.51	0.39	0.27

(b) **NET PROFIT MARGIN**

This ratio measures the ability of management to control expenses involved in generating sales. It is measured by profit after taxes over sales.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
After tax profit	2,130	5,085	10,680	10,168	7,560
Sales	50,343	48,280	58,540	66,053	95,938
Ratios	0.04	0.08	0.18	0.15	0.05

(c) **OPERATING RATIO**

This ratio indicates how much each naira of sales have been consumed by the cost of goods sold and operating expenses.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
Operating cost	46,246	40,766	39,970	49,085	84,046
Sales	50,343	45,280	58,540	66,053	95,938
Ratio	0.92	0.84	0.68	0.74	0.9

(d) **RETURN ON ASSETS EMPLOYED**

It is measured by net profit after tax divided by total assets. This category of profitability ratios attempt to measure a firms profits in relation to the investment funds used to generate those profit.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
Net Income	4,095	7,515	18,570	16,958	11,893
Total assets	53,176	51,278	95,716	108,741	127,701
Ratio	0.08	0.15	0.19	0.16	0.09

(3) **EFFICIENCY RATIOS**

The funds of creditors and owners are invested in various kinds of assets to generate sales and profits. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets.

Among the efficiency ratios to be analyzed are:

(a) Average collection period

(b) Fixed assets turnover

(c) Total assets turnover.

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(a) **AVERAGE COLLECTION PERIOD**

This method indicates the length of time the company must wait after making a sales before it receives payments. It is measured by:

$$\frac{\text{Debtors x days in year}}{\text{Sales}}$$

Year	1996	1997	1998	1999	2000
days	88	80	40	120	68

(b) **FIXED ASSET TURNOVER**

This measures the sales productivity and utilization of plant and equipments. It measure by sales/fixed assets.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
Sales	50,343	48,280	58,540	66,053	95,938
Fixed assets	11,503	9,930	9,623	11,613	17,013
Ratios	4.4	4.9	6.1	5.7	5.6

(c) **TOTAL ASSETS TURNOVER**

This measures the firm's utilization of all its assets. It is computed by dividing sales by total assets.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
Sales	50,343	48,280	58,540	66,053	95,938
Total Assets	53,176	51,278	95,716	108,741	127,701
Ratios	0.95	0.95	0.61	0.61	0.75

(5) **LEVERAGE RATIOS**

This class of ratios indicates the funds provided by owners and creditors of the firm. They show the proportion of the debt to equity financing of the firm's assets.

The leverage ratios to be analyzed are:

(a) Debt to asset ratio

(b) Time-interest earned ratio

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(a) **DEBT TO ASSETS RATIO**

This measure of the extent to which borrowed funds have been used to finance the firm's operations. It is computed by dividing total debt by total assets.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
Total Debt	41,663	38,138	63,430	97,220	114,955
Total Asset	53,176	51,278	95,716	108,741	127,701
Ratios	0.8	0.7	0.7	0.9	0.9

3. **TIME-INTEREST-EARNED**

This measures the extent to which earnings can decline without the firm becoming usable to meet its annual interest cost. It is measured by profit before interest and taxes (EBIT) divided by total interest charges.

Year	1996 N'000	1997 N'000	1998 N'000	1999 N'000	2000 N'000
EBIT	4098	7515	18,570	16,958	11,893
Interest charges	1968	3,430	7,890	6,800	4,333
Ratios (Times)	2.1	2.2	2.4	2.5	2.7

SUMMARY OF RATIOS FOR PFIZER PRODUCT LIMITED

S/No	Type of Ratio	Formulae	1996	1997	1998	1999	2000
1	Liquidity ratios						
a	- Current Ratio	Current Ratio ---------- Current liabilities	1.32	1.47	2.0	1.30	1.18
b	- Quick Ratio	CA-Stock --------- current liabilities	1.0	1.11	1.54	1.0	0.95
2	Profitable Ratios	Gross Net Sales	0.61	0.60	0.51	0.39	0.27
a	Gross margin	Profit After Taxes/sales	0.04	0.08	0.18	0.15	0.08
b	Net Margin	Operating cost ------- Sales	0.92	0.84	0.68	0.74	0.9
c	Operating ratio	Net profit after tax ---------- Total assets	0.08	0.15	0.19	0.16	0.09
d	Return on Asset employed	Debtor x 360/sales	88days	80days	40	120	6.8
3	Efficiency Ratio	Sales/Fixed Assets Sales/Total Assets			6.1	5.7	5.6
a	Average collection period		4.4	4.9	0.61	0.61	0.75
b	Fixed Asset turnover	Total debts/Total assets	0.95	0.94			
c	Total asset turnover	EBIT/Interest charges			0.7	0.9	0.9
4.	LEVERAGE RATIOS		0.8	0.7			
a	Debt to Asset ratio				2.4	2.5	2.7
b	Time interest earned		2.1	2.2			

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(b) **DISCUSSION OF RESULTS**

Current Ratios: The current ratios computed previously indicates that for every 1.32 of current assets in 1996, there was 1 of current liabilities and for every 1.47 of current assets in 1997, there was 1 of current liabilities and it is also a good results when compared with the budgeted current ratio. The 2.03 of 1998 is the most impressive out of the total of the five years, also the 1.30 of 1999 and 1.18 of 2000 when compared with the budgeted current ratio. Although the ratio raises from 1996 to 1998 but it declines from 1998 to year 2000.

As the company's current ratio stands, the company will be able to meet its current obligations. However, the improvement in the current ratio was as a result of increase in inventory and finished goods, packaging materials and other consumables and work-in-progress. Some fixed assets were also disposed off during the relevant years which also improved the company's current ratio.

Quick Ratio: theoretically, a quick ratio of 1:1 is considered a satisfactory current financial condition. Although the quick ratio of the company showed some improvement over the relevant years, the liquidity position without stock was far from being healthy. The ratios indicates that in 1996, for every 1.0 of current assets less stock, there was 1.00 of current liabilities. This is not a good liquidity position, since the company would have to resort to the sell of its stock. It should be noted that the stock of the company was made up of raw materials, packaging material and other consumables, work in progress and finished goods. The percentage of the finished goods inventory fro the year 1996, 1997, 1998,

1999 and 200 - 3.05%, 1.79%, 1.55, 1.69%, 62.27% respectively. This is an indication that finished goods inventory form an insignificant portion of the company's inventory. The liquidity position of the company was poor for the relevant years particularly 1998, because the significant portion of its inventories were items usually difficult to dispose off.

