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FINANCIAL STATEMENT ANALYSIS OF DARDANEL AND SUPERFRESH

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ABSTRACT

Financial statement analysis is a process of evaluating and understanding the economic and financial position of the company. The investors, stockholders, and creditors need these analyses. It is important for investors to understand the position of the company in which they are making investments and creditors need these analysis to evaluate whether the company is worth giving financial support or not.

This study aimed to analyze the financial statements of both Dardanel and Superfresh between the years 1999-2003 and to evaluate which company is in a better position in the market.

After conducting all the needed analysis the final conclusion that appears is that even though Dardanel has achieved a better performance in year 2003, this performance couldn't help this company to reach the position of Superfresh in the market.

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INTRODUCTION

In today's global economy, investment capital is always on the move. There are well-organized capital markets, which act as an international and capital investment exchange. The investment increases in the areas which are expected to grow with good returns as well as minimal risk. These risks and returns are analyzed in a detailed way to make the investment safe and profitable.

This study concerns with the analysis of financial statements. The financial statement analysis provides insights into company's current status and leads to development of policies and strategies for the future. The analyst should be alert to the potential for management to influence the outcome of financial reporting in order to appeal to creditors, investors and other users.

Financial statement is a tool that helps the analysts and investors to make decisions by making use of the useful information. Additionally, it helps the investors to understand the key trends and relationship which gives clear understanding of all financial activities.

Financial ratios are the basis of analyzing the financial statements, as they are used to give answers to different kinds of questions regarding the firm's performance.

In this study, my aim is to analyze the financial statements of Dardanel Önentaş Gıda Sanayi A.Ş. and Kerevitaş A.Ş.(Superfresh) for the last five years (1999 to 2003) and compare the current performances with the past performances of the both companies.

Dardanel is a Turkish food company which has a good position in the Turkish food market, and which also has some other investments and joint ventures in the foreign countries. Also Kerevitaş (Superfresh) is in the same market, with the same product line with Dardanel and it is one of its competitors in the Turkish Food Market. Both companies are traded in Istanbul stock exchange. In the preparation process, I have gathered information from the IMKB's web site, from the books and from the discussions with my instructor.

The analyses of the both companies are conducted under five stages.

In the first part, the background information for Dardanel and Superfresh are included.

In the second part, some specific definitions and different approaches from various sources about the financial statements are included. The definitions and explanations about the functions and the importance of Balance Sheet, Income Statement, Statement of Stockholders Equity and Statement of Cash Flow are also included in this part.

Tools of analyzing the financial position of the company, such as Dollar and Percentage Changes, Trend Percentages (horizontal analysis), Component Percentages (vertical analysis) and also Ratio Analysis forms the third part of the project.

In the fourth part, the applications of Dollar and Percentage Changes, Trend Percentages (horizontal analysis), Component Percentages (vertical analysis) and also Ratio Analysis of both companies are included. With the help of this part, the analysis will be made easily.

The fifth part is the part of limitations where the limitations faced during the preparation of the project will be explained.

Finally, the conclusion and recommendations form the ending part of the study that will help the users to understand the financial statements easily.

I. HISTORICAL BACKGROUNDS

1.1 Historical Background of Dardanel

Dardanel Örentaş Gıda Sanayi A.Ş. was founded in 1984 by the chairman Mr. Niyazi Ören, with the scope of production on canned tuna, and other canned fish, fish flour, frozen sea food, cat and dog food, canned and frozen fruits and vegetables, frozen pastry, and frozen food products. The production capacity is 60.000 tons of fish, 30.000 tons of shellfish, 50.000 tons of canned and frozen fruits and vegetables, 3.000 tons of frozen pastry and frozen pre-cooked food. The number of employees working under companies is 2.000 people and the area covered by the company is 60.000 square meters inside and 40.000 square meters outside. The company qualifies for number of certificates such as, ISO9001, HACCP, TSE (for products), BRC, EFSIS, and TLC.

Dardanel exports 70% of its products to European countries, 20% to Egypt, Israel, Arabic countries and other Turkish republics. In year 2000, their export totaled to 24 million dollars. In the domestic market, they have an 80% share in canned tuna.

There are certain other companies working under the Dardanel Örentaş Gıda Sanayi A.Ş. Dardanel Meyve and Sebze Sanayi was founded in 1986, and specialized in canned and frozen fruit and vegetables, and it has a capacity of 50 tons per year and approximately 650 people work for it. Dardanel Hazır Gıda Sebze Sanayi was founded in 1989. It specialized in pastry products and pre-cooked products and it has a capacity of 3.000 tons every year. Dardanel Su Ürünleri Üretim was founded in 2001, with the 30% partnership with Japan Tohto Suisan Co. Ltd. Their capacity is 1.600 tons and they export all of their products to Japan.

In year 2003, Dardanel formed a joint venture with Japan and Turkish Cypriots and formed a fish farm in the Northern part of Cyprus. They invested 4.5 million dollars (not including the capital of the company) into this venture and they are expected to make $5 million of export in current situation, and also added that if they could increase their capacity to 3000 tons, then they expect to make an export of $100 million.

Dardanel Önentaş Gıda Sanayi A.Ş. has a vision of supporting a continuous understanding of total quality, and the company's strategies and objectives are;

- to establish itself as the strongest and an expert brand in primarily FMCG sea food
- to discover roads in Turkish eating habits and trends and to train housewives to use healthy, nutritious and convenient food for her family
- to adopt the company to continuous change in Turkish trade, supply and transportation etc. systems by working with third parties and by outsourcing activities as much as possible
- to collaborate with technical centers and sources in more advanced companies outside Turkey in order to synchronize company technology with most recent evolutions and developments.

1.2 Background Information of Superfresh

Kerevitaş was found in 1969 by the chairman, Mr. Cemil Merzeci. It is the producer, importer, exporter and distributor of whole range of frozen and canned food products and ice-cream. It has an experimental research laboratory, supported by a large quality laboratory in Bursa and in Istanbul.

The shareholders of Kerevitaş are Merzeci Holding A.Ş. with 37.76%, Shöller Holding Gmbh and Co. KG with 25,17%, Merzeci Family with 12.61% and others with 25.17%, which are on the stock market.

Kerevitaş is registered and traded in Istanbul Stock Exchange. It is the most dominant food company in Turkey. Superfresh's activities cover processing of various foodstuff, including vegetables, fruit, seafood products and dough products and further sales distribution, imports and exports of such products. Kerevitaş is the leading frozen and canned seafood, vegetable, fruit, preserves, concentrates and dough products company of the country in terms of quantities processed, product range and market share. In 1997 Kerevitaş also established Shöller Dondurma Sanayi A.Ş. with Shöller Holding of Germany to produce industrial ice cream. Kerevitaş also operate KSM seafood Corporation in Baton Rouge Louisiana, specialized in the processing and marketing of seafood both in the US and Europe.

Since over a quarter of a century, Kerevitaş adopted the principle of quality as its first priority, which in turn gave the positive outcome and rapid growth that it deserved. Wide range of products produced under tremendous heed for the customer satisfaction resulted in the achievement of the aliment sector, procuring about 68% of the "Local

Market Pie". Kerevitaş excelled by no surprise, but by committing itself to pursue "high quality and the state-of-the-art production" as the milestone of its policy.

Kerevitaş first started with seafood production and export. In the second half of the 70's company extended its activities to the processing of vegetables and fruit. During the 80's company increased its product range with the production of dough products and pizza. Also in 90's, it started producing potato products, especially frozen French fries. With an investment made in 1995 and 1996 they added canned tuna fish to the product range and increased the capacity of pizza and other dough products. Therefore, they reduced the company's dependence on volatility of agricultural industry to minimum and increased the capability to perform uninterrupted production and sales throughout the year. Operating five plants in Turkey, one in the USA and with more than 5.000 people Kerevitaş group employs highly trained expert teams to ensure first class selection of raw materials, sophisticated techniques of food processing and quality control systems. The production range of the company covers more than 187 different items and each product is mostly processed and packaged for direct consumer use. The entire production cycle takes place in aseptic areas, at controlled temperatures, which rigorously respect to EU hygienic regulations. Kerevitaş is the only company in food sector in Turkey, which has TS-EN-ISO 9001 certificate.

Concerning frozen products, Kerevitaş possesses an enormous infrastructure, which is a very important advantage in the market. The company's freezing and storing capacity are the largest among the private sector in Turkey, with an excess of

26.000kgs. Istanbul factory and storage facilities are very close to downtown and have a location advantage in terms of cold chain in the distribution system.

Kerevitaş is using its own refrigerated fleet now exceeding 200 trucks (plus 150 trucks for ice cream distribution). Due to a well established distribution system in the domestic and over the broader territories, the company exports 35% of its products, nearly 65% distributed in the domestic market.

Being 100% export oriented till 1990, Kerevitaş also started to supply the domestic retail market with frozen food, vegetables, seafood products, potato products, pizza and other dough products under its brand name SUPERFRESH. They market their products in more than 2000 outlets in Istanbul, 15000 in Turkey by distributing deep freezers to grocers, delicatessens, supermarkets and hypermarkets.

II. FINANCIAL STATEMENT

2.1 Balance Sheet

A balance sheet, also called the statement of conditions or statement of financial position, provides a wealth of information about a business firm, particularly when examined over a period of several years and evaluated in relation to the other financial statements (Fraser and Orminston, 2001).

The balance sheet shows the financial condition or the financial position of a company on a particular date. The statement is a summary of what the firm owns (assets), and what the firm owes to outsiders (liabilities), and to internal owners (stakeholders' equity).

The account balances on balance sheet must balance; that is the total of assets must be equal to sum of liabilities and stockholders' equity (Fraser and Ormimston, 2001).

Assets = Liabilities + Stakeholders' equity

This relationship always exists; in fact, the equity of these totals is why this financial statement is frequently called a balance sheet (Williams, Haka, Bettner and Meigs, 2002).

2.1.1 Assets

Assets are economic resources that are owned by a business and are expected to benefit future operations. The benefit to future operations comes in the form of positive future cash flows. The positive future cash flows may come directly as the asset is converted into cash or indirectly as the asset is used in operating the business

to create other assets that result in positive future cash flows (Meigs *et al*, 2002). Assets may have a definitive physical form such as buildings, machinery or an inventory of merchandise. On the other hand, some assets exist not in a physical or tangible form but in a form of valuable legal claims or rights; examples are amounts due from customers, investments in government bond, and patent rights (Meigs *et al*, 2002).

One of the most basic and at the same time most controversial problems in accounting is determining the dollar amount for the various assets of the business. At present, generally accepted accounting principles call for valuation of many assets in a balance sheet at cost, rather than at their current value. The specific accounting principles supporting cost as a basis for asset valuations are as follows; The cost principle, such assets as land, buildings, merchandise and equipment are typical of many economic resources that are required in producing revenue for business. The prevailing accounting view is that such assets should be presented at their cost. When we say that an asset is shown in the balance sheet at its historical cost, we mean the original amount the business entity paid to acquire assets.

Expectations to the cost principle are found in some of the most liquid assets. Amounts receivable from customers are generally included in the balance sheet at their net realizable value, which is an amount that approximates the cash that will be received when the receivable is collected (Meigs *et al*, 2002).

The balance sheet of a business is prepared on the assumption that the business is a continuing enterprise, or a going concern. Consequently, the present estimated prices

at which assets like land and buildings could be sold are of less importance than if these properties were intended for scale. These are frequently among the largest dollar amounts of a company's assets. Determining that an enterprise is a going concern may require judgment by the account (Meigs *et al*, 2002).

Another reason for using cost rather than current market values in accounting for most assets is the need for a definite, factual basis for valuation. The cost of land, buildings and many other assets purchased for cash can be rather definitely determined. Accountants use the term objective to describe asset valuations that are factual and can be verified by independent experts (Meigs *et al*, 2002).

The asset section of a balance sheet is divided into two basic components. Assets are classified as current assets or non-current assets on the basis of liquidity.

Current assets are cash and those other assets that will normally be converted into cash with a period of one year or one operating cycle if it is longer than a year (Bierman and Drebin, 1978).

Current assets include such items as the cash on hand, or in the bank, amounts due from customers (accounts receivable), materials, supplies or goods on hands (inventories), readily marketable securities that are expected to be sold within one year, and advance payments for insurance, rent and the like (called pre-paid expenses).

Non-current assets are those assets that are likely to be converted into cash in the normal operating cycle of the firm.

Non-current assets are also referred to as fixed assets or long-lived assets. This category includes such things as land, buildings and equipment. These items are normally expected to last more than one year and cannot be sold (turned into cash) without disrupting the normal business operations (Bierman and Drebin, 1978).

The distinction between current and non-current assets is made on the basis of intention or normal expectation rather than ability to convert to cash. Thus, inventories of materials are classified as current because they would normally be disposed of within one year. A building that might be disposed of just as easily is treated as non-current if it would not be sold within a year in the normal course of business.

2.1.2 Liabilities

Liabilities are the obligations and debts of the corporation. The terms are generally fixed by legal contract and have definite due dates (Bierman and Drebin, 1978).

The liability section is further divided on the basis of due date between current liabilities and non-current liabilities. The distinction is essentially the same as that applied to assets.

