Having looked at Mark and Spencer Annual Report 2010, this document aims to provide information to those looking to invest in the company.

1. *Content of Annual Report*
   1. *The user groups of the Annual Report and applicable information15%*

The purpose of financial statements is to show the financial health of an organization, based quarterly or annually. Marks and Spencer’s Annual Report are based annually. The statements show the financial position, income and cash flow statement of the company.

Employees are interested to know about the share options available to them and the state of the company. Compared to last year, the shares issued to employees decreased from £12.4m to £8.4m. Was this to allow for the increase in dividend per share? The organization’s policy of shares being covered twice by their earnings makes this of key importance. Employees make up only a small percentage of shareholders but this information is relevant to all shareholders.

Another user of the Financial Statements is the Government. They are interested to know whether the organization has presented its Financial Reports in the appropriate format and if enough disclosure has been made including a breakdown of the sources of revenue and profitability both pre and post-tax. For example, the Report illustrates the business has paid greater Corporation tax in the year 2011 because of the £77.9m extra profits they generated.

Financial statements are valuable to Creditors / Lenders. Lenders want to know the organization’s debts / long term borrowing. These stakeholders can make an informed decision as to whether the business is liquid enough to repay back any loans. In respect to Marks and Spencer’s current year Annual Report, there is nothing to draw comparison with, as there is no figure for the year 2010. The statement of financial position indicates a considerable rise in this type of borrowing, from £482.9m in 2010 to £602.3m in 2011. Compare this with its working capital of (£568.5) – there may be a solvency problem. Information such as this provides lenders and other companies who provide credit lines with possible concern and reason not to do business via credit.

* 1. *The different requirements of stakeholders in any organization8%*

A stakeholder is a “person, group or organization who has an interest in the organization’s action.

Shareholders are interested in the growth of the organisations total value, expressed by profit, share price growth, earning per share, dividends and return on capital employed.

Lenders need to feel that the organisation can repay what they have borrowed and interest. When considering whether to lend, they will will at the balance of long/short term borrowing, cashflow and debt, current and acid test ratios.

The government has an interest in the jobs created and the security of those jobs, whether the company is paying all the tax owed and whether the company is behaving socially responsibly. It can use companies financial statements to help plan government policy.

Trade unions principle’s aim is to protect workers interests – to ensure they obtain pay rises and that their jobs are secure and provide satisfaction.

*1.3 Looking at the Operating and Financial Review, four key aspects of business performance 8%*

1. *Profitability*

Operating profit is a key measure of business performance. It takes into account gross profit, as well as the overheads incurred by the business. The operating profit in the 2011 Annual Report is £824.9m - a 5.9% increase from the previous year. UK operating costs rose 3.5% to £2,951.3m during this time, meaning that the reduction was from its international business. During the same time span, gross margin maintained its level of 41.2%. Despite the economic downturn and rising costs they have been able to control their direct costs.

1. *Liquidity*

The below ratios illustrate the organization’s ability to meet current liabilities.

Current ratio:

* for the year 2010 is 0.8:1
* for the year 2011 is 0.74:1

Acid test ratio:

* for the year 2010 is 0.48:1
* for the year 2011 is 0.43:1

Ideally the current ratio should measure at 2:1 and the acid test ratio 1:1. The difference between the two ratios being that the acid test ratio considers stock (in the case that stock cannot be sold), so stock is taken away from current assets– therefore this ratio is more telling. Both ratios are less than half of what they should be showing and falling showing readily available cash position is poor and deteriorating.

1. *Efficiency*

This area shows how well the organization is using its resources. Ratios used are: -

Assets to Sales using Total Assets/Sales:

This ratio looks at how much an organization needs to invest to generate sales. Higher value for this ratio means the company is able to generate more revenues out of existing assets.

* for the year 2010: (7153.2/9536.6) x 100 = 75%
* for the year 2011: (7344.1 /9740.3) x100 = 75.4%

Despite only a small increase from 2011, the results for the Mark and Spencer are positive, this is emphasised in comparison to their average to the industry average of 54% (www.bizstats.com).

Stock turnover using Cost of sales/ Average stock:

* for the year 2010, 5918.1/613.2 = 9.65
* for the year 2011, 6015.6/685.3 = 8.78

For this to ratio to be meaningful it should be compared to other organizations in the same market or an industry average. The average inventory turnover is 9.34 times for retail trade according to bizstats.com. In this respect, Mark and Spencer have little reason for concern. Any decrease indicates reason to be vigilant and ensure reliability of suppliers (a reliable supplier would result in the organization having to hold less stock and have more deliveries). |The report indicates this is something the business have looked into and perhaps is one reason why they are looking to have greater control of their supply chain, becoming less dependent on suppliers.

1. *Shareholders return*

Dividends per share is useful to shareholders. Final dividends increased from 9.5p per share in 2009/2010 to 10.8p per share in 2010/2011, a 13.7% increase. This reflects M&S’s dividend policy, where dividends are approximately twice covered by earnings. Hence, 5.9% increase in operating profits is accompanied by a 13.7% increase in dividends per share. Such a policy gives shareholders security, knowing that the business continues to be confident of its position in the market.