Profitability ratios: In relation to sales, let starts with gross profit margin which is a measure of management's ability to control the firm's cost of goods sold in relation to sales. As we can see the trend from the years 1996 to 2000 keep on decreasing from 0.61 in 1996, 0.60 in 1997, 0.51 in 1998 , 0.39 in 1999 and 0.27 in 2000. This indicate the extend of inability of the management of the company to control the firm's cost of goods sold in relation to sales.

Net Profit Margin: In 1996, each naira of sales resulted in a profit of N0.04, in 1997 each naira of sales resulted in a profit of N0.08, in 1998 each naira of sales resulted in a profit of N0.15, and in 2000 each naira of sales generated a profit of N0.08 respectively. In the years 1996 and 2000, the company witnessed declining demand for its products coupled with rising cost of production.

Operating Ratio: The 92%, 84%, 68%, 74% and 90% operating ratios for the years 1996, 1997, 1998, 1999 and 2000 respectively indicates that in 2000, the net sales of N95,938,000 was only enough to cover the company's operating cost. In 1997, 84% of sales was consumed by the company's operating cost. 68% of 1998, was also consumed by the company's operating cost, while in 1999, 74% of sales was consumed by operating cost. This means that only 8%, 16%, 32%, 26% and 10% of

sales were left in 1996, 1997, 1998, 1999 and 2000 respectively, to cover interest charges income taxes, dividends and retained earnings for expansion.

Profitability in relation to investment. Return on assets employed indicates that for every N1.00 of funds supplied in 1996, there was a profit of N0.08, in 1997 for every N1.00 employed there was a profit of N0.15, in 1998 for every N1.00 employed, there was N0.19, in 1999 for every N1.00 employed there was N0.16, while in 2000 for every N1.00 there was a return of N0.09.

Efficiency Ratios:

Average collection period - The year 1998 has the most favourable collection of 40 days, followed by 2000 with 64 day, the highest is in the year 1999 with average collection period of 120 days. The first asset turnover indicated that each naira invested in fixed assets generate a sales of N4.4 in 1996, N4.9 in 1997, N6.1 in 1998, N5.7 in 1999, N5.6 in 2000. Since the return on each naira invested in fixed assets of the firm is relatively alright over the relevant years, the company can therefore be adjudge efficient in its fixed assets utilization particularly in 1998, where the return is more than sixth each naira invested in fixed assets.

The total assets turnover indicates that each naira invested in total assets in 1996, 1997, 1998, 1999 and 2000 generated sales of N0.95, N0.94, N0.61, N0.61 and N0.75 respectively. It is noted that all the per naira return funds invested on total assets fell above 50%. This indicates

the company's ability to generate sales from all the financial resources committed to the company by both its owners and creditors.

Leverage Ratios

Debt to assets ration, A 80%, 70%, 70%, 90% and 90% of the company's assets in 1996, 1997, 1998, 1999 and 200 respectively were financed with borrowed funds. This means that the company may not have difficulty trying to borrow additional funds in the future. However, the management of the company must be careful about increasing financing of capital with borrowed funds because of the cost associated with debt financing.

Time-interest-earned or interest coverage ratio as a calculated in this study shows that, the earnings before interest and taxis (EBIT) in 1996 could cover 2.1 times that year's interest charges, in 1997, could cover 2.2 times of that year's interest charges, in 1998 could cover up to 2.4 time of that years interest charges. The situation was much better in 1999 and 2000 when the earnings before interest and taxes covered about 2.5 and 2.7 interest charges. From the surface, it would seem that the company was more efficient in its operation in year 2000 than the rest of the years. However, a critical examination of the company's financial statements for the relevant years shows that the major reason for the fluctuation of the interest earned ratios was a result of downward review of interest charges on bank loans.

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4.3. OVERVIEW OF PLANNING AND ANALYSIS

In the previous part of this chapter we discussed the tools of financial planning and analysis used by Pfizer Product Limited to measure the performance of the company over year to trend analysis by using various ratios. In this part, efforts will be made to compare the budgeted and actual of the balance sheet and income statement of Pfizer Product Limited. Deduction will also be made from the findings and interpretations of the result will be discussed through comparison between the budgeted and actual results.

(a) BUDGET AND ACTUAL RESULT

Due to the secrecy with which Companies attached to their financial planning data, the researcher was only reluctantly allowed access to the budget for 1999/2000 and it was explained that assuming no unforseen circumstances, it forms a reliable basis for evaluation and planning for the different years. Hence results from the budget for the year 2000 will be used as a standard for the study.

BUDGETED PRODUCTION, RADING, PROFIT AND LOSS ACCOUNT

FOR THE YEAR 2000

	Notes	N'000
(i)	Turnover	168,884
	(Bt of goods sold (materials and production expenses)	102,487.5
	Gross profit	66,396.5
	(Selling and Administration + Charges)	22,770
	Net Operating income	43,627
	Tax appropriation	20,000
	Profit/Loss after tax	23,627

Source: Internal Sales and Financial Budget (Annual) of 2000 for Pfizer Products Limited Nigeria.

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(ii) **SUMMARY OF PRODUCTION, TRADING, PROFIT AND LOSS ACCOUNT OF PFIZER PRODUCTS LIMITED, FOR THE YEARS ENDED, 30TH NOVEMBER, 1996, 1997, 1998, 1999, 2000.**

	1996	1997	1998	1999	2000
Notes	N'000	N'000	N'000	N'000	N'000
Turnover	50,343	48,280	58,540	66,053	95,938
Cost of goods sold	19,633	19,313	28,795	39,990	70,473
Gross profit	30,710	28,967	29,745	26,063	25,466
Operating expenses	26,613	21,453	11,175	9,095	13,573
Net Operating Expenses/Earnings	4,098	7,515	18,570	16,958	11,893
Tax/Appropriations	1,968	3.400	7,890	6,800	4,333
Profit/Loss After Tax	2,130	4,085	10,680	10,168	7,560
Dividends	1,278	2,450	6,328	5,908	6,328
Retained Earnings	853	1,635	4,205	4,260	1,233

Source: Annual Report and Accounts 2000 of Pfizer P. Plc.