Current liabilities are those obligations that are to be paid within one year. Current liabilities include amounts owed to trade creditors (accounts payable), workers (wages

payable), government (taxes payable), investors (interest or dividends payable) and customers (advanced by customers). All are current liabilities if they are due within one year (of within operating cycle of the firm) (Bierman and Drebin, 1978).

Non-current or long-term liabilities are those coming due in more than one year. Long-term liabilities include amounts that are owed but do not have to be paid within one year. The most common long-term liabilities are bonds, mortgages, and notes. If a part of these items is due within twelve months, that amount should be classified as current liability. It is the due date, not the title that determines the classification (Bierman and Drebin, 1978).

2.1.3 Owner's Equity

Owner's equity represents the owners' claim on the assets of the business. Because creditors' claims have legal priority over those of the owner, owners' equity is residual amount. If you are the owner of a business, you are entitled to assets that are left after the claims of creditors have been satisfied in full. Therefore, owners' equity is always equal to total assets minus total liabilities (Meigs *et al*, 2002).

Owners' equity does not represent a specific claim to cash or any other particular asset. Rather, it is the overall financial interest of the entire company.

2.2 Income Statement

The income statement is a summarization of the company's revenue and expense transactions for a period of time. It is particularly important for the company's owners, creditors and other interested parties to understand the income statement. Ultimately, the company will succeed or fail based on its ability to earn revenue in excess of its expenses. Once the company's assets are acquired and business commences, revenues and expenses are important sources of cash flows for the enterprise (Meigs *et al*, 2002).

Two basic measures of a company's performance are obtained from the income statement. These are net income and earnings per share (Bierman and Drebin, 1978).

The period of time covered by an income statement is termed with the company's accounting period. To provide the users of financial statements with timely information, net income is measured for relatively short accounting periods of equal length. This concept is called the time period principle (Meigs *et al*, 2002).

2.2.1 Revenue

Revenue is the price of goods sold and services rendered during a given account period. Earning revenue causes owners' equity to increase. When a business renders services or sells merchandise to its customers, it usually receives cash or acquires the account receivable from customers. The inflow of cash and receivables from consumers increases the total assets of the company (Meigs *et al*, 2002).

When should revenue be recognized? In most cases, the realization principle indicates that revenue should be recognized at the time goods are sold or services are rendered. At this point, the business has essentially completed the earning process and the sales value of the goods or services can be measured objectively (Meigs *et al*, 2002, p. 98).

2.2.2 Expenses

Expenses are the costs of the goods and services used up in the process of earning revenue. Expenses include cost of employees' salaries, advertising, rent, utilities and the depreciation of buildings. All these costs are necessary to attract and serve and thereby earn revenue. Expenses are often called the "costs of doing business," that is, the cost of various activities necessary to carry on a business.

An expense always causes a decrease in owners' equity (Meigs *et al*, 2002, p.99).

A significant relationship exists between revenue and expenses. Expenses are incurred for the purpose of producing revenue. In measuring the net income for a period, revenue should be offset by all the expenses incurred in producing that revenue. This concept of offsetting expenses against revenue on the basis of cause and effect is called the matching principle. Timing is an important factor in matching (offsetting) revenue with the related expenses.

2.2.3 Net Income / Loss

Net income is determined by comparing sales prices of goods or services sold during the period with the costs incurred by the business in delivering these goods and

services. The technical accounting terms for these components of not income are revenue and expenses. Therefore, accountants say that net income is equal to revenue minus expanses. Should expenses exceed revenue, a net loss results.

2.3 Statement of Stockholders' Equity

The statement of stockholders' equity reconciles the beginning and ending balances of all accounts that appear in the stockholders' equity section of the balance sheet. Some firms prepare statement of retained earnings, frequently combined with the income statement, which reconciles the beginning and ending balances of the retained earnings account. Companies choosing the latter format will generally present the statement of stockholders' equity in a footnote disclosure (Fraser and Ormimston, 2001).

The top line of the statement includes the beginning balance of each major category of stockholders' equity and explains the nature and the amount of each change and computes the ending balance in each equity account (Meigs *et al*, 2002).

2.4 Statement of Cash Flow

The basic purpose of a statement of cash flow is to provide information about the cash receipts and cash payments of a business entity during the accounting period. The term cash flows include both cash receipts and cash payments. In addition, the statement is intended to provide information about the investing and financing activities of the company during the period. A statement of cash flow assists investors, creditors and others in assessing such factors as;

- The company's ability to generate positive cash flows in the future period.

- The company's ability to meet its obligations and to pay dividends.
- The company's need for external financing.
- Reasons for differences between the amount of net income and the related net cash flows from operating activities.
- Both the cash and non-cash aspects of the company's investments and financing transactions for the period.
- Causes of the change in the amount of cash and cash equivalents between the beginning and the end of the accounting period.

A statement of cash flow helps users of financial statements evaluate company's ability to have sufficient cash, both on a short-run and on a long-run basis. For this reason, the statement of cash flow is useful to virtually everyone interested in the company's financial health; short and long-term creditors, investors, management and both current and prospective competitors (Meigs *et al*, 2002).

The cash flows shown in the statement are grouped under three major categories;

1. Operating activities
2. Investing activities
3. Financing activities

2.4.1 Operating Activities

The operating activities section shows the cash effects of revenue and expense transactions. The operating activities section of the statement of cash flows includes the cash effects of those transactions reported in income statement. The largest cash inflow from operations is the collection of cash from customers. Smaller receipts of

interest on loans and dividends on stock investments. The outflows include payments for interest and taxes (Meigs *et al*, 2002).

2.4.2. Investing Activities

Cash flows relating to investing activities present the cash effects of transactions involving plant assets, intangible assets and investments (Meigs *et al*, 2002).

Investing activities include;

1. acquiring and selling or otherwise disposing of
    a) securities that are not cash equivalents and,
    b) productive assets that are expected to benefit the firm for long periods of time
2. lending money and collecting on loans (Fraser and Orminston, 2001).

2.4.3 Financing Activities

Financing activities include borrowing from creditors and repaying the principal and obtaining resource from owners providing them with a return on investment.

III. RESEARCH METHODOLOGY

3.1 Tools of Analysis

3.1.1 Dollar and Percentage Changes

The dollar amount of change from year to year is significant, and expressing the change in percentage terms adds perspective.

The dollar amount of any change is the difference between the amount of comparison year and the amount for a base year. The percentage change is computed by dividing the amount of dollar change between years by the amount for base year.

Computing the percentage changes in sales, gross profit, and net income from one year to the next gives insight into a company's rate of growth. If a company is experiencing growth in its economic activities, sales and earnings should increase at more than the rate of inflation (Meigs *et al*, 2002).

3.1.2 Trend Percentages (Horizontal Analysis)

The changes in financial statement items from a base year to the following years are often expressed as trend percentages to show the extent and direction of change. Two steps are necessary to compute trend percentages;

1- a base year is selected and each item in the financial statements for the base year is given a weight of 100%.

2- is to express each item in the financial statements for the following years as a percentage of its base-year amount.

This computation consists of dividing an item such as sales in the years after the base year by the amount of sales in the base year (Meigs *et al*, 2002).

3.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in a total. This shows quickly the relative importance of each type of asset as well as relative amount of financing obtained from current creditors, long-term creditors, and stockholders. By computing component percentages for several successive balance sheets we can see which items are increasing in importance and which are becoming less significant.

Another application of component percentages is to express all items in an income statement as a percentage of net sales. Such a statement is called a common-size income statement.

3.1.4 Ratio Analysis

Ratios are useful because they summarize briefly the results of detailed and complicated computations (Fraser and Ormimston, 2001). A ratio is a simple mathematical expression of one relationship of one item to another.

Ratios are particularly important in understanding financial statements because they permit us to compare information from one financial statement with information from another financial statement.

3.1.4.1 Measure of Short-Term Liquidity

Liquidity refers to a company's ability to meet its continuing obligations as they arise. Analyzing an enterprise's liquidity and credit risk is very important (Meigs *et al*, 2002).

Current Ratio: It is the most widely used measure of short-term debt paying ability. Current ratio is computed as follows;

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

The higher the amount ratio, the more liquid the company appears to be. Some bankers and other short-term creditors have believed that a company should have a current ratio of 2 to 1 or higher to qualify as a good credit risk.

Quick Ratio: It is also known as the acid test ratio and it is a more rigorous test of short-run solvency than the current ratio because the numerator eliminates inventory, considered the least liquid current asset and most likely source of losses. Quick ration is calculated as follows (Fraser and Ormimston, 2001);

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick assets include cash, marketable securities and receivables.

Working Capital: It is a measurement often used to express the relationship between current assets and current liabilities. Working capital is the excess of current assets over current liabilities. Working capital measures a company's potential excess sources of cash over its upcoming uses of cash. Working capital is computed as follows;

Working Capital = Current Assets – Current Liabilities

Cash Flow from Operations to Current Liabilities: Indicates ability to cover currently maturing obligations from recurring operations and is computed as follows;

$$\text{Cash Flow from Operations to Current Liabilities} = \frac{\text{Cash flows from Operating Activities}}{\text{Current Liabilities}}$$

Receivables Turnover Rate: It indicates how quickly a company converts its accounts receivable into cash and it as computed ad follows;

$$\text{Receivables Turnover Rate} = \frac{\text{Net Sales}}{\text{Average A/R}}$$

Days to Collect Average A/R: It is the average number of days required to convert receivables into cash.

$$\text{Days to Collect Average A/R} = \frac{\text{365 days}}{\text{Receivables Turnover Rate}}$$

The average collection period helps gauge the liquidity of A/R, the ability of the firm to collect from customers. It may also provide information about a company's credit policies (Fraser and Ormimston, 2001).

Inventory Turnover Rate: Indicates how many times during the year the company is able to sell a quantity of goods equal to its average inventory. Inventory turnover rate is computed as follows;

$$\text{Inventory Turnover Rate} = \frac{\text{Cost of the Goods Sold}}{\text{Average Inventory}}$$

Days to sell the Average Inventory: It indicates how quickly the inventory sells and is computed as follows;

$$\text{Days to sell the Average Inventory:} \quad \frac{\text{365 days}}{\text{Inventory Turnover Rate}}$$

Operating Cycle: The period of time required for a merchandising company to convert its inventory into cash is called the operating cycle.

Operating Cycle = Days to Sell Inventory + Days to Collect Receivables

It indicates in days how quickly cash invested in inventory converts back into cash.

3.1.4.2 Measures of Long-Term Credit Risk

Long-term solvency ratios measure the ability of the enterprise to survive over a long period of time. Long-term creditors and stockholders are interested in a company's long-run solvency, particularly its ability to pay interest as it comes due and repay the face value of the debt at maternity.

Debt Ratio: It is the basic measure of safety of creditor's claims, which states total liabilities as a percentage of total assets. It measures the creditor's long-term risk. The smaller the portion of total assets financed by creditors, the smaller the risk that the business may become unable to pay its debts. From the creditors point of view, lower the debt ratio, the safer their position. Debt ratio is computed as follows;

$$\text{Debt ratio: } \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

3.1.4.3 Measures of Profitability

Measures of a company's profitability are of the interest to equity investors and management and are drawn preliminary from the income statement.

Gross Profit Rate: It is the gross profit expressed as a percentage of net sales. It is a measure of the profitability of the company's products.

$$\text{Gross Profit Rate: } \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Operating Exchange Ratio: A measure of management's ability to control expenses. It is computed as follows;

$$\text{Operating Expense Ration: } \frac{\text{Operating Expenses}}{\text{Net Sales}}$$

Net Income as a Percentage of Net Sales: An indicator of management's ability to control costs.

$$\text{Net Income as a Percentage of Net Sales: } \frac{\text{Net Income}}{\text{Net Sales}}$$

Operating Income: It shows the relationship between revenue earned from customers and expenses incurred in producing this revenue. Operating income shows the probability of a company's basic business activities. Operating income is computed as follows;

Operating Income = Gross profit – Operating Expenses

Earnings Per Share: It shows the net income applicable to each share of common stock.

Earnings Per Share: $$\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average number of common shares outstanding}}$$

<u>Return on Assets</u>: it is a measure of productivity assets, regardless of how the assets are financed.

Return on Assets: $$\frac{\text{Operating Income}}{\text{Average Total Assets}}$$

<u>Return on Equity</u>: It is the rate of return earned on stockholders' equity in the business.

Return on Equity: $$\frac{\text{Net Income}}{\text{Average Total Equity}}$$

<u>Return on Common Stakeholders' Equity</u>: The rate of return earned on the common stakeholders' equity appreciates when company has both common and preferred stock.

Return on Common Stakeholders' Equity: $$\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Common Stakeholders' Equity}}$$

3.1.4.3 Measures of Evaluating The Current Market Price Of Common Stock

Price-Earnings Ratio: A measure of investors' expectations and current market conditions.

$$\text{Price-Earnings Ratio: } \frac{\text{Current Stock Price}}{\text{Earnings Per Share}}$$

Dividend Yield: Dividends expressed as a rate of return on the market price of the stock.

$$\text{Dividend Yield: } \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$$

Book Value Per Share: The recorded value of net assets underlying each share of common stock.

$$\text{Book Value Per Share: } \frac{\text{Common Stockholders' Equity}}{\text{Shares on C/S outstanding}}$$

IV. FINANCIAL STETMENT ANALYSIS OF DARDANEL AND SUPERFRESH

Starting with this page, different tables including income statements of Dardanel and Superfresh Companies reported for the years 1999, 2000, 2001, 2002, and 2003 are available. Under the light of these tables, I will try to make financial statement analysis of Dardanel and Superfresh. This analysis will give us general information about the companies on whether they are performing well and on whether they are profitable or non-profitable.