*1.4 Information of interest to the environmental user group7%*

Marks and Spencer have a goal of becoming the “world’s most sustainable major retailer” through commitments in terms of climate change, waste and sustainability. The Report illustrates the organization’s work in terms of waste and climate change, where their carbon emissions, for example, have been reduced by 90,000 tonnes since 2006/07 via practices such as their ‘M&S Energy’ business. They are also interested by the achievement through ‘Future M&S sustainable agriculture programme”. This programme is divided into two subgroups; one based on crop standards and the other on meat, poultry and farmed fish standards. Suppliers and employees are involved worldwide and education towards this encouraged.

*1.5 Limitations of Mark and Spencer Annual Report and additional information necessary7%*

The organization predicts its future based on the information presented in that year’s report and the years prior, in other words, based on the past. Only two years of data are used, the year of report and year prior to this. There is also a lack of breakdown in figures that would be nice to see for many items: when looking at sales, the proportion of how much is credit to cash is not reported. Perhaps reporting more frequently than annually would also be useful.

In reference to trying to draw ratios out of the figures it would be useful for the report to offer them already calculated. Ratios allow ease of reading, putting data into perspective. The fact that the report offers few ratios is therefore a limitation.

As with any organization’s report, the aim is to portray itself positively. When discussing qualitative factors which are more difficult to assess than quantitative ones, it is difficult to determine/avoid bias.\* Perhaps if Mark and Spencer highlighted its downfalls a little more, it would portray a confidence to those reading the report that the company is able to learn from these and grow. Factors regarding quantitative data also fails to present the business in a more positive light, in terms of the time value of money. - this is ignored to portray the figures as being greater than they are.

1. *Analysis of Content*

*2.1 Is M&S is a socially responsible company? 35%*

*2.2Marks and Spencer treatment of depreciation of property, plant and equipment 5%*

Depreciation is the allocation of a long term tangible asset’s cost spread out over its useful life. The methods of depreciation generally used vary from straight-line to reducing balance. M&S use the straight line method of depreciation for their property, plant and equipment, where they annually review the economic lives and residual values of their assets. This method results in the distribution of depreciation being equally spread out over the lifespan of the asset.

Marks and Spencer practice depreciation like so:

The organization does not depreciate freehold land.

Freehold and leasehold building with a lease term remaining over 50 years are depreciated by (\*cost – residual cost)/no. of years.

Freehold and leasehold buildings with a lease term remaining less than 50 years are depreciated by \*cost/no. of years – not taking residual value into account. This policy is consistent for equipment with a life of between 3-25 years.

\*Cost also covers professional fees borrowing costs.

Any impairment loss is also added to the income statement.

Alternatively, when the reducing balance method is used, the initial years of the assets life will see a greater amount of depreciation in comparison to the straight-line method. Therefore in charging this expense to the income statement, profits in the initial years will be lower than what we would see using straight-line depreciation.

*2.3 Marks and Spencer Consolidated Cash Flow Statement 5%*

Income Statements measure the organization’s profitability over a given time period showing costs of goods/services and expenses incurred. Cash Flow Statements illustrate the organization’s cash/liquid funds generated. The Cash Flow Statement allows us to see which revenues from the Income Statement have been collected. Income Statements are prepared on accrual basis whilst Cash Flow Statements are prepared on cash basis. Therefore Cash Flow does not necessarily illustrate all of the business’ expenses, as some are not required to be paid immediately. It is only once the expense has actually been paid that it is recorded as a cash outflow in the Cash Flow Statement. Fundamentally, the Cash Flow Statement indicates whether there has been a “net increase or decrease in cash (or its equivalents)”. The Income Statement reflects purely on an organization’s profitability.We can see this in reference to Marks and Spencer Annual Report; their profit is £598.6m and closing net cash is only £ 263.5m.

2.1 **Do you believe Marks and Spenser is a socially responsible company? (35% marks)**

Corporate Social Responsibility is about an organization acknowledging the impact it has on its environment. Being socially responsible requires the organization to take into account all its stakeholders The Annual Report contains an Operating review covering Plan A and its employees, as well as a Governance Report.

Plan A is how Marks and Spencer consider itself socially responsible. M & S’s Plan A commitments are based on climate change, waste, sustainable raw materials, health and being a fair partner, all starting in 2007.

In regards to their claim of being a fair partner, they are referring to how they work fairly with the suppliers and communities that are affected by their trade at all levels in the supply chain. The Report demonstrates the organization makes this possible via programmes such as the Ethical Model Factory. This year alone, the programme will enable the creation of three more factories in India.

Their commitments to climate change, waste and sustainable raw materials support their pledge to be environmentally responsible. An example of this in practice is the 34% reduction in waste they have made this year.

Plan A also encompasses the customers’ needs. Their health commitments are part of this. The Annual Report indicates the launch of their ‘Simply More’ range, based on the consumer’s everyday essential enriched to boost their health. The Plan also involves customers into its sustainability/responsibility campaigns - the ‘One Day Wardrobe Clear-out’, where £2.2 mil was raised for Oxfam is an example.

According to this Annual Report, Marks and Spencer have embraced sustainabilitysocial responsibility into their employee’s lives, encouraging a greener lifestyle for example, through measures of reducing energy usage. The disabled, homeless, lone parent and young unemployed are offered routes into jobs via a jobstart program:over 40% of those that take part in this programme gain full time employment.

Much of the information from the Governance Overview focuses purely on the organization internally. Emphasis is placed on diversity in the boardroom, for example in terms of gender and opportunities, as well as how decisions made at this level are audited.

The Governance overview allows us an insight into the organization’s perspective of what the right thing to do is while ensuring that all shareholders get a good return on investment.