Table II

COMPARISON BETWEEN THE ACTUAL AND BUDGETED ACCOUNTS

In this comparison the budgeted profit and loss account is going to be compared with actual result from the production, trading, profit, and loss account of the year 2000 from our previous discussion on the chapter, due to some factors that relates to the economic changes, financials and political; such as change in the government of the country (Nigeria) from Military rule to civilian government, foreign exchange rate in terms of Dollar equivalent to Naira (from N82 per Dollar to N100 per Dollar). In terms of financial effects, we are talking about interest rates and the level of turnover generated to be expected during the year. It is on this basis

that the budgeted statement was formed.

Lets start with the turnover of the company in the year (2000) when compared with the budgeted, there is much difference because the production was that the performance in terms of sales expected to be generated is N168,884,000 which was far above what was realized at the end of the year (2000) thus the actual is N95,938,000. This could be as a result of the new policies in terms of drugs, that allows and issued so man license to many companies to import drugs into the country at cheaper rate or at lower cost and it could be as a result of the incapacity of the major customer of the company to buy from the company (the major customer of the company between the year 1996 - 2000 was P.T.F). The cost of goods sold is in line with sales generated N102,487,500 from the N168,884,000 from the budgeted and N10,473,000 from N95,938 that has given a direct effect on the Gross Profit of N66,396.5m from the budgeted account and N25,466,000 from the actual, which is not even half of the budgeted. When subtracting the operating expenses from the gross profit - the budgeted statement would show the operating expenses of N22,770,000 and N13,573,000 from the actual statement. From this we can be able to see how much expenses were incurred during the year in terms of operation. The expenses almost half of the gross profit, which is a sign of bad climate of operation. Net-operating earnings or income of the budgeted is N43,627,000 and only N11,893,000 is for the actual. Tax and appropriation of N20,000,000 was deducted from the earnings of N43,627,000 of the budgeted, while N4,333,000 was deducted from the earnings of N11,893,000 from the actual result - out of the earnings from

the budgeted when tax was deducted it left with profit of N23,627,000 since in the budget there is no policy of dividend and retained earnings because, it is subject to Board meeting and approval. The actual profit of the year 2000 was N7,560,000, out of which N6,328,000 was given as dividend and N1,233,000 was the retained earnings.

From the entire comparison, we can be able to make our conclusion by saying that the operation of the Pfizer Product Limited got narrow when compared with the budget or the budget was not well planned or by not doing objective judgement about the situation, by taking into consideration of the economic, political and financial climate of the country.

iii. **BUDGETED BALANCE SHEET FOR PFIZER PRODUCTS LIMITED AS AT THE END OF 2000 FINANCIAL YEAR**

		2000
Notes	N'000	N'000
Assets		
Fixed Assets (Net)	41,580	
Current Assets	43,720	
Less:		
Current Liabilities		(42,340)
Net Current Assets		1,380
Interest in subsidiaries		6,395
		49,355

Liabilities

Share capitals	20,100
Preferred taxation	2,730
Inter/intra company loans payable	26,550
	49,355

Source: Internal Sales and Financial Budget (Annual) of 2000 for Pfizer Product Limited

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TABLE III

(iv) PFIZER PRODUCT LIMITED SUMMARY OF THE BALANCE SHEETS AS AT 30TH NOVEMBER OF THE YEAR, 1996, 1997, 1998, 1999, 2000

	1996	1997	1998	1999	2000
Notes	N'000	N'000	N'000	N'000	N'000
ASSETS					
Fixed Assets	11,503	9,930	9,623	11,613	17,013
Current Assets	41,673	41,348	86,093	97,128	110,688
Less					
Current Liabilities	(31,575)	(28,060)	(42,335)	(76,125)	(93,860)
Interest in subsidiaries	138	140	153	153	153
	------	------	-----	-----	----
LIABILITIES	53,657	23,075	28,228	32,463	31,195
Share capital					
Reserves	10,078	10,078	21,095	21,095	21,095
Deferred taxation	5,932	4,008	4,695	8,955	10,188
	1,513	1,490	2,438	2,413	2,413
	-------	-------	-------		--------
	53,657	23,075	28,228	32,463	3,195

Source; Annual Report and accounts 2000 of Pfizer Products Plc.

Table IV.

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COMPARISON BETWEEN BUDGETED AND ACTUAL BALANCE SHEET

The company was intended to expand its operations in the year 2000 by increasing the level of its fixed assets, which is shown in the budgeted balance sheet which is N41,580,000, but the actual amount of fixed assets at the end (i.e. ear, 2000) is N17,013,000. If we look at the previous years; for instance in 1996 the fixed assets was N11,503,000. It decreased in 1997 and 1998 to about N9,930,000 and N9,623,000 respectively. There was a rise in the assets in the year 1999 to N11,613,000.

The resultant current assets which is the most important of the assets had shown a significant flows - the budgeted amount of N43,720,000 cannot be matched with the amount of N110,688,000 in the year 2000, which shows how buoyant the company maintained the level of its current asset. the trend showed an improvement from the year 1998, with amount N86,093,000 and 9n 1999, with amount N97,128,000 of current assets when compared with the budgeted amount in the year 1996 and 1997, the amount is N41,673,000 and N41,348,000. There was a drop, when compared with the rest of the years and with budgeted amount.

The current liabilities of the budgeted balance sheet (2000) is greater than the actual of all the years in term of magnitude, with amount N42,340,000. Year 2000 (actual result) has the highest with N93,860,000 when compared with its current asset amount of N110,688,000, the amount is reasonable. 1997 has the smallest amount of current liability,

this may be as a result of the higher interest rates and huge amount of inventory and work in progress that was carried forward from the previous year 1996.