4.1. Findings of Dardanel

4.1.1 Dollar and Percentage Changes

The dollar amount of any change is the difference between the amounts of base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes, Net Sales and Net Income have been taken from Income Statement of Dardanel financial statements which appear in appendix 1.

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	17,133,858	22,566,242	15,647,098	(5,432,384)	(24%)	6,919,144	44%
Net Income	(110,391,547)	(49,782,566)	(5,219,075)	(62,608,891)	--	(44,563,491)	--

In this table, the net sales showed an increase of 44% between the years 1999 over 2000 but during the years 2001 over 2000 the net sales decreased by 5,432,384.

Net income, in years 2000 over 1999 decreased by 44,563,491 and in years 2001 over 2000 decreased further 62,608,891. In this situation, according to the rule which says that if the base year is a negative number, you cannot calculate the percentage changes. We couldn't calculate the changes in the percentages in years 2000 over 1999 and 2001 over 2000.

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	35,009,898	44,985,481	17,133,858	(9,975,583)	(22)%	27,851,623	162%
Net Income	34,893,190	(35,660,665)	(40,391,457)	70,553,855	--	4,730,792	--

Net sales increased by 162% in 2002 over 2001 but in years 2003 over 2002 net sales decreased by 9,975,583 which is 22%.

Net income increased by 4,730,792 in years 2002 over 2001 and increased further in years 2003 over 2002 to 70,553,855. However, as we mentioned above, according to the rule, we cannot calculate the percentage changes if the base year is a negative amount and for this reason we couldn't calculate the percentage changes as the base year 2002 and 2001 was a negative amount.

4.1.2 Trend Percentages (Horizontal Analysis)

Trend percentages (Horizontal Analysis) is a technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. During the calculation of trend percentages, Net Sales, cost of

goods sold and gross profit have been taken from income statement of Dardanel income statements which appear in appendix 1.

	2003	2002	2001	2000	1999
Net Sales	35,003,898	44,985,481	17,133,858	22,566,242	15,647,098
C.O.G.S	26,626,374	35,302,297	33,138,057	44,514,896	6,406,926
Gross Profit	8,383,524	9,683,184	(16,004,199)	(21,948,654)	9,240,172

	2003	2002	2001	2000	1999
Net Sales	223.8%	287.5%	109.5%	144.2%	100%
C.O.G.S	415.6%	551%	517.2%	694.8%	100%
Gross Profit	90.7%	104.8%	--	--	100%

When comparing with the base year, it can be seen that there is an increasing trend in net sales but in 2001 this increase is at the minimum amount which is almost 10% but in 2001 there is a boom in net sales and it has gone up to 287.5%.

The cost of good sold increased to 694.8% in year 2000 and then it started to decline.

In Gross profit situation, in year 2000-2001 the company was in a loss and this is due to the increasing trend in C.O.G.S and in year 2002 the gross profit increased and came up to the base year and in 2003 it declined but not too much when compared with 2000 and 2001. And as there is a loss we cannot calculate the gross profit percentages in years 2000 and 2001.

4.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in total.

During the calculation of component percentage; net sales, cost of sales, operating expense, and net income have been taken as a percentage of gross sales. The income statements' data has been taken from Dardanel's financial statements that are included in appendix 1.

	2000	1999	2000	1999
GROSS SALES	24,523,840	17,485,199	100%	100%
SALES DEDUCTION (-)	(1,957,598)	(1,838,101)	(8)	(10.5)
Net Sales	22,566,242	15,647,098	92%	89.5
Cost of Sales (-)	(44,514,896)	(6,406,926)	(181.5)	(36.6)
Gross Profit (loss)	(21,948,654)	9,240,172	(89.5)	52.8
Operating Expenses (-)	(13,084,973)	(2,190,011)	(53.4)	(12.5)
Profit (loss) from Main Operations	(35,033,627)	7,050,161	(142.9)	40.3
Income and Profit from Other Operations	7,194,344	3,188,142	29.3	18.2
Expenses and Losses from Other Operations	(11,410,528)	(3,442,698)	(46.5)	(19.7)
Financial Expenses (-)	(10,522,363)	(12,085,052)	(43.0)	(69.1)
Operating Profit (loss)	(49,802,174)	(5,289,447)	(203.1)	(30.2)
Extraordinary Income and Profits	83.701	97.360	0.3	0.6
Extraordinary Expenses and Losses (-)	(64,093)	(26,988)	(0.3)	(0.2)
Income before Taxation	(49,782,566)	(5,219,075)	(203.0)	(29.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(49,782,566)	(5,219,075)	(203.0)	(29.5)

In year 1999 the net loss was 29.5% and in the next year in 2000, this ratio grew up to 203% which shows us that the company is not in a good situation. This increase from year 1999 to 2000 was firstly due to a tremendous increase in the cost of sales which was 36.6% in year 1999 and increased to 181.5%, also operating expenses increased

by 40.9%. Net sales increased and also income from profit and other operations increased as well but those increases were not enough.

	2000	1999	2000	1999
GROSS SALES	21,058,073	24,523,840	100%	100%
SALES DEDUCTION (-)	(3,924,215)	(1,957,598)	(18.6)	(8.0)
Net Sales	17,133,858	22,566,242	81.4	89.5
Cost of Sales (-)	33,138,057	(44,514,896)	(157.4)	(181.5)
Gross Profit (loss)	(16,004,199)	(21,948,654)	(76.0)	(89.5)
Operating Expenses (-)	(9,177,796)	(13,084,973)	(43.6)	(53.4)
Profit (loss) from Main Operations	(25,181,995)	(35,033,627)	(119.6)	(142.9)
Income and Profit from Other Operations	13,419,496	7,194,344	63.7	29.3
Expenses and Losses from Other Operations	(10,256,326)	(11,410,528)	(48.7)	(46.5)
Financial Expenses (-)	(96,133,895)	(10,522,363)	(406.5)	(43.0)
Operating Profit (loss)	(118,152,720)	(49,802,174)	(561.0)	(203.0)
Extraordinary Income and Profits	8,349,974	83,701	39.6	0.3
Extraordinary Expenses and Losses (-)	(588,711)	(64,093)	(2.8)	(0.3)
Income before Taxation	(110,391,457)	(49,782,566)	(524.2)	(203.0)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(110,391,457)	(49,782,566)	(524.2)	(203.0)

Net loss was 203% in year 200 but this loss increased even further to 524.4% which showed that the company was really in a worse situation than the year 2000. The cost of sales increased by 24.1%, but this loss is due to an increase in financial expenses of which it was 43% in year 2000 but increase to 456.5% in year 2001. Net sales also decreased. Extraordinary income and profit and income and profit from other operations also increased.

	2000	1999	2000	1999
GROSS SALES	51,266,345	21,058,073	100%	100%
SALES DEDUCTION (-)	(6,280,864)	(3,924,215)	(12.2)	(18.6)
Net Sales	44,985,481	17,133,858	87.8	81.4
Cost of Sales (-)	(35,302,297)	(33,138,157)	(68.9)	(157.4)
Gross Profit (loss)	9,683,184	(16,004,199)	18.9	(76.0)
Operating Expenses (-)	(5,993,334)	(9,177,796)	(11.7)	(43.6)
Profit (loss) from Main Operations	(3,689,850)	(25,181,995)	(7.2)	(119.6)
Income and Profit from Other Operations	11,124,425	13,419,496	21.7	63.7
Expenses and Losses from Other Operations	(9,172,679)	(10,256,326)	(17.9)	(48.7)
Financial Expenses (-)	(40,679,021)	(96,133,895)	(79.3)	(456.5)
Operating Profit (loss)	(35,037,425)	(118,152,720)	(68.3)	(561.0)
Extraordinary Income and Profits	293,293	8,349,974	0.6	39.6
Extraordinary Expenses and Losses (-)	(916,533)	(588,711)	(1.8)	(2.8)
Income before Taxation	(35,660,665)	(110,391,457)	(69.5)	(524.2)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(35,666,665)	(110,391,457)	(69.5)	(524.2)

The net loss was 524.2% in year 2001 and this amount reduced to 69.5%. This improvement was in favor of the organization. The net income increased by 6%, the cost of sales reduced by 88.5%, operating expenses reduced by 31.9% and financial expenses reduced by 377.2% and these had an effect on the improvement of the net income.

	2000	1999	2000	1999
GROSS SALES	44,459,912	51,266,345	100%	100%
SALES DEDUCTION (-)	(19,450,014)	(6,280,864)	(21.2)	(12.2)
Net Sales	35,009,898	44,985,481	78.8	87.8
Cost of Sales (-)	(26,626,374)	(35,302,297)	(59.9)	(68.9)
Gross Profit (loss)	(8,383,524)	(9,683,184)	(18.9)	(18.9)
Operating Expenses (-)	(8,649,809)	(5,993,334)	(19.4)	(11.7)
Profit (loss) from Main Operations	(266,285)	(3,689,850)	(0.6)	(7.2)
Income and Profit from Other Operations	34,539,836	11,124,425	77.7	21.7
Expenses and Losses from Other Operations	(16,248,042)	(9,172,679)	(14.0)	(17.9)
Financial Expenses (-)	(6,418,851)	(40,679,021)	(14.4)	(73.3)
Operating Profit (loss)	(21,606,658)	(35,037,425)	(48.6)	(68.3)
Extraordinary Income and Profits	15,650,104	293,293	35.2	0.6
Extraordinary Expenses and Losses (-)	(2,363,572)	(916,533)	(5.3)	(1.8)
Income before Taxation	(34,893,190)	(35,666,665)	(74.5)	(69.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(34,893,910)	(35,660,665)	(74.5)	(69.5)

In year 2003 the company was in a good situation and net income was 74.5%. Even though the net sales decreased around 9%, also the operating expenses decreased. Income and profit from other operatings increased by 56% and financial expenses decreased by 65.3%, and also extraordinary income and profits increased by 34.6% and eventually as a result, the company made a profit of 75.4%.

4.1.4 Ratio Analysis

Ratio analysis expresses the relationship among selected items of financial statement data. The relationship is expressed in terms of a percentage, a rate or a simple proportion. There is a three kind of ratio analysis that we are going to calculate; Short-term liquidity, long-term credit risk and profitability ratio. The data used in calculation of ratios has been taken from Dardanel's financial statements, which appear in appendix 1.

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Current Ratio	**1.77**	**0.50**	**0.16**	**0.14**	**0.71**

From the table it can be seen that the current ratio in year 1999 is 1.77 and this ration started to decrease in 2000 and this fall continued until the year 2002 and eventually in 2003 this ratio increased to 0.71. According to creditors and bankers, it is believed that company should have a current ratio 2:1 or higher to qualify as a good credit risk. Only year 1999 was close to that ratio, and all other ratios are below 2:1 and company is weak in debt paying ability.

	1999	2000	2001	2002	2003
Quick Assets	5,039,100	9,721,008	17,295,718	11,729,762	14,156,245
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Quick Ratio	**0.20**	**0.17**	**0.14**	**0.08**	**0.42**

In year 1999 the quick ratio of the company was 0.20, which is a low amount and this rate decreased further in 2000, 2001, and 2002. In 2002, it came to the lowest rate, which was 0.08, and then in year 2003 this ratio started to increase and end up with 0.42.

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	32,621,962
Working Capital	**19,749,051**	**(27,832,444)**	**(100,812,580)**	**(134,251,896)**	**(9,875,773)**

Current assets of the company decreases year by year but it started to increase in the year 2003, and conversely the current liabilities started to increase from year 1999 to 2002 and came up to 155,594,850. However, in year 2003 this amount fell to 33,621,962. This shows us that the company is not able to pay its debts.

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	75,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Cash Flow from Operations to Current Liabilities	**0.61**	**0.40**	**0.14**	**0.29**	**1.04**

As can be seen from the table, cash flow from operations to current liabilities ratio started with 0.61 and started to decline and then the recovery started in year 2003 and that ratio came up to 1.04.

	1999	2000	2001	2002	2003
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Average Account Receivables	7,358,989	7,278,915	13,273,673	13,969,372	12,372,135
Receivables Turnover Rate	**2.13**	**3.1**	**1.29**	**3.22**	**2.83**

The receivables turnover rate actually computed to find the days to collect accounts receivables. Higher the turnover rate the quicker the company collects its receivables. When analyzing the receivables turnover rate, we realized that the rate has an unsteady movement where in year 1999 the rate was 2.13 and it went up the next year to 3.1 and then it fell to 1.29 and started to increase again. Decreasing receivable turnover rate shows that the maturities of accounts receivables are getting longer so the company cannot recover its receivables early.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	2.13	3.1	1.29	3.22	2.83
Days to collect Accounts Receivables	**171.36**	**117.74**	**282.94**	**113.35**	**128.97**

Since the accounts receivable turnover rate has an unsteady increase and decrease the days to collect A/R varies. In 1999, it started with 171.36 and in 2002 it ended with 128.97 days. This means that the company started to collect it account receivables in a shorter period.

	1999	2000	2001	2002	2003
C.O.G.S	6,406,926	44,514,896	33,138,057	26,626,374	35,302,297
Average Inventory	31,374,785	29,389,635	10,419,601	5,891,101	9,601,568
Inventory Turnover Rate	**0.20**	**1.51**	**3.18**	**4.45**	**3.68**

Inventory turnover indicates how many times a year the company is able to sell a quantity of goods equal to its average inventory. The higher turnover means it can sell quicker inventory and higher rate is better for a company. From the table, it can be seen that in 1999 this rate was 0.20 which is a very low rate and was not good for the company but in later years this rate was in an increasing trend and this was in favor of the company meaning that the company will sell its inventory more.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.20	1.51	3.18	4.45	3.68
Days to sell Average Inventory	**1825**	**241.72**	**114.77**	**82.02**	**99.18**

Days to sell average inventory indicates how quickly the inventory sells and converts it into cash or account receivable. In 1999 the company was in a bad situation and 1825 days were needed but as the years passed the company improved its situation and in 2002 it only needed 82 days to convert its inventory into cash.

	1999	2000	2001	2002	2003
Days to Collect A/R	171.36	117.74	282.94	113.35	128.97
Days to Sell Average Inventory	1825	241.72	114.77	82.02	99.18
Operating Cycle	**1996.36**	**359.46**	**397.71**	**195.37**	**228.15**

Operating cycle indicates in days how quickly cash is invested in inventory converts back into cash. In this situation, in 1999, the company needed 1996.36 days and by

the time passes this amount decreased up to 195.37 days which is in favor of the organization.

	1999	2000	2001	2002	2003
Total Liabilities	51,304,958	77,434,212	177,332,524	216,852,600	190,479,275
Total Assets	57,289,735	41,469,760	33,720,838	42,967,234	54,738,995
Debt Ratio	**89.5%**	**186.72%**	**525.88%**	**504.69%**	**348%**

Debt ratio measures safely the creditors claims, which states total liabilities as a percentage of total assets. The smaller the portion of total assets financed by creditors, the smaller is the risk of the business may become unable to pay its debts. Each year of 50% or less is favorable for creditors. In the case of Dardanel in 1999 the debt ratio was 89.5% which was a quite high amount but as the years passed this amount increased up to 525.88% in 2002 and then started to decline again in 2003, but these ration indicate that the company is in an unfavorable situation.

	1999	2000	2001	2002	2003
Gross Profit	9,240,172	(21,948,654)	(16,004,199)	9,683,184	8,383,524
Net Sales	15,647,098	22,566,242	17,133,858	44,958,481	35,009,898
Gross Profit Rate	**59%**	**–**	**–**	**21.5%**	**23.9%**

Gross profit rate is the grossed profit expressed as a percentage of net sales and measures the profitability on the company's products.

In year 1999 the gross profit rate was 59% which as in the favor of the organization but in years this ratio fell and instead of profit the company made loss and in year

2002 this ratio increased to 21.5% and the next year the ratio kept increasing trend and came up to 23.9%. Also we cannot calculate ratios for years 2000 and 2001 because there was no gross profit.

	1999	2000	2001	2002	2003
Operating Expenses	2,190,011	13,084,973	9,177,796	5,993,334	8,649,809
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Operating Expense Ratio	**14%**	**58%**	**53.6%**	**13.3%**	**24.7%**

Operating exchange ratio refers to the proportion of expenses in net sales so lower the ratio, lower the expenses. This means lower expenses are more profitable in operations.

Here this ratio was 14% in 1999 and it increased too much to 58% which is not good for the company and then it started to decline in 2001 and in 2002 it decreased even below the year 1999 to 13.3% and then in 2003 it increased to 24.7%.

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Net Income as % of Net Sales	–	–	–	–	**6.99%**

Net income as a percentage of net sales shows what proportion of net sales reported as net income. As the company does not have any net income in years 1999, 2000, 2001, and 2002, we cannot calculate the net income as a percentage of net sales. Only year 2003's calculation has been made and this ratio is 0.99.

	1999	2000	2001	2002	2003
Gross Profit (loss)	9,240,172	(16,004,199)	(21,948,654)	9,683,184	8,383,524
Operating Expenses	(2,190,011)	(9,177,796)	(13,084,973)	(8,649,809)	(5,993,334)
Operating Income	**7,050,161**	**(25,181,995)**	**(35,033,627)**	**(266,285)**	**3,698,850**

Shows the relationship between revenue earned from customers and expenses incurred in producing that revenue.

In this situation, the company only had operating income in year 1999 which was 7,050,161 and then it had an operating loss in years 2000, 2001 and 2002 and then had an operating income in year 2003 which was 3,689,850.

	1999	2000	2001	2002	2003
Operating Income	7,050,161	(25,181,995)	(35,033,627)	(266,285)	3,689,850
Average Total Assets	49,091,938	49,379,748	35,595,299	38,344,036	48,853,115
Return on Assets	**14.4%**	**(50.9)%**	**(93.2)%**	**(6.9)%**	**7.5%**

Is a measure of productivity of assets regardless how assets are financed. The general agreement among the financial analyst is that 15% or more return on average total asset is successful. In year 1999 return on assets was at the average value but in year 2000, 2001 and 2002 as the company had an operating loss we could not calculate the return on assets but in year 2003 the company is in recovery period and return on assets had increased to 7.5%.

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Average Total Equity	8,279,583	(14,989,838)	(89,788,069)	(158,748,526)	(154,812,823)
Return on Equity	–	–	–	–	–

Return on equity is a ratio which looks only at the return earned by management by stockholder's investments. Stockholders usually expect to earn an average return of 12% or more from equity investments in large financially strong companies. A company that suffers provides its stockholders with a negative return on stockholders equity.

As in all years the average total equity was a negative numbers therefore we couldn't calculate the return on equity ratio.

4.2. Findings of Superfresh

4.2.1 Dollar and Percentage Changes

The dollar amount of any change is the difference between the amounts of base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes, Net Sales and Net Income have been taken from Income Statement of Superfresh financial statements which appear in appendix 2.

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	29,279,660	23,111,053	17,363,096	6,618,607	28.6%	5,747,957	33.1%
Net Income	(43,910,609)	(16,121,450)	107,109	(27,789,159)	--	(16,228,559)	(151.5%)

If the negative amount or zero amounts appears in the base year the percentage cannot be computed so we cannot compute year 2001 over year 2000 due to this reason. Net sales were 33.1% in 2000 over 1999 but it decreased to 28.6% in 2001 over 2000. net income dropped by 151.5% in 2000 over 1999 and we couldn't calculate the year 2001 over 2000 due to the reason mentioned above.

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	33,580,341	38,522,766	29,279,666	(4,942,425)	(12.8%)	9.243.106	31.6%
Net Income (loss)	9,454,125	29,116,658	(43,910,609)	(19,662,533)	(67.5%)	73,027,267	--

Net sales in 2002 over 2001 increased by 36.1% but in years 2003 over 2002, net sales decreased by 12.8% to 33,580,341.

Net income in years 2003 over 2002 decreased by 67.5% and then the next year there was an increase of 73,027,267 in net income but as mentioned above there is a rule, which states that if the base year is a negative amount, we don't calculate the percentage changes. As the year 2001 was a negative amount we couldn't calculate the percentage changes in year 2002 over 2001.

4.1.2 Trend Percentages (Horizontal Analysis)

Trend percentages (Horizontal Analysis) is a technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. During the calculation of trend percentages, Net Sales, cost of goods sold and gross profit have been taken from income statement of Superfresh income statements which appear in appendix 2.

	2003	**2002**	**2001**	**2000**	**1999**
Net Sales	33,580,341	38,522,766	39,279,660	23,111,053	17,363,096
C.O.G.S	(23,473,971)	(27,907,749)	(21,361,098)	(16,671,453)	(9,373,742)
Gross Profit	**10,106,370**	**10,615,017**	**7,918,562**	**6,439,600**	**7,989,354**

	2003	**2002**	**2001**	**2000**	**1999**
Net Sales	193.4%	221.9%	168.6%	133.1%	100%
C.O.G.S	340.4%	297.7%	227.9%	177.8%	100%
Gross Profit	**126.5%**	**132.8%**	**99.1%**	**80.6%**	**100%**

When comparing with the base year, it can be seen that there is a steady increase in net sales until year 2003, in year 2003 net sales decreased to 193.4%.

C.O.G.S increased each year, and finally come up to 340.4% which is more than an increase in net sale.

Gross profit decreased to 80.6% in year 2000 and then increased to 99.1% in year 2001, this decrease is the effect of the high increase in C.O.G.S and then in year 2002 gross profit increased to 132.8% and then the next year it decreased to 126.5%.

4.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in total.

During the calculation of component percentage; net sales, cost of sales, operating expense, and net income have been taken as a percentage of gross sales. The income statements' data has been taken from Superfresh's financial statements that are included in appendix 2.

	2000	1999	2000	1999
GROSS SALES	26,220,886	18,980,278	100%	100%
SALES DEDUCTION (-)	(3,109,833)	(1,617,182)	(11.9)	(18.5)
Net Sales	23,111,053	17,363,096	88.1	91.5
Cost of Sales (-)	(16,671,453)	(9,373,742)	(163.5)	(47.1)
Gross Profit (loss)	6,439,660	7,989,354	24.6	42.1
Operating Expenses (-)	(8,336,450)	(4,364,600)	(31.8)	(23.0)
Profit (loss) from Main Operations	(1,896,850)	3,624,754	(7.2)	19.1
Income and Profit from Other Operations	(707,717)	702,959	(2.7)	3.7
Expenses and Losses from Other Operations	(8,678,556)	(166,884)	(33.1)	(0.9)
Financial Expenses (-)	(6,395,731)	(4,084,723)	(24.2)	(21.5)
Operating Profit (loss)	(16,263,420)	76,106	(62.0)	0.4
Extraordinary Income and Profits	187,667	31,981	0.7	0.2
Extraordinary Expenses and Losses (-)	(42,697)	(978)	(0.2)	(0.005)
Income before Taxation	(16,121,450)	107,109	(61.5)	0.6
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(16,121,450)	107,109	(61.5)	0.6

From the table it can be observed that the net income in year 1999 was 0.6%, cost of sales was 47.1%. However, in year 2000 the company made a net loss of 61.5% and this is due to the rise in cost of sales which was 47.1% in year 1999 and came up to

63.5%, also operating expenses increase to 31.8%, and also there was an increase in expenses and losses from other operations which was 6.9% and increased to 33.1%.

	2000	1999	2000	1999
GROSS SALES	37,651,344	26,220,886	100%	100%
SALES DEDUCTION (-)	(8,371,684)	(3,109,833)	(22.2)	(11.9)
Net Sales	29,279,660	23,111,053	77.8	88.1
Cost of Sales (-)	(21,361,098)	(16,671,453)	(56.7)	(63.5)
Gross Profit (loss)	7,918,562	6,439,660	21.3	24.6
Operating Expenses (-)	(9,236,793)	(8,336,450)	(24.5)	(31.8)
Profit (loss) from Main Operations	(1,318,231)	(1,896,850)	(3.5)	(7.2)
Income and Profit from Other Operations	3,447,088	707,717	9.1	2.7
Expenses and Losses from Other Operations	(44,418)	(8,678,556)	(0.1)	(33.1)
Financial Expenses (-)	(46,035,914)	(6,395,731)	(122,3)	(24,4)
Operating Profit (loss)	(43,951,475)	(16,263,420)	(116.7)	(62.0)
Extraordinary Income and Profits	42,872	184,667	(0.1)	0.7
Extraordinary Expenses and Losses (-)	(2006)	(42,697)	(0.005)	(0.2)
Income before Taxation	(43,910,609)	(16,121,450)	(116.6)	(61.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(43,910,609)	(16,121,450)	(116.6)	(61.5)

In year 2000, there was a net loss of 61.5% but this loss increased to 116.6% and this is due to the rise in the financial expenses. Cost of sales decreased to 56.7%, operating expenses also decreased, but these reductions in certain costs couldn't help the company to improve its situation.

	2000	1999	2000	1999
GROSS SALES	43,696,587	37,651,344	100%	100%
SALES DEDUCTION (-)	(5,173,821)	(8,371,684)	(11,8)	(22.9)
Net Sales	38,522,766	29,279,660	88.2	77.8
Cost of Sales (-)	(27,907,749)	(21,361,098)	(63.9)	(56.7)
Gross Profit (loss)	10,615,017	7,918,562	24.3	21.3
Operating Expenses (-)	(11,374,627)	(9,236,793)	(26.0)	(24.5)
Profit (loss) from Main Operations	(759,610)	(1,318,231)	(1.7)	(3.5)
Income and Profit from Other Operations	2,635,940	3,447,088	6.0	9.1
Expenses and Losses from Other Operations	(39,111)	(44,418)	(0.09)	(0.1)
Financial Expenses (-)	(130,194,092)	(46,035,914)	(69.1)	(122.3)
Operating Profit (loss)	(128,356,873)	(43,951,475)	(64.9)	(116.7)
Extraordinary Income and Profits	60,171	42,872	0.1	(0.1)
Extraordinary Expenses and Losses (-)	(819,956)	(2006)	(1.9)	(0.005)
Income before Taxation	(29,116,658)	(43,910,609)	(66.6)	(116.6)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(29,116,658)	(43,910,609)	(66,6)	(116.6)

From the table it can be seen that the net loss improved from the 116.6% to 66.6% and this improvement is due to a decrease in financial expenses that was 116.7% and dropped to 69.1%. Net sales also increased by 10.4%.