Interest in subsidiaries of N6,395,000 in the budgeted is larger than the highest of the interest charged in the actuals, which is uniform from the year 1998 to the year 2000 of N153,000 each year, and is also larger than N138,000 of the year 1996 and the amount of N140,000 of the year, 1997.

The share capital of the budgeted balance sheet is at N20,100,000, which is greater than the actuals of the years 2,996 and 1997 which has N10,078,000. And smaller than the amount in the years 1998, 1999 and 2000 of N21,095,000 each. This may be due to the much need funds generated fro expansion, that required the company to issue additional shares to the public for the purchase fixed assets, the years 1998 to the year, 2000.

The taxation is favourable throughout the years which is less than the amount for the budgeted which is N2,730,000.

From our comparison and analysis the actual amount of the balance sheet items of Pfizer products Limited is in line with the budgeted balance sheet by given a favourable forecast for the years in question.

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PFIZER PRODUCTS LIMITED STATEMENT OF VALUE ADDED FOR THEYEARS 1996 TO 2000

Items	1996 - 2000 (%) Average Value Added	200 (%) Value Added
Materials and Services	52.5	60.1
Operating expenses	28.8	13.5
Tax/appropriations	7.9	14.8
Dividends/Retained Earnings	10.9	11.6

Source; Annual Report and Accounts 2000 Pfizer Products Plc.

Table V.

VALUE ADDED ANALYSIS

The comparison is between the average value added of the years 1996 to year 2000 and for the year 2000 alone which are all in percentages. The measure or yardstick of the comparison will be the materials and services, operating expenses, tax/appropriations, and Dividends/Retained Earnings respectively.

From the year 1996 to year 2000 on the average, the value added in terms of materials and services purchased is N55,658,810 on the average, which is 52.4% of the average turnover of the years (1996-2000). While the year 2000 value added on materials and services purchased is amounted to N57,658,738 on the percentage 60.1% of the turnover.

Operating expenses of 28.8% on the average, which amounted to N30,587,804. The value added on the operating expenses of the year 2000 is 13.5% of the turnover which amounted to N12,951,630, therefore smaller than the average value added and also favourable to the company even though materials and services purchased in the year 2000 was 7.7%

greater than the average 2000 was 7.7% greater than the average value added of the years.

Tax/appropriations of 7.9% was recorded as the average value added for the year which amounted to N8,390,405 and 14.8% is the tax/appropriation for the year 2000 alone, which is equivalent to N15,718,733, almost doubled the average value added for the rest of years.

Dividends/Retained earnings on the average value added is 10.9% of the average turnover of the years (1996-2000), which amounted to N11,576,634.3. The year 2000 value added on Dividends/Retained earnings is 11.6% of the turnover of the year 2000 which has an equivalent amount of N12,320080, which is greater than average value added of the rest of the years.

For our conclusion, the year 2000 is the best in terms of profits after tax and also in terms of operation, such as turnover, that has direct effects on the Dividends and Retained earnings of the company in question.

PFIZER PRODUCTS LIMITED

DEDUCTION FROM FINANCIAL STATEMENTS FOR 1996 - 2000

Year	1996	1997	1998	1999	2000
Notes	N'000	N'000	N'000	N'000	N'000
Turnover	50,343	48,280	58,540	66,053	95,938
Net Operating Earnings	4,098	7,515	18,570	16,958	11,893
Tax/appropriations	1,6	3,430	7,890	6,800	4,333
After tax profits	2,130	4,085	10,680	10,168	7,560
Dividends	1,278	2,450	6,328	5,908	6,328
Returned Earnings	853	1.635	4,205	4,260	1,233
Earnings/share (kobo)	5.09	9.65	25.32	24.1	17.92
Dividends/Share (kobo)	3.03	5.81	15.0	14.0	15.0
Sales growth (%)	9.0	4.1	21.3	12.8	45.2
Gross Margin (%)	61.0	60.5	50.8	32.5	26.5
Net Margin (%)	4.2	8.5	18.2	15.4	7.9
Return on Investment (%)	9.9	17.7	37.8	31.3	22.4
Liquidity Ratio	1.32	1.47	2.03	1.30	1.18
Interest Charges	513	439	468	179	1,244

Table VI.

SUMMARY AND DISCUSSION OF RESULTS

Analysis would be made with regards to the provision section of this chapter and make inferences where possible.

(i) Sales and Profitability

Although the year 2000 turnover of N50,343,000 was below the budgeted amount of N168,884,000, the trend show that sales volume generally had an upward position for the year 1997. The generally increasing turnover could be as a result of the expanding market, where there is excess demands. Sales growth were generally positive except for the negative growth of 4.1% in the year 1997. Despite the fact that the sales growth of 45.2% for the year 2000 is below the budgeted figure of 155%, one would rather subscribe to the view that the products still fairs well and that it is not impossible that the budget is over ambitious.

The indices relating to the profitability of the product (Pfizer) is our focal point, since is the key word (profit) that compensate the risks taken by the firm and its shareholders.

Generally speaking, we have a satisfactory profitable enterprise. Gross profit steadily decreased from 61% in 1996 to 26.5% in the year 2000, a value that was below the budgeted figure of 39.3% most contributory factor this is the rising cost of materials and production expenses. The more significant net-profit figures shows increasingly profitable business activities reaching a peak of 18.2% in the year 1998 slightly declined in the year 1999 and 200 but not falling below the pre-1997 levels. An average of the net profit yield of 10.8% which is quite in

line with the standard of 11% in the year 2000 budgeted amount. The net profit go along way in summarizing how profitability and effectively the products is being managed.

The return on investment which rose from 9.9% in the year 1996 to the peak of 37.8% in the year 1998 and fall slightly in the year 1999 and 2000 to 22.4%. Although the budgeted of 37.6% for the year 2000 is above the average return on investment of 23.8%. This is no measure dissatisfying, since the rate compares favourably with and is even above the rate of return on riskless investments (as in savings account which range between 10% - 20%.

The number of times expenses was earned, in the last part of the deducted figure all fell below the budgeted figure of 1.9% for the year 2000 except in 1999. The turnover portrays a satisfactory performance since the values were on the increase except for year 2000.