	2000	1999	2000	1999
GROSS SALES	38,191,722	43,696,587	100%	100%
SALES DEDUCTION (-)	(4,611,381)	(5,173,821)	(12,1)	(11.8)
Net Sales	33,580,341	38,522,766	87.9	88.2
Cost of Sales (-)	(23,473,971)	(27,907,749)	(61.5)	(63.9)
Gross Profit (loss)	10,106,370	10,615,017	26,5	24.3
Operating Expenses (-)	(10,001,981)	(11,374,627)	(26.2)	(26.0)
Profit (loss) from Main Operations	104,389	(759,610)	(0.3)	(1.7)
Income and Profit from Other Operations	3,322,649	2,635,940	8.7	6.0
Expenses and Losses from Other Operations	(6,780)	(39,111)	(0.02)	(0.09)
Financial Expenses (-)	(3,529,249)	(30,194,092)	(9.2)	(69.1)
Operating Profit (loss)	(108,991)	(28,356,873)	(0.3)	(64.9)
Extraordinary Income and Profits	9,669,952	60,171	25.3	0.1
Extraordinary Expenses and Losses (-)	(106,836)	(819,956)	(0.3)	(1.9)
Income before Taxation	9,454,125	(29,116,658)	28.4	(66.6)
Taxation and other Liabilities (-)	---	---	---	---
Net Income (loss)	9,454,125	(29,116,658)	28.4	(66.6)

From the table it can be seen that the net income had increased to 24.8% and this showed us that in year 2003 the company's performance is increased. This increase is the result of a decrease bin financial expenses, which was 69.1% in year 2002, and become 9.2% in year 2003.

NEAR EAST UNIVERSITY

FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCES

BUSINESS DEPARTMENT

GRADUATION PROJECT

FINANCIAL STATEMENT ANALYSIS OF DARDANEL AND SUPERFRESH

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Submitted to

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ABSTRACT

Financial statement analysis is a process of evaluating and understanding the economic and financial position of the company. The investors, stockholders, and creditors need these analyses. It is important for investors to understand the position of the company in which they are making investments and creditors need these analysis to evaluate whether the company is worth giving financial support or not.

This study aimed to analyze the financial statements of both Dardanel and Superfresh between the years 1999-2003 and to evaluate which company is in a better position in the market.

After conducting all the needed analysis the final conclusion that appears is that even though Dardanel has achieved a better performance in year 2003, this performance couldn't help this company to reach the position of Superfresh in the market.

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INTRODUCTION

In today's global economy, investment capital is always on the move. There are well-organized capital markets, which act as an international and capital investment exchange. The investment increases in the areas which are expected to grow with good returns as well as minimal risk. These risks and returns are analyzed in a detailed way to make the investment safe and profitable.

This study concerns with the analysis of financial statements. The financial statement analysis provides insights into company's current status and leads to development of policies and strategies for the future. The analyst should be alert to the potential for management to influence the outcome of financial reporting in order to appeal to creditors, investors and other users.

Financial statement is a tool that helps the analysts and investors to make decisions by making use of the useful information. Additionally, it helps the investors to understand the key trends and relationship which gives clear understanding of all financial activities.

Financial ratios are the basis of analyzing the financial statements, as they are used to give answers to different kinds of questions regarding the firm's performance.

In this study, my aim is to analyze the financial statements of Dardanel Önentaş Gıda Sanayi A.Ş. and Kerevitaş A.Ş.(Superfresh) for the last five years (1999 to 2003) and compare the current performances with the past performances of the both companies.

Dardanel is a Turkish food company which has a good position in the Turkish food market, and which also has some other investments and joint ventures in the foreign countries. Also Kerevitaş (Superfresh) is in the same market, with the same product line with Dardanel and it is one of its competitors in the Turkish Food Market. Both companies are traded in Istanbul stock exchange. In the preparation process, I have gathered information from the IMKB's web site, from the books and from the discussions with my instructor.

The analyses of the both companies are conducted under five stages.

In the first part, the background information for Dardanel and Superfresh are included.

In the second part, some specific definitions and different approaches from various sources about the financial statements are included. The definitions and explanations about the functions and the importance of Balance Sheet, Income Statement, Statement of Stockholders Equity and Statement of Cash Flow are also included in this part.

Tools of analyzing the financial position of the company, such as Dollar and Percentage Changes, Trend Percentages (horizontal analysis), Component Percentages (vertical analysis) and also Ratio Analysis forms the third part of the project.

In the fourth part, the applications of Dollar and Percentage Changes, Trend Percentages (horizontal analysis), Component Percentages (vertical analysis) and also Ratio Analysis of both companies are included. With the help of this part, the analysis will be made easily.

The fifth part is the part of limitations where the limitations faced during the preparation of the project will be explained.

Finally, the conclusion and recommendations form the ending part of the study that will help the users to understand the financial statements easily.

I. HISTORICAL BACKGROUNDS

1.1 Historical Background of Dardanel

Dardanel Örentaş Gıda Sanayi A.Ş. was founded in 1984 by the chairman Mr. Niyazi Ören, with the scope of production on canned tuna, and other canned fish, fish flour, frozen sea food, cat and dog food, canned and frozen fruits and vegetables, frozen pastry, and frozen food products. The production capacity is 60.000 tons of fish, 30.000 tons of shellfish, 50.000 tons of canned and frozen fruits and vegetables, 3.000 tons of frozen pastry and frozen pre-cooked food. The number of employees working under companies is 2.000 people and the area covered by the company is 60.000 square meters inside and 40.000 square meters outside. The company qualifies for number of certificates such as, ISO9001, HACCP, TSE (for products), BRC, EFSIS, and TLC.

Dardanel exports 70% of its products to European countries, 20% to Egypt, Israel, Arabic countries and other Turkish republics. In year 2000, their export totaled to 24 million dollars. In the domestic market, they have an 80% share in canned tuna.

There are certain other companies working under the Dardanel Örentaş Gıda Sanayi A.Ş. Dardanel Meyve and Sebze Sanayi was founded in 1986, and specialized in canned and frozen fruit and vegetables, and it has a capacity of 50 tons per year and approximately 650 people work for it. Dardanel Hazır Gıda Sebze Sanayi was founded in 1989. It specialized in pastry products and pre-cooked products and it has a capacity of 3.000 tons every year. Dardanel Su Ürünleri Üretim was founded in 2001, with the 30% partnership with Japan Tohto Suisan Co. Ltd. Their capacity is 1.600 tons and they export all of their products to Japan.

In year 2003, Dardanel formed a joint venture with Japan and Turkish Cypriots and formed a fish farm in the Northern part of Cyprus. They invested 4.5 million dollars (not including the capital of the company) into this venture and they are expected to make $5 million of export in current situation, and also added that if they could increase their capacity to 3000 tons, then they expect to make an export of $100 million.

Dardanel Önentaş Gıda Sanayi A.Ş. has a vision of supporting a continuous understanding of total quality, and the company's strategies and objectives are;

- to establish itself as the strongest and an expert brand in primarily FMCG sea food
- to discover roads in Turkish eating habits and trends and to train housewives to use healthy, nutritious and convenient food for her family
- to adopt the company to continuous change in Turkish trade, supply and transportation etc. systems by working with third parties and by outsourcing activities as much as possible
- to collaborate with technical centers and sources in more advanced companies outside Turkey in order to synchronize company technology with most recent evolutions and developments.

1.2 Background Information of Superfresh

Kerevitaş was found in 1969 by the chairman, Mr. Cemil Merzeci. It is the producer, importer, exporter and distributor of whole range of frozen and canned food products and ice-cream. It has an experimental research laboratory, supported by a large quality laboratory in Bursa and in Istanbul.

The shareholders of Kerevitaş are Merzeci Holding A.Ş. with 37.76%, Shöller Holding Gmbh and Co. KG with 25,17%, Merzeci Family with 12.61% and others with 25.17%, which are on the stock market.

Kerevitaş is registered and traded in Istanbul Stock Exchange. It is the most dominant food company in Turkey. Superfresh's activities cover processing of various foodstuff, including vegetables, fruit, seafood products and dough products and further sales distribution, imports and exports of such products. Kerevitaş is the leading frozen and canned seafood, vegetable, fruit, preserves, concentrates and dough products company of the country in terms of quantities processed, product range and market share. In 1997 Kerevitaş also established Shöller Dondurma Sanayi A.Ş. with Shöller Holding of Germany to produce industrial ice cream. Kerevitaş also operate KSM seafood Corporation in Baton Rouge Louisiana, specialized in the processing and marketing of seafood both in the US and Europe.

Since over a quarter of a century, Kerevitaş adopted the principle of quality as its first priority, which in turn gave the positive outcome and rapid growth that it deserved. Wide range of products produced under tremendous heed for the customer satisfaction resulted in the achievement of the aliment sector, procuring about 68% of the "Local

Market Pie". Kerevitaş excelled by no surprise, but by committing itself to pursue "high quality and the state-of-the-art production" as the milestone of its policy.

Kerevitaş first started with seafood production and export. In the second half of the 70's company extended its activities to the processing of vegetables and fruit. During the 80's company increased its product range with the production of dough products and pizza. Also in 90's, it started producing potato products, especially frozen French fries. With an investment made in 1995 and 1996 they added canned tuna fish to the product range and increased the capacity of pizza and other dough products. Therefore, they reduced the company's dependence on volatility of agricultural industry to minimum and increased the capability to perform uninterrupted production and sales throughout the year. Operating five plants in Turkey, one in the USA and with more than 5.000 people Kerevitaş group employs highly trained expert teams to ensure first class selection of raw materials, sophisticated techniques of food processing and quality control systems. The production range of the company covers more than 187 different items and each product is mostly processed and packaged for direct consumer use. The entire production cycle takes place in aseptic areas, at controlled temperatures, which rigorously respect to EU hygienic regulations. Kerevitaş is the only company in food sector in Turkey, which has TS-EN-ISO 9001 certificate.

Concerning frozen products, Kerevitaş possesses an enormous infrastructure, which is a very important advantage in the market. The company's freezing and storing capacity are the largest among the private sector in Turkey, with an excess of

26.000kgs. Istanbul factory and storage facilities are very close to downtown and have a location advantage in terms of cold chain in the distribution system.

Kerevitaş is using its own refrigerated fleet now exceeding 200 trucks (plus 150 trucks for ice cream distribution). Due to a well established distribution system in the domestic and over the broader territories, the company exports 35% of its products, nearly 65% distributed in the domestic market.

Being 100% export oriented till 1990, Kerevitaş also started to supply the domestic retail market with frozen food, vegetables, seafood products, potato products, pizza and other dough products under its brand name SUPERFRESH. They market their products in more than 2000 outlets in Istanbul, 15000 in Turkey by distributing deep freezers to grocers, delicatessens, supermarkets and hypermarkets.

II. FINANCIAL STATEMENT

2.1 Balance Sheet

A balance sheet, also called the statement of conditions or statement of financial position, provides a wealth of information about a business firm, particularly when examined over a period of several years and evaluated in relation to the other financial statements (Fraser and Orminston, 2001).

The balance sheet shows the financial condition or the financial position of a company on a particular date. The statement is a summary of what the firm owns (assets), and what the firm owes to outsiders (liabilities), and to internal owners (stakeholders' equity).

The account balances on balance sheet must balance; that is the total of assets must be equal to sum of liabilities and stockholders' equity (Fraser and Ormimston, 2001).

Assets = Liabilities + Stakeholders' equity

This relationship always exists; in fact, the equity of these totals is why this financial statement is frequently called a balance sheet (Williams, Haka, Bettner and Meigs, 2002).

2.1.1 Assets

Assets are economic resources that are owned by a business and are expected to benefit future operations. The benefit to future operations comes in the form of positive future cash flows. The positive future cash flows may come directly as the asset is converted into cash or indirectly as the asset is used in operating the business

to create other assets that result in positive future cash flows (Meigs *et al*, 2002). Assets may have a definitive physical form such as buildings, machinery or an inventory of merchandise. On the other hand, some assets exist not in a physical or tangible form but in a form of valuable legal claims or rights; examples are amounts due from customers, investments in government bond, and patent rights (Meigs *et al*, 2002).

One of the most basic and at the same time most controversial problems in accounting is determining the dollar amount for the various assets of the business. At present, generally accepted accounting principles call for valuation of many assets in a balance sheet at cost, rather than at their current value. The specific accounting principles supporting cost as a basis for asset valuations are as follows; The cost principle, such assets as land, buildings, merchandise and equipment are typical of many economic resources that are required in producing revenue for business. The prevailing accounting view is that such assets should be presented at their cost. When we say that an asset is shown in the balance sheet at its historical cost, we mean the original amount the business entity paid to acquire assets.

Expectations to the cost principle are found in some of the most liquid assets. Amounts receivable from customers are generally included in the balance sheet at their net realizable value, which is an amount that approximates the cash that will be received when the receivable is collected (Meigs *et al*, 2002).