(ii) **Riskness**

Liquidity ratios are the measure for short-term analysis - The ratios are quite satisfactory as the firm is above the standard of 1.0 for the year 2000. There is hence no fair of organization being unable to meet it short-term obligations thereby causing loss of good will.

An average collection period of 81 days was stipulated in the budget for the 2000 with most of the figures falling within this range excepts the markedly high figure of 122 days in 1999. Comparison of the budgeted and actual interest-charges for the year 2000 show that, the amount of N1,244,400 actually incurred is below the budgeted amount of N1,484,000.

General

The statement of average value added for the period 1996 - 2000 in comparison to the figures in the year 2000 alone as a standard for the comparison. Materials and services constituted a significant portion of the overall input of the firm. It average 52.4% for the period, while the year 2000 standard stipulates at 60.1%. However, individuals yearly values ranges from 39% in the year 1998 to 73.5% in the year 1997 and it was only in 1996 and 1997 that figures were above budgeted or the standard figure. The obvious cause of this rise is the inflationary trend in the external environment.

An average of the operating expenses was 28.8% which is above the value added for the year 2000 of 13.5%. It is however commendable to observe that yearly values are generally decreasing, probably the cost savings measure of the firm are yielding good results.

Average tax/appropriation actually paid was 7.9% of the total turnover as against the 14.8% of year 2000 budgeted figure. This is typically of business concerns, which try to delay payments outwards while hastening receivable.

The dividends and retained earnings average value added is 10.9% which is comfortably close enough to the figure of 11.6% in the year 2000. The company is thus, declaring its soundness and profitability as well as communicating it prudence by retaining financial resources that would cushion it during cash shortages and also service as financial base for future growth.

Chapter Five

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY AND CRITICAL EVALUATION OF FINDINGS

In this study, a critical analysis of the financial statements of Pfizer Products Limited was carried out through the use of two (2) methods. The first one is by the use of ratio analysis and the second one is by comparing the budgeted financial statements of the company of year 2000 as standard, with actual financial statements of the company between 1996 - 2000.

Twelve ratios were considered under four broad categories. All the ratios computed were compared over a period of five years 1996, 1997, 1998, 1999, and 2000, respectively and the following are the findings made:

The firm's current ratios for the years under review were all under the conventional 2:1 cut-off point for the ratio of current assets to current liabilities. For 1996 - 2000 the ratio was, 1.32, 1.47, 2.03, 1.30, and 1.18. The implication of this is that the firm was not liquid enough to settle all its current financial obligations. The situation was better in 1998, with 2.08.

The firm's quick ratios for the years under review were 1.0, 1.11, 1.54, 1.0, and 0.95 i.e. from 1996 to year 2000. It could be noticed that the ratios are within the line or cut-off point of 1:1 conventionally allowed

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for quick ratio.

The ratios of net profit margin for the period under review reveals that every one naira of sales brought in after tax profit of N0.04 for 1996, N0.08 1997, 0.18 for 1998, 0.15 for 1999, 0.08 for 2000 respectively on each sales.

The firm's operating ratios for 1996, to 2000 were 92%, 84%, 68%, 74% and 90% respectively. This means the turnovers of the various year were enough to cover operating costs, leaving only small percentages to cover interest charges, income taxes, dividends and retained profits for expansion.

Return on assets employed shows that for every N1.00 of funds supplied by both owners and creditors in 1996 - 2000, there were N0.08, N0.115, N1.19, N1.16, and N0.09 profits on each of naira of assets employed.

The firm's average collection period was 88 days, 80 days, 40 days, 120 day, and 68 day for 1996 to 2000 respectively. This is an indication that the firm is not effective in its credit collection policy. However this could be indication that selling is mostly on credit and this are possibilities of bad debt losses, if care is not taken.

The interest - coverage ratios for the relevant years indicates that EBIT covered all the interest charges for the relevant years more than twice, which is better.

For the second part of the study, the objectives of maximizing sales revenue and hence profit and pursing realistic improvement programmes are being met without jeopardizing medium and long-term objectives.

Business organizations fairly well will mark it expansion, while also making commensurate profits which are objectives of a commercial enterprise.

The average net-profit of 10.8 comes close to the budgeted figures of 11% for 2000. Its average return on investment is also 23.8%, this measures up to expectation of management, shareholders, and the industry in general. Even though the figures fell below the budget for the year 2000, they can generally be regarded as being satisfactory when compared to other firm in the industry, and in the context of the prevailing economic climate.

There is also good balance of risklessness of the product through maintenance of reasonable liquidity levels. Receivable are not unduly delayed and the firm ensures that interest charges incurred fall within budget of the product. Is not indebted, it is essentially an all equity firm which implies there is very little fear of bankruptcy. Operating expenses are being kept at reasonable levels and there is justification of owners risk taking by the payments of dividends commensurates with their interest in the business. Dividends payment ratio average 64% and it was not less than 58% during the period with year 2000 recording the highest payment of 84%, a remarkable portion of the earnings are being retained for future operation.

5.2 CONCLUSION

The success or failure of any organization depends on the outcome of the decision taken by management. Decision making become more vital when it concerns finance, because a faulty decision in the area of finance could spell doom for the organization.

Because of the importance of financial decision making in organizations, it has become imperative for managers to rely more on evaluative techniques to provide them with hard facts on which to base their decisions.

Financial planning and analysis by using budget statements and ratios no doubt are the most accurate and reliable financial evaluation techniques available to the managers.

This study has shown that financial planning and analysis is an important and an integral part of the operations, evaluation and decision making processes in a Business environment. It equally clarified the fact that decision making from financial planning and analysis cannot be solely based on quantitative deductions alone, adequate considerations must be given to qualitative factors.

5.3. RECOMMENDATIONS

After analyzing the financial statements of Pfizer Products Limited using financial ratios analysis over a five year period and by using budget financial statements, it become clear that the company's financial position presently is healthy.

The following recommendations are therefore offered:

- The firms current and quick ratios are low indicating weak liquidity position, and therefore inability to pay its current obligations as and when due. It is therefore, recommended that the company should increase the level of its current assets particularly its cash and stock of finished goods inventory. This, the company can do by divesting its interest in inefficient subsidiaries.

- The firm's Net profit margin ratios over the relevant years were very low, while the operating ratios were high. It is therefore recommended that the company should calculate the ratios of individual operating expenses to sales to know those expenses items that consume more of each sales naira. As soon as such expenses items are identified, appropriate control measures should be instituted, if such an expense item is controllable.

- The interest-earned Ratio: Typically, an interest cover of at least three (3) times should be allowed but the actual figure depends on which interest cover the firm desires. The firm can then use it to calculate the maximum level of fixed interest that it can pay and thereby maximum amount of loan capital it should raise.

Pfizer products limited did not bother to plan its debt financing programme, the firm borrowed only when the need for funds arose. It is recommended therefore that the company should arrange with its current long-term creditors with the view to converting them to ordinary shareholders particularly now. this will give the company some breathing space to decide on the appropriate mix of debt to equity financing.

- A business organization's break-even are related to factors of its sales and profit margins. A license to acquire such margins, is by giving greater attentions to the internal and external financial planning and analysis.

- So with regards to this study, internal environment of Pfizer products limited is within a good level of control, while the major source of concern is the external environment. Government economic policies in the budget of the year 2000 towards foreign exchange control policies and interest rates also led to import liberalization which has encouraged influx of low priced competitive generic and substandard products. Foreign investors and the current privatization by the federal government are also another areas of concern to the company. The organization should attempt to contract these disadvantages, through efforts such as group pressures under the auspices of trade group pressures of commerce is recommendable. Its promotional activities, however are well addressed in right direction.

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- Further more funds should be committed to research and development to source more raw materials locally and hence reduce the impact of foreign exchange constraints. It is of prime importance to go ahead and source new products with low price and new markets for a sustainable competitive advantages.

- There is also a need for increase capacity utilization thereby bringing down its prices due to economies of scale.

- Assumptions on which planning are based require constant review, for instance the economic climate cannot be continuously favourable while capacity utilization is definitely below the assumed 80%.

Finally, Business organizations are adviced to adopt more standardized approaches to its financial planning and analysis in the future.

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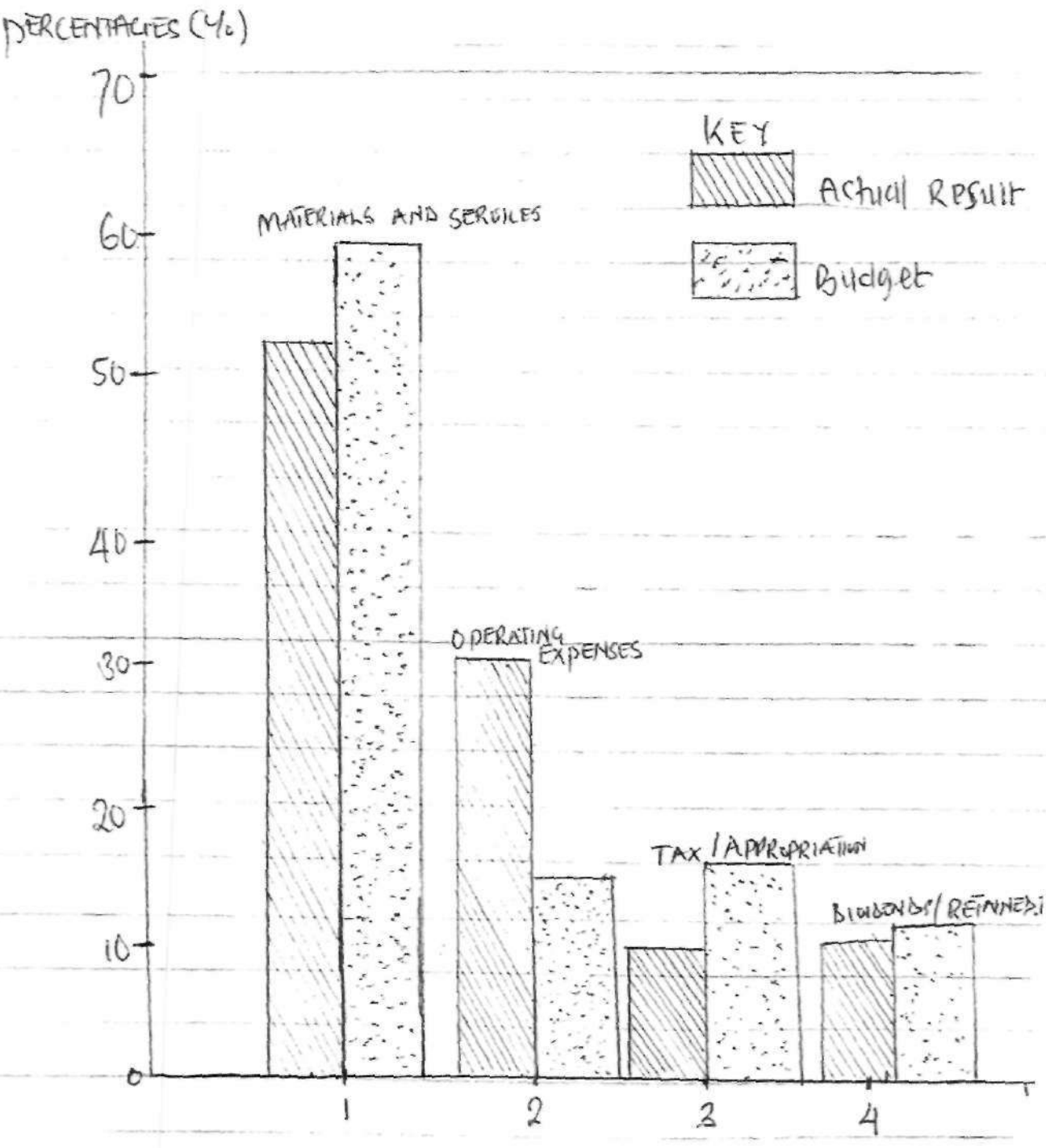
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PFIZER PRODUCT. LTD