The balance sheet of a business is prepared on the assumption that the business is a continuing enterprise, or a going concern. Consequently, the present estimated prices

at which assets like land and buildings could be sold are of less importance than if these properties were intended for scale. These are frequently among the largest dollar amounts of a company's assets. Determining that an enterprise is a going concern may require judgment by the account (Meigs *et al*, 2002).

Another reason for using cost rather than current market values in accounting for most assets is the need for a definite, factual basis for valuation. The cost of land, buildings and many other assets purchased for cash can be rather definitely determined. Accountants use the term objective to describe asset valuations that are factual and can be verified by independent experts (Meigs *et al*, 2002).

The asset section of a balance sheet is divided into two basic components. Assets are classified as current assets or non-current assets on the basis of liquidity.

Current assets are cash and those other assets that will normally be converted into cash with a period of one year or one operating cycle if it is longer than a year (Bierman and Drebin, 1978).

Current assets include such items as the cash on hand, or in the bank, amounts due from customers (accounts receivable), materials, supplies or goods on hands (inventories), readily marketable securities that are expected to be sold within one year, and advance payments for insurance, rent and the like (called pre-paid expenses).

Non-current assets are those assets that are likely to be converted into cash in the normal operating cycle of the firm.

Non-current assets are also referred to as fixed assets or long-lived assets. This category includes such things as land, buildings and equipment. These items are normally expected to last more than one year and cannot be sold (turned into cash) without disrupting the normal business operations (Bierman and Drebin, 1978).

The distinction between current and non-current assets is made on the basis of intention or normal expectation rather than ability to convert to cash. Thus, inventories of materials are classified as current because they would normally be disposed of within one year. A building that might be disposed of just as easily is treated as non-current if it would not be sold within a year in the normal course of business.

2.1.2 Liabilities

Liabilities are the obligations and debts of the corporation. The terms are generally fixed by legal contract and have definite due dates (Bierman and Drebin, 1978).

The liability section is further divided on the basis of due date between current liabilities and non-current liabilities. The distinction is essentially the same as that applied to assets.

Current liabilities are those obligations that are to be paid within one year. Current liabilities include amounts owed to trade creditors (accounts payable), workers (wages

payable), government (taxes payable), investors (interest or dividends payable) and customers (advanced by customers). All are current liabilities if they are due within one year (of within operating cycle of the firm) (Bierman and Drebin, 1978).

Non-current or long-term liabilities are those coming due in more than one year. Long-term liabilities include amounts that are owed but do not have to be paid within one year. The most common long-term liabilities are bonds, mortgages, and notes. If a part of these items is due within twelve months, that amount should be classified as current liability. It is the due date, not the title that determines the classification (Bierman and Drebin, 1978).

2.1.3 Owner's Equity

Owner's equity represents the owners' claim on the assets of the business. Because creditors' claims have legal priority over those of the owner, owners' equity is residual amount. If you are the owner of a business, you are entitled to assets that are left after the claims of creditors have been satisfied in full. Therefore, owners' equity is always equal to total assets minus total liabilities (Meigs *et al*, 2002).

Owners' equity does not represent a specific claim to cash or any other particular asset. Rather, it is the overall financial interest of the entire company.

2.2 Income Statement

The income statement is a summarization of the company's revenue and expense transactions for a period of time. It is particularly important for the company's owners, creditors and other interested parties to understand the income statement. Ultimately, the company will succeed or fail based on its ability to earn revenue in excess of its expenses. Once the company's assets are acquired and business commences, revenues and expenses are important sources of cash flows for the enterprise (Meigs *et al*, 2002).

Two basic measures of a company's performance are obtained from the income statement. These are net income and earnings per share (Bierman and Drebin, 1978).

The period of time covered by an income statement is termed with the company's accounting period. To provide the users of financial statements with timely information, net income is measured for relatively short accounting periods of equal length. This concept is called the time period principle (Meigs *et al*, 2002).

2.2.1 Revenue

Revenue is the price of goods sold and services rendered during a given account period. Earning revenue causes owners' equity to increase. When a business renders services or sells merchandise to its customers, it usually receives cash or acquires the account receivable from customers. The inflow of cash and receivables from consumers increases the total assets of the company (Meigs *et al*, 2002).

When should revenue be recognized? In most cases, the realization principle indicates that revenue should be recognized at the time goods are sold or services are rendered. At this point, the business has essentially completed the earning process and the sales value of the goods or services can be measured objectively (Meigs *et al*, 2002, p. 98).

2.2.2 Expenses

Expenses are the costs of the goods and services used up in the process of earning revenue. Expenses include cost of employees' salaries, advertising, rent, utilities and the depreciation of buildings. All these costs are necessary to attract and serve and thereby earn revenue. Expenses are often called the "costs of doing business," that is, the cost of various activities necessary to carry on a business.

An expense always causes a decrease in owners' equity (Meigs *et al*, 2002, p.99).

A significant relationship exists between revenue and expenses. Expenses are incurred for the purpose of producing revenue. In measuring the net income for a period, revenue should be offset by all the expenses incurred in producing that revenue. This concept of offsetting expenses against revenue on the basis of cause and effect is called the matching principle. Timing is an important factor in matching (offsetting) revenue with the related expenses.

2.2.3 Net Income / Loss

Net income is determined by comparing sales prices of goods or services sold during the period with the costs incurred by the business in delivering these goods and

services. The technical accounting terms for these components of not income are revenue and expenses. Therefore, accountants say that net income is equal to revenue minus expanses. Should expenses exceed revenue, a net loss results.

2.3 Statement of Stockholders' Equity

The statement of stockholders' equity reconciles the beginning and ending balances of all accounts that appear in the stockholders' equity section of the balance sheet. Some firms prepare statement of retained earnings, frequently combined with the income statement, which reconciles the beginning and ending balances of the retained earnings account. Companies choosing the latter format will generally present the statement of stockholders' equity in a footnote disclosure (Fraser and Ormimston, 2001).

The top line of the statement includes the beginning balance of each major category of stockholders' equity and explains the nature and the amount of each change and computes the ending balance in each equity account (Meigs *et al*, 2002).

2.4 Statement of Cash Flow

The basic purpose of a statement of cash flow is to provide information about the cash receipts and cash payments of a business entity during the accounting period. The term cash flows include both cash receipts and cash payments. In addition, the statement is intended to provide information about the investing and financing activities of the company during the period. A statement of cash flow assists investors, creditors and others in assessing such factors as;

- The company's ability to generate positive cash flows in the future period.

- The company's ability to meet its obligations and to pay dividends.
- The company's need for external financing.
- Reasons for differences between the amount of net income and the related net cash flows from operating activities.
- Both the cash and non-cash aspects of the company's investments and financing transactions for the period.
- Causes of the change in the amount of cash and cash equivalents between the beginning and the end of the accounting period.

A statement of cash flow helps users of financial statements evaluate company's ability to have sufficient cash, both on a short-run and on a long-run basis. For this reason, the statement of cash flow is useful to virtually everyone interested in the company's financial health; short and long-term creditors, investors, management and both current and prospective competitors (Meigs *et al*, 2002).

The cash flows shown in the statement are grouped under three major categories;

1. Operating activities
2. Investing activities
3. Financing activities

2.4.1 Operating Activities

The operating activities section shows the cash effects of revenue and expense transactions. The operating activities section of the statement of cash flows includes the cash effects of those transactions reported in income statement. The largest cash inflow from operations is the collection of cash from customers. Smaller receipts of

interest on loans and dividends on stock investments. The outflows include payments for interest and taxes (Meigs *et al*, 2002).

2.4.2. Investing Activities

Cash flows relating to investing activities present the cash effects of transactions involving plant assets, intangible assets and investments (Meigs *et al*, 2002).

Investing activities include;

1. acquiring and selling or otherwise disposing of
    a) securities that are not cash equivalents and,
    b) productive assets that are expected to benefit the firm for long periods of time
2. lending money and collecting on loans (Fraser and Orminston, 2001).

2.4.3 Financing Activities

Financing activities include borrowing from creditors and repaying the principal and obtaining resource from owners providing them with a return on investment.

III. RESEARCH METHODOLOGY

3.1 Tools of Analysis

3.1.1 Dollar and Percentage Changes

The dollar amount of change from year to year is significant, and expressing the change in percentage terms adds perspective.

The dollar amount of any change is the difference between the amount of comparison year and the amount for a base year. The percentage change is computed by dividing the amount of dollar change between years by the amount for base year.

Computing the percentage changes in sales, gross profit, and net income from one year to the next gives insight into a company's rate of growth. If a company is experiencing growth in its economic activities, sales and earnings should increase at more than the rate of inflation (Meigs *et al*, 2002).

3.1.2 Trend Percentages (Horizontal Analysis)

The changes in financial statement items from a base year to the following years are often expressed as trend percentages to show the extent and direction of change. Two steps are necessary to compute trend percentages;

1- a base year is selected and each item in the financial statements for the base year is given a weight of 100%.

2- is to express each item in the financial statements for the following years as a percentage of its base-year amount.

This computation consists of dividing an item such as sales in the years after the base year by the amount of sales in the base year (Meigs *et al*, 2002).

3.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in a total. This shows quickly the relative importance of each type of asset as well as relative amount of financing obtained from current creditors, long-term creditors, and stockholders. By computing component percentages for several successive balance sheets we can see which items are increasing in importance and which are becoming less significant.

Another application of component percentages is to express all items in an income statement as a percentage of net sales. Such a statement is called a common-size income statement.

3.1.4 Ratio Analysis

Ratios are useful because they summarize briefly the results of detailed and complicated computations (Fraser and Ormimston, 2001). A ratio is a simple mathematical expression of one relationship of one item to another.

Ratios are particularly important in understanding financial statements because they permit us to compare information from one financial statement with information from another financial statement.

3.1.4.1 Measure of Short-Term Liquidity

Liquidity refers to a company's ability to meet its continuing obligations as they arise. Analyzing an enterprise's liquidity and credit risk is very important (Meigs *et al*, 2002).

Current Ratio: It is the most widely used measure of short-term debt paying ability. Current ratio is computed as follows;

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

The higher the amount ratio, the more liquid the company appears to be. Some bankers and other short-term creditors have believed that a company should have a current ratio of 2 to 1 or higher to qualify as a good credit risk.

Quick Ratio: It is also known as the acid test ratio and it is a more rigorous test of short-run solvency than the current ratio because the numerator eliminates inventory, considered the least liquid current asset and most likely source of losses. Quick ration is calculated as follows (Fraser and Ormimston, 2001);

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick assets include cash, marketable securities and receivables.

Working Capital: It is a measurement often used to express the relationship between current assets and current liabilities. Working capital is the excess of current assets over current liabilities. Working capital measures a company's potential excess sources of cash over its upcoming uses of cash. Working capital is computed as follows;

Working Capital = Current Assets – Current Liabilities

Cash Flow from Operations to Current Liabilities: Indicates ability to cover currently maturing obligations from recurring operations and is computed as follows;

$$\text{Cash Flow from Operations to Current Liabilities} = \frac{\text{Cash flows from Operating Activities}}{\text{Current Liabilities}}$$

Receivables Turnover Rate: It indicates how quickly a company converts its accounts receivable into cash and it as computed ad follows;

$$\text{Receivables Turnover Rate} = \frac{\text{Net Sales}}{\text{Average A/R}}$$

Days to Collect Average A/R: It is the average number of days required to convert receivables into cash.

$$\text{Days to Collect Average A/R} = \frac{\text{365 days}}{\text{Receivables Turnover Rate}}$$

The average collection period helps gauge the liquidity of A/R, the ability of the firm to collect from customers. It may also provide information about a company's credit policies (Fraser and Ormimston, 2001).

Inventory Turnover Rate: Indicates how many times during the year the company is able to sell a quantity of goods equal to its average inventory. Inventory turnover rate is computed as follows;

$$\text{Inventory Turnover Rate} = \frac{\text{Cost of the Goods Sold}}{\text{Average Inventory}}$$

Days to sell the Average Inventory: It indicates how quickly the inventory sells and is computed as follows;

$$\text{Days to sell the Average Inventory:} \quad \frac{\text{365 days}}{\text{Inventory Turnover Rate}}$$

Operating Cycle: The period of time required for a merchandising company to convert its inventory into cash is called the operating cycle.

Operating Cycle = Days to Sell Inventory + Days to Collect Receivables

It indicates in days how quickly cash invested in inventory converts back into cash.

3.1.4.2 Measures of Long-Term Credit Risk

Long-term solvency ratios measure the ability of the enterprise to survive over a long period of time. Long-term creditors and stockholders are interested in a company's long-run solvency, particularly its ability to pay interest as it comes due and repay the face value of the debt at maternity.

Debt Ratio: It is the basic measure of safety of creditor's claims, which states total liabilities as a percentage of total assets. It measures the creditor's long-term risk. The smaller the portion of total assets financed by creditors, the smaller the risk that the business may become unable to pay its debts. From the creditors point of view, lower the debt ratio, the safer their position. Debt ratio is computed as follows;

$$\text{Debt ratio: } \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

3.1.4.3 Measures of Profitability

Measures of a company's profitability are of the interest to equity investors and management and are drawn preliminary from the income statement.