STATEMENT OF AVERAGE VALUE ADDED

1996 – 2000

~~PERCENTAGES~~

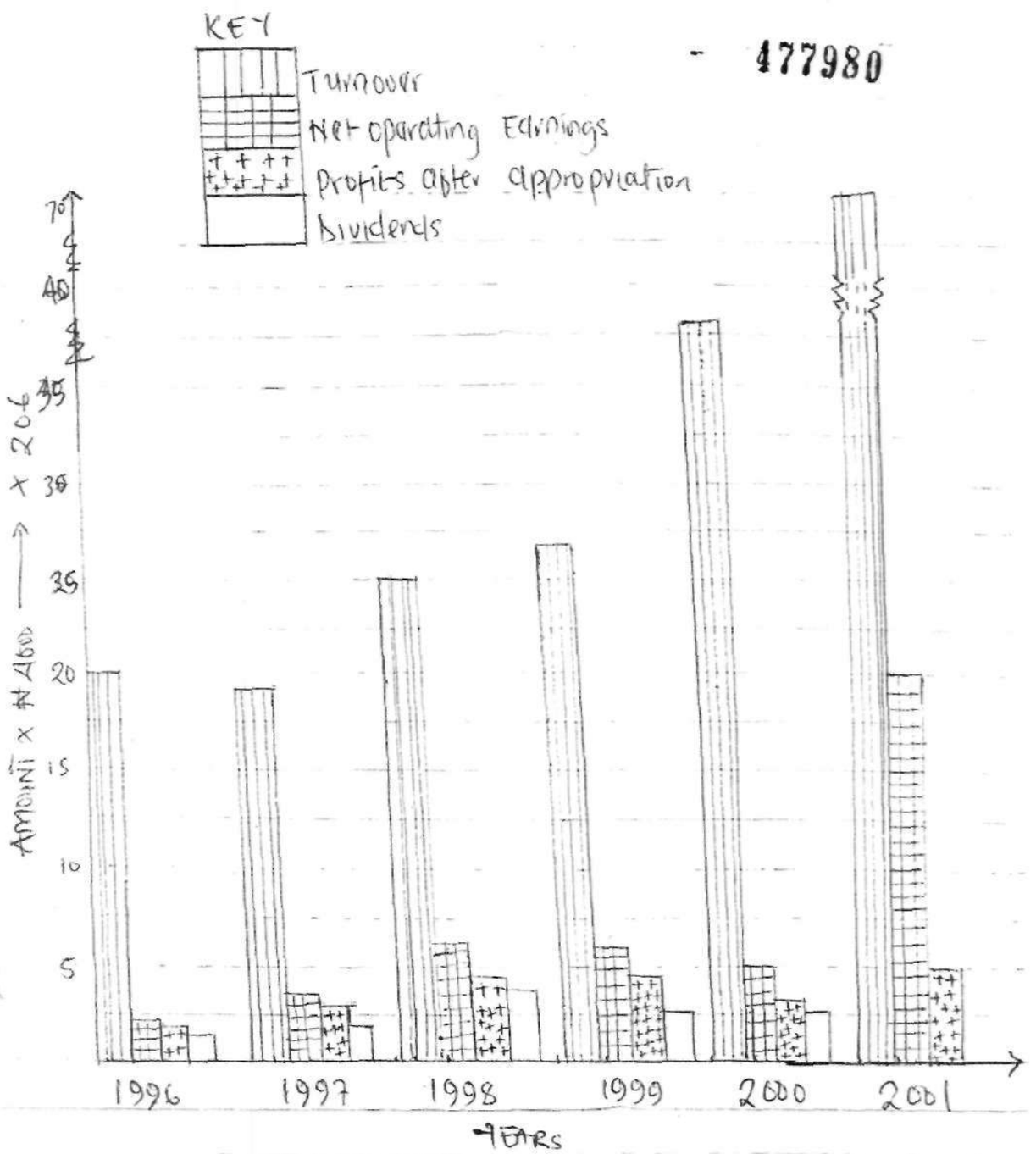


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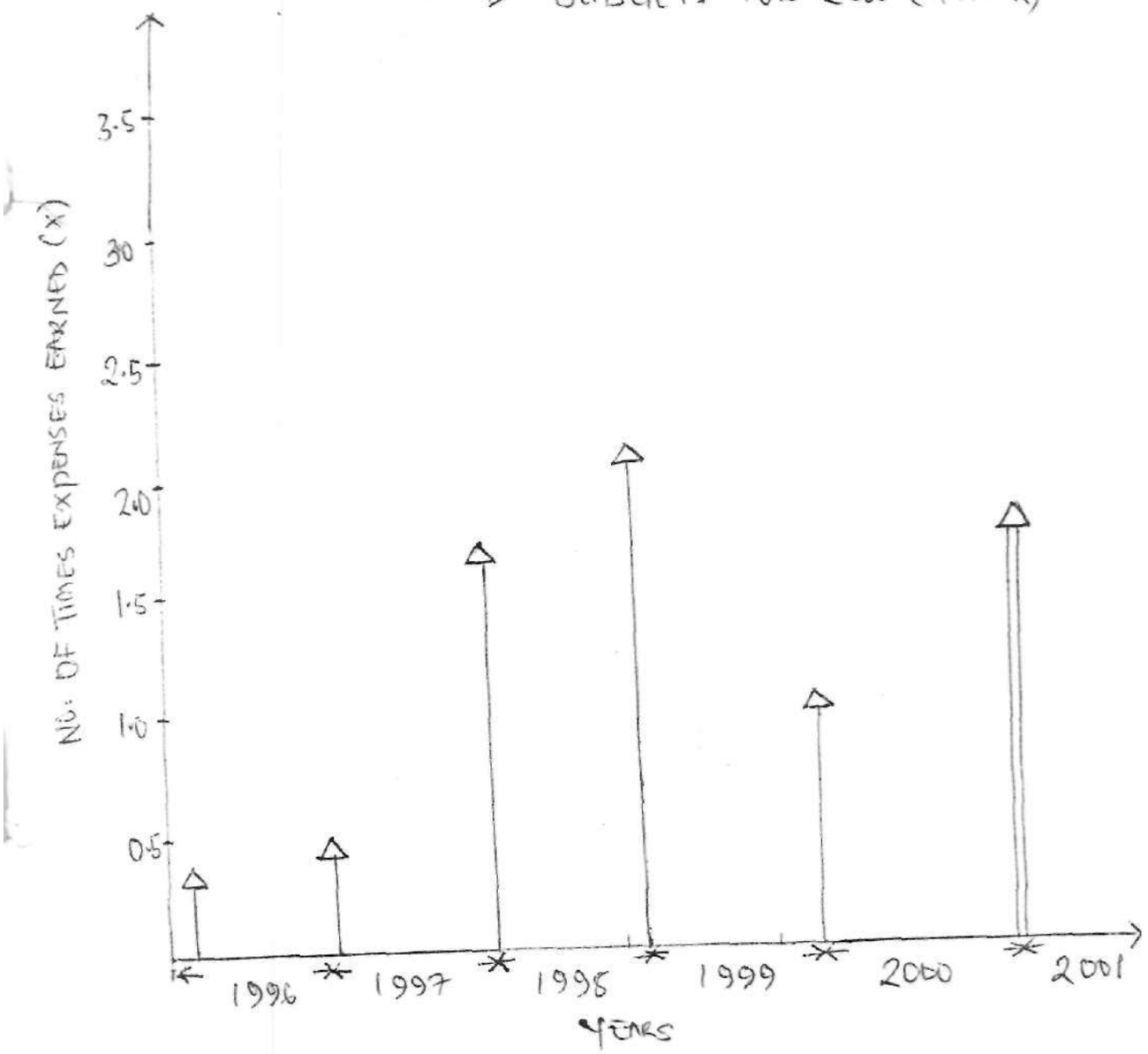
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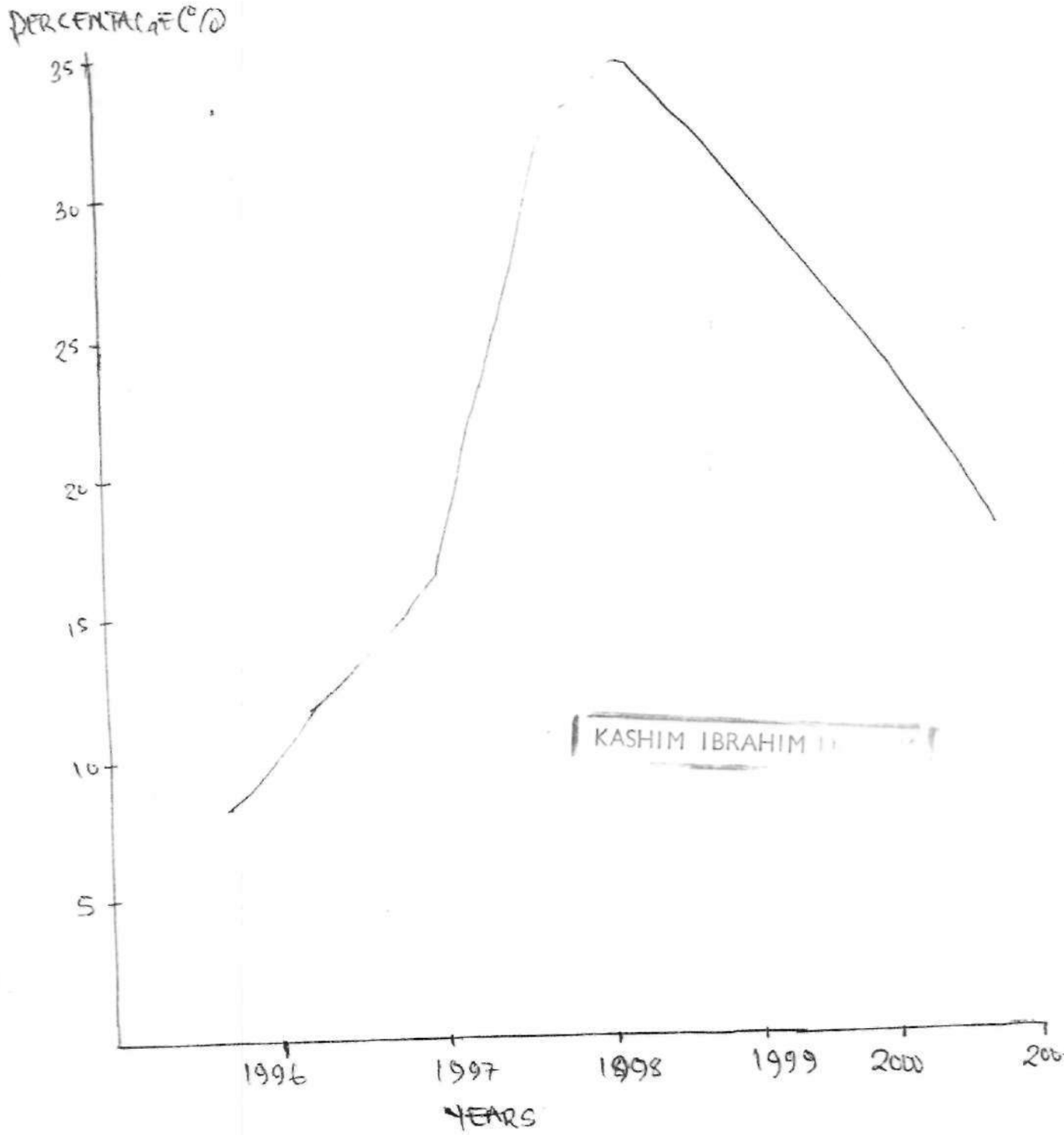
PFIZER PRODUCTS LIMITED
TIMES EXPENSES EARNED

KEY
→ ACTUAL RESULTS OF (PFIZER)
⇒ BUDGETS FOR 2000 (PFIZER)



PFIZER PRODUCTS LIMITED

TREND OF RETURN ON INVESTMENT. ~~(PERCENTAGE(%))~~



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