Gross Profit Rate: It is the gross profit expressed as a percentage of net sales. It is a measure of the profitability of the company's products.

$$\text{Gross Profit Rate: } \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Operating Exchange Ratio: A measure of management's ability to control expenses. It is computed as follows;

Operating Expense Ration: $\dfrac{\text{Operating Expenses}}{\text{Net Sales}}$

Net Income as a Percentage of Net Sales: An indicator of management's ability to control costs.

Net Income as a Percentage of Net Sales: $\dfrac{\text{Net Income}}{\text{Net Sales}}$

Operating Income: It shows the relationship between revenue earned from customers and expenses incurred in producing this revenue. Operating income shows the probability of a company's basic business activities. Operating income is computed as follows;

Operating Income = Gross profit – Operating Expenses

Earnings Per Share: It shows the net income applicable to each share of common stock.

Earnings Per Share: $\dfrac{\text{Net Income – Preferred Dividends}}{\text{Average number of common shares outstanding}}$

Return on Assets: it is a measure of productivity assets, regardless of how the assets are financed.

Return on Assets: $\dfrac{\text{Operating Income}}{\text{Average Total Assets}}$

Return on Equity: It is the rate of return earned on stockholders' equity in the business.

Return on Equity: $\dfrac{\text{Net Income}}{\text{Average Total Equity}}$

Return on Common Stakeholders' Equity: The rate of return earned on the common stakeholders' equity appreciates when company has both common and preferred stock.

Return on Common Stakeholders' Equity: $\dfrac{\text{Net Income – Preferred Dividends}}{\text{Average Common Stakeholders' Equity}}$

3.1.4.3 Measures of Evaluating The Current Market Price Of Common Stock

Price-Earnings Ratio: A measure of investors' expectations and current market conditions.

$$\text{Price-Earnings Ratio: } \frac{\text{Current Stock Price}}{\text{Earnings Per Share}}$$

Dividend Yield: Dividends expressed as a rate of return on the market price of the stock.

$$\text{Dividend Yield: } \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$$

Book Value Per Share: The recorded value of net assets underlying each share of common stock.

$$\text{Book Value Per Share: } \frac{\text{Common Stockholders' Equity}}{\text{Shares on C/S outstanding}}$$

IV. FINANCIAL STETMENT ANALYSIS OF DARDANEL AND SUPERFRESH

Starting with this page, different tables including income statements of Dardanel and Superfresh Companies reported for the years 1999, 2000, 2001, 2002, and 2003 are available. Under the light of these tables, I will try to make financial statement analysis of Dardanel and Superfresh. This analysis will give us general information about the companies on whether they are performing well and on whether they are profitable or non-profitable.

4.1. Findings of Dardanel

4.1.1 Dollar and Percentage Changes

The dollar amount of any change is the difference between the amounts of base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes, Net Sales and Net Income have been taken from Income Statement of Dardanel financial statements which appear in appendix 1.

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	17,133,858	22,566,242	15,647,098	(5,432,384)	(24%)	6,919,144	44%
Net Income	(110,391,547)	(49,782,566)	(5,219,075)	(62,608,891)	--	(44,563,491)	--

In this table, the net sales showed an increase of 44% between the years 1999 over 2000 but during the years 2001 over 2000 the net sales decreased by 5,432,384.

Net income, in years 2000 over 1999 decreased by 44,563,491 and in years 2001 over 2000 decreased further 62,608,891. In this situation, according to the rule which says that if the base year is a negative number, you cannot calculate the percentage changes. We couldn't calculate the changes in the percentages in years 2000 over 1999 and 2001 over 2000.

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	35,009,898	44,985,481	17,133,858	(9,975,583)	(22)%	27,851,623	162%
Net Income	34,893,190	(35,660,665)	(40,391,457)	70,553,855	--	4,730,792	--

Net sales increased by 162% in 2002 over 2001 but in years 2003 over 2002 net sales decreased by 9,975,583 which is 22%.

Net income increased by 4,730,792 in years 2002 over 2001 and increased further in years 2003 over 2002 to 70,553,855. However, as we mentioned above, according to the rule, we cannot calculate the percentage changes if the base year is a negative amount and for this reason we couldn't calculate the percentage changes as the base year 2002 and 2001 was a negative amount.

4.1.2 Trend Percentages (Horizontal Analysis)

Trend percentages (Horizontal Analysis) is a technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. During the calculation of trend percentages, Net Sales, cost of

goods sold and gross profit have been taken from income statement of Dardanel income statements which appear in appendix 1.

	2003	2002	2001	2000	1999
Net Sales	35,003,898	44,985,481	17,133,858	22,566,242	15,647,098
C.O.G.S	26,626,374	35,302,297	33,138,057	44,514,896	6,406,926
Gross Profit	8,383,524	9,683,184	(16,004,199)	(21,948,654)	9,240,172

	2003	2002	2001	2000	1999
Net Sales	223.8%	287.5%	109.5%	144.2%	100%
C.O.G.S	415.6%	551%	517.2%	694.8%	100%
Gross Profit	90.7%	104.8%	--	--	100%

When comparing with the base year, it can be seen that there is an increasing trend in net sales but in 2001 this increase is at the minimum amount which is almost 10% but in 2001 there is a boom in net sales and it has gone up to 287.5%.

The cost of good sold increased to 694.8% in year 2000 and then it started to decline.

In Gross profit situation, in year 2000-2001 the company was in a loss and this is due to the increasing trend in C.O.G.S and in year 2002 the gross profit increased and came up to the base year and in 2003 it declined but not too much when compared with 2000 and 2001. And as there is a loss we cannot calculate the gross profit percentages in years 2000 and 2001.

4.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in total.

During the calculation of component percentage; net sales, cost of sales, operating expense, and net income have been taken as a percentage of gross sales. The income statements' data has been taken from Dardanel's financial statements that are included in appendix 1.

	2000	1999	2000	1999
GROSS SALES	24,523,840	17,485,199	100%	100%
SALES DEDUCTION (-)	(1,957,598)	(1,838,101)	(8)	(10.5)
Net Sales	22,566,242	15,647,098	92%	89.5
Cost of Sales (-)	(44,514,896)	(6,406,926)	(181.5)	(36.6)
Gross Profit (loss)	(21,948,654)	9,240,172	(89.5)	52.8
Operating Expenses (-)	(13,084,973)	(2,190,011)	(53.4)	(12.5)
Profit (loss) from Main Operations	(35,033,627)	7,050,161	(142.9)	40.3
Income and Profit from Other Operations	7,194,344	3,188,142	29.3	18.2
Expenses and Losses from Other Operations	(11,410,528)	(3,442,698)	(46.5)	(19.7)
Financial Expenses (-)	(10,522,363)	(12,085,052)	(43.0)	(69.1)
Operating Profit (loss)	(49,802,174)	(5,289,447)	(203.1)	(30.2)
Extraordinary Income and Profits	83.701	97.360	0.3	0.6
Extraordinary Expenses and Losses (-)	(64,093)	(26,988)	(0.3)	(0.2)
Income before Taxation	(49,782,566)	(5,219,075)	(203.0)	(29.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(49,782,566)	(5,219,075)	(203.0)	(29.5)

In year 1999 the net loss was 29.5% and in the next year in 2000, this ratio grew up to 203% which shows us that the company is not in a good situation. This increase from year 1999 to 2000 was firstly due to a tremendous increase in the cost of sales which was 36.6% in year 1999 and increased to 181.5%, also operating expenses increased

by 40.9%. Net sales increased and also income from profit and other operations increased as well but those increases were not enough.

	2000	1999	2000	1999
GROSS SALES	21,058,073	24,523,840	100%	100%
SALES DEDUCTION (-)	(3,924,215)	(1,957,598)	(18.6)	(8.0)
Net Sales	17,133,858	22,566,242	81.4	89.5
Cost of Sales (-)	33,138,057	(44,514,896)	(157.4)	(181.5)
Gross Profit (loss)	(16,004,199)	(21,948,654)	(76.0)	(89.5)
Operating Expenses (-)	(9,177,796)	(13,084,973)	(43.6)	(53.4)
Profit (loss) from Main Operations	(25,181,995)	(35,033,627)	(119.6)	(142.9)
Income and Profit from Other Operations	13,419,496	7,194,344	63.7	29.3
Expenses and Losses from Other Operations	(10,256,326)	(11,410,528)	(48.7)	(46.5)
Financial Expenses (-)	(96,133,895)	(10,522,363)	(406.5)	(43.0)
Operating Profit (loss)	(118,152,720)	(49,802,174)	(561.0)	(203.0)
Extraordinary Income and Profits	8,349,974	83,701	39.6	0.3
Extraordinary Expenses and Losses (-)	(588,711)	(64,093)	(2.8)	(0.3)
Income before Taxation	(110,391,457)	(49,782,566)	(524.2)	(203.0)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(110,391,457)	(49,782,566)	(524.2)	(203.0)

Net loss was 203% in year 200 but this loss increased even further to 524.4% which showed that the company was really in a worse situation than the year 2000. The cost of sales increased by 24.1%, but this loss is due to an increase in financial expenses of which it was 43% in year 2000 but increase to 456.5% in year 2001. Net sales also decreased. Extraordinary income and profit and income and profit from other operations also increased.

	2000	1999	2000	1999
GROSS SALES	51,266,345	21,058,073	100%	100%
SALES DEDUCTION (-)	(6,280,864)	(3,924,215)	(12.2)	(18.6)
Net Sales	44,985,481	17,133,858	87.8	81.4
Cost of Sales (-)	(35,302,297)	(33,138,157)	(68.9)	(157.4)
Gross Profit (loss)	9,683,184	(16,004,199)	18.9	(76.0)
Operating Expenses (-)	(5,993,334)	(9,177,796)	(11.7)	(43.6)
Profit (loss) from Main Operations	(3,689,850)	(25,181,995)	(7.2)	(119.6)
Income and Profit from Other Operations	11,124,425	13,419,496	21.7	63.7
Expenses and Losses from Other Operations	(9,172,679)	(10,256,326)	(17.9)	(48.7)
Financial Expenses (-)	(40,679,021)	(96,133,895)	(79.3)	(456.5)
Operating Profit (loss)	(35,037,425)	(118,152,720)	(68.3)	(561.0)
Extraordinary Income and Profits	293,293	8,349,974	0.6	39.6
Extraordinary Expenses and Losses (-)	(916,533)	(588,711)	(1.8)	(2.8)
Income before Taxation	(35,660,665)	(110,391,457)	(69.5)	(524.2)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(35,666,665)	(110,391,457)	(69.5)	(524.2)

The net loss was 524.2% in year 2001 and this amount reduced to 69.5%. This improvement was in favor of the organization. The net income increased by 6%, the cost of sales reduced by 88.5%, operating expenses reduced by 31.9% and financial expenses reduced by 377.2% and these had an effect on the improvement of the net income.

	2000	1999	2000	1999
GROSS SALES	44,459,912	51,266,345	100%	100%
SALES DEDUCTION (-)	(19,450,014)	(6,280,864)	(21.2)	(12.2)
Net Sales	35,009,898	44,985,481	78.8	87.8
Cost of Sales (-)	(26,626,374)	(35,302,297)	(59.9)	(68.9)
Gross Profit (loss)	(8,383,524)	(9,683,184)	(18.9)	(18.9)
Operating Expenses (-)	(8,649,809)	(5,993,334)	(19.4)	(11.7)
Profit (loss) from Main Operations	(266,285)	(3,689,850)	(0.6)	(7.2)
Income and Profit from Other Operations	34,539,836	11,124,425	77.7	21.7
Expenses and Losses from Other Operations	(16,248,042)	(9,172,679)	(14.0)	(17.9)
Financial Expenses (-)	(6,418,851)	(40,679,021)	(14.4)	(73.3)
Operating Profit (loss)	(21,606,658)	(35,037,425)	(48.6)	(68.3)
Extraordinary Income and Profits	15,650,104	293,293	35.2	0.6
Extraordinary Expenses and Losses (-)	(2,363,572)	(916,533)	(5.3)	(1.8)
Income before Taxation	(34,893,190)	(35,666,665)	(74.5)	(69.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(34,893,910)	(35,660,665)	(74.5)	(69.5)

In year 2003 the company was in a good situation and net income was 74.5%. Even though the net sales decreased around 9%, also the operating expenses decreased. Income and profit from other operatings increased by 56% and financial expenses decreased by 65.3%, and also extraordinary income and profits increased by 34.6% and eventually as a result, the company made a profit of 75.4%.

4.1.4 Ratio Analysis

Ratio analysis expresses the relationship among selected items of financial statement data. The relationship is expressed in terms of a percentage, a rate or a simple proportion. There is a three kind of ratio analysis that we are going to calculate; Short-term liquidity, long-term credit risk and profitability ratio. The data used in calculation of ratios has been taken from Dardanel's financial statements, which appear in appendix 1.

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Current Ratio	**1.77**	**0.50**	**0.16**	**0.14**	**0.71**

From the table it can be seen that the current ratio in year 1999 is 1.77 and this ration started to decrease in 2000 and this fall continued until the year 2002 and eventually in 2003 this ratio increased to 0.71. According to creditors and bankers, it is believed that company should have a current ratio 2:1 or higher to qualify as a good credit risk. Only year 1999 was close to that ratio, and all other ratios are below 2:1 and company is weak in debt paying ability.

	1999	2000	2001	2002	2003
Quick Assets	5,039,100	9,721,008	17,295,718	11,729,762	14,156,245
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Quick Ratio	**0.20**	**0.17**	**0.14**	**0.08**	**0.42**

In year 1999 the quick ratio of the company was 0.20, which is a low amount and this rate decreased further in 2000, 2001, and 2002. In 2002, it came to the lowest rate, which was 0.08, and then in year 2003 this ratio started to increase and end up with 0.42.

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	32,621,962
Working Capital	**19,749,051**	**(27,832,444)**	**(100,812,580)**	**(134,251,896)**	**(9,875,773)**

Current assets of the company decreases year by year but it started to increase in the year 2003, and conversely the current liabilities started to increase from year 1999 to 2002 and came up to 155,594,850. However, in year 2003 this amount fell to 33,621,962. This shows us that the company is not able to pay its debts.

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	75,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Cash Flow from Operations to Current Liabilities	**0.61**	**0.40**	**0.14**	**0.29**	**1.04**

As can be seen from the table, cash flow from operations to current liabilities ratio started with 0.61 and started to decline and then the recovery started in year 2003 and that ratio came up to 1.04.

	1999	2000	2001	2002	2003
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Average Account Receivables	7,358,989	7,278,915	13,273,673	13,969,372	12,372,135
Receivables Turnover Rate	**2.13**	**3.1**	**1.29**	**3.22**	**2.83**

The receivables turnover rate actually computed to find the days to collect accounts receivables. Higher the turnover rate the quicker the company collects its receivables. When analyzing the receivables turnover rate, we realized that the rate has an unsteady movement where in year 1999 the rate was 2.13 and it went up the next year to 3.1 and then it fell to 1.29 and started to increase again. Decreasing receivable turnover rate shows that the maturities of accounts receivables are getting longer so the company cannot recover its receivables early.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	2.13	3.1	1.29	3.22	2.83
Days to collect Accounts Receivables	**171.36**	**117.74**	**282.94**	**113.35**	**128.97**

Since the accounts receivable turnover rate has an unsteady increase and decrease the days to collect A/R varies. In 1999, it started with 171.36 and in 2002 it ended with 128.97 days. This means that the company started to collect it account receivables in a shorter period.

	1999	2000	2001	2002	2003
C.O.G.S	6,406,926	44,514,896	33,138,057	26,626,374	35,302,297
Average Inventory	31,374,785	29,389,635	10,419,601	5,891,101	9,601,568
Inventory Turnover Rate	**0.20**	**1.51**	**3.18**	**4.45**	**3.68**

Inventory turnover indicates how many times a year the company is able to sell a quantity of goods equal to its average inventory. The higher turnover means it can sell quicker inventory and higher rate is better for a company. From the table, it can be seen that in 1999 this rate was 0.20 which is a very low rate and was not good for the company but in later years this rate was in an increasing trend and this was in favor of the company meaning that the company will sell its inventory more.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.20	1.51	3.18	4.45	3.68
Days to sell Average Inventory	**1825**	**241.72**	**114.77**	**82.02**	**99.18**

Days to sell average inventory indicates how quickly the inventory sells and converts it into cash or account receivable. 1n 1999 the company was in a bad situation and 1825 days were needed but as the years passed the company improved its situation and in 2002 it only needed 82 days to convert its inventory into cash.

	1999	2000	2001	2002	2003
Days to Collect A/R	171.36	117.74	282.94	113.35	128.97
Days to Sell Average Inventory	1825	241.72	114.77	82.02	99.18
Operating Cycle	**1996.36**	**359.46**	**397.71**	**195.37**	**228.15**

Operating cycle indicates in days how quickly cash is invested in inventory converts back into cash. In this situation, in 1999, the company needed 1996.36 days and by

the time passes this amount decreased up to 195.37 days which is in favor of the organization.

	1999	2000	2001	2002	2003
Total Liabilities	51,304,958	77,434,212	177,332,524	216,852,600	190,479,275
Total Assets	57,289,735	41,469,760	33,720,838	42,967,234	54,738,995
Debt Ratio	**89.5%**	**186.72%**	**525.88%**	**504.69%**	**348%**

Debt ratio measures safely the creditors claims, which states total liabilities as a percentage of total assets. The smaller the portion of total assets financed by creditors, the smaller is the risk of the business may become unable to pay its debts. Each year of 50% or less is favorable for creditors. In the case of Dardanel in 1999 the debt ratio was 89.5% which was a quite high amount but as the years passed this amount increased up to 525.88% in 2002 and then started to decline again in 2003, but these ration indicate that the company is in an unfavorable situation.

	1999	2000	2001	2002	2003
Gross Profit	9,240,172	(21,948,654)	(16,004,199)	9,683,184	8,383,524
Net Sales	15,647,098	22,566,242	17,133,858	44,958,481	35,009,898
Gross Profit Rate	**59%**	–	–	**21.5%**	**23.9%**

Gross profit rate is the grossed profit expressed as a percentage of net sales and measures the profitability on the company's products.

In year 1999 the gross profit rate was 59% which as in the favor of the organization but in years this ratio fell and instead of profit the company made loss and in year

2002 this ratio increased to 21.5% and the next year the ratio kept increasing trend and came up to 23.9%. Also we cannot calculate ratios for years 2000 and 2001 because there was no gross profit.

	1999	2000	2001	2002	2003
Operating Expenses	2,190,011	13,084,973	9,177,796	5,993,334	8,649,809
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Operating Expense Ratio	**14%**	**58%**	**53.6%**	**13.3%**	**24.7%**

Operating exchange ratio refers to the proportion of expenses in net sales so lower the ratio, lower the expenses. This means lower expenses are more profitable in operations.

Here this ratio was 14% in 1999 and it increased too much to 58% which is not good for the company and then it started to decline in 2001 and in 2002 it decreased even below the year 1999 to 13.3% and then in 2003 it increased to 24.7%.

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Net Income as % of Net Sales	–	–	–	–	**6.99%**

Net income as a percentage of net sales shows what proportion of net sales reported as net income. As the company does not have any net income in years 1999, 2000, 2001, and 2002, we cannot calculate the net income as a percentage of net sales. Only year 2003's calculation has been made and this ratio is 0.99.

	1999	2000	2001	2002	2003
Gross Profit (loss)	9,240,172	(16,004,199)	(21,948,654)	9,683,184	8,383,524
Operating Expenses	(2,190,011)	(9,177,796)	(13,084,973)	(8,649,809)	(5,993,334)
Operating Income	**7,050,161**	**(25,181,995)**	**(35,033,627)**	**(266,285)**	**3,698,850**

Shows the relationship between revenue earned from customers and expenses incurred in producing that revenue.

In this situation, the company only had operating income in year 1999 which was 7,050,161 and then it had an operating loss in years 2000, 2001 and 2002 and then had an operating income in year 2003 which was 3,689,850.

	1999	2000	2001	2002	2003
Operating Income	7,050,161	(25,181,995)	(35,033,627)	(266,285)	3,689,850
Average Total Assets	49,091,938	49,379,748	35,595,299	38,344,036	48,853,115
Return on Assets	**14.4%**	**(50.9)%**	**(93.2)%**	**(6.9)%**	**7.5%**

Is a measure of productivity of assets regardless how assets are financed. The general agreement among the financial analyst is that 15% or more return on average total asset is successful. In year 1999 return on assets was at the average value but in year 2000, 2001 and 2002 as the company had an operating loss we could not calculate the return on assets but in year 2003 the company is in recovery period and return on assets had increased to 7.5%.

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Average Total Equity	8,279,583	(14,989,838)	(89,788,069)	(158,748,526)	(154,812,823)
Return on Equity	–	–	–	–	–

Return on equity is a ratio which looks only at the return earned by management by stockholder's investments. Stockholders usually expect to earn an average return of 12% or more from equity investments in large financially strong companies. A company that suffers provides its stockholders with a negative return on stockholders equity.

As in all years the average total equity was a negative numbers therefore we couldn't calculate the return on equity ratio.

4.2. Findings of Superfresh

4.2.1 Dollar and Percentage Changes

The dollar amount of any change is the difference between the amounts of base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes, Net Sales and Net Income have been taken from Income Statement of Superfresh financial statements which appear in appendix 2.

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	29,279,660	23,111,053	17,363,096	6,618,607	28.6%	5,747,957	33.1%
Net Income	(43,910,609)	(16,121,450)	107,109	(27,789,159)	--	(16,228,559)	(151.5%)

If the negative amount or zero amounts appears in the base year the percentage cannot be computed so we cannot compute year 2001 over year 2000 due to this reason. Net sales were 33.1% in 2000 over 1999 but it decreased to 28.6% in 2001 over 2000. net income dropped by 151.5% in 2000 over 1999 and we couldn't calculate the year 2001 over 2000 due to the reason mentioned above.

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	33,580,341	38,522,766	29,279,666	(4,942,425)	(12.8%)	9.243.106	31.6%
Net Income (loss)	9,454,125	29,116,658	(43,910,609)	(19,662,533)	(67.5%)	73,027,267	--

Net sales in 2002 over 2001 increased by 36.1% but in years 2003 over 2002, net sales decreased by 12.8% to 33,580,341.

Net income in years 2003 over 2002 decreased by 67.5% and then the next year there was an increase of 73,027,267 in net income but as mentioned above there is a rule, which states that if the base year is a negative amount, we don't calculate the percentage changes. As the year 2001 was a negative amount we couldn't calculate the percentage changes in year 2002 over 2001.

4.1.2 Trend Percentages (Horizontal Analysis)

Trend percentages (Horizontal Analysis) is a technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. During the calculation of trend percentages, Net Sales, cost of goods sold and gross profit have been taken from income statement of Superfresh income statements which appear in appendix 2.

	2003	**2002**	**2001**	**2000**	**1999**
Net Sales	33,580,341	38,522,766	39,279,660	23,111,053	17,363,096
C.O.G.S	(23,473,971)	(27,907,749)	(21,361,098)	(16,671,453)	(9,373,742)
Gross Profit	**10,106,370**	**10,615,017**	**7,918,562**	**6,439,600**	**7,989,354**

	2003	**2002**	**2001**	**2000**	**1999**
Net Sales	193.4%	221.9%	168.6%	133.1%	100%
C.O.G.S	340.4%	297.7%	227.9%	177.8%	100%
Gross Profit	**126.5%**	**132.8%**	**99.1%**	**80.6%**	**100%**

When comparing with the base year, it can be seen that there is a steady increase in net sales until year 2003, in year 2003 net sales decreased to 193.4%.

C.O.G.S increased each year, and finally come up to 340.4% which is more than an increase in net sale.

Gross profit decreased to 80.6% in year 2000 and then increased to 99.1% in year 2001, this decrease is the effect of the high increase in C.O.G.S and then in year 2002 gross profit increased to 132.8% and then the next year it decreased to 126.5%.

4.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in total.

During the calculation of component percentage; net sales, cost of sales, operating expense, and net income have been taken as a percentage of gross sales. The income statements' data has been taken from Superfresh's financial statements that are included in appendix 2.

	2000	1999	2000	1999
GROSS SALES	26,220,886	18,980,278	100%	100%
SALES DEDUCTION (-)	(3,109,833)	(1,617,182)	(11.9)	(18.5)
Net Sales	23,111,053	17,363,096	88.1	91.5
Cost of Sales (-)	(16,671,453)	(9,373,742)	(163.5)	(47.1)
Gross Profit (loss)	6,439,660	7,989,354	24.6	42.1
Operating Expenses (-)	(8,336,450)	(4,364,600)	(31.8)	(23.0)
Profit (loss) from Main Operations	(1,896,850)	3,624,754	(7.2)	19.1
Income and Profit from Other Operations	(707,717)	702,959	(2.7)	3.7
Expenses and Losses from Other Operations	(8,678,556)	(166,884)	(33.1)	(0.9)
Financial Expenses (-)	(6,395,731)	(4,084,723)	(24.2)	(21.5)
Operating Profit (loss)	(16,263,420)	76,106	(62.0)	0.4
Extraordinary Income and Profits	187,667	31,981	0.7	0.2
Extraordinary Expenses and Losses (-)	(42,697)	(978)	(0.2)	(0.005)
Income before Taxation	(16,121,450)	107,109	(61.5)	0.6
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(16,121,450)	107,109	(61.5)	0.6

From the table it can be observed that the net income in year 1999 was 0.6%, cost of sales was 47.1%. However, in year 2000 the company made a net loss of 61.5% and this is due to the rise in cost of sales which was 47.1% in year 1999 and came up to

63.5%, also operating expenses increase to 31.8%, and also there was an increase in expenses and losses from other operations which was 6.9% and increased to 33.1%.

	2000	1999	2000	1999
GROSS SALES	37,651,344	26,220,886	100%	100%
SALES DEDUCTION (-)	(8,371,684)	(3,109,833)	(22.2)	(11.9)
Net Sales	29,279,660	23,111,053	77.8	88.1
Cost of Sales (-)	(21,361,098)	(16,671,453)	(56.7)	(63.5)
Gross Profit (loss)	7,918,562	6,439,660	21.3	24.6
Operating Expenses (-)	(9,236,793)	(8,336,450)	(24.5)	(31.8)
Profit (loss) from Main Operations	(1,318,231)	(1,896,850)	(3.5)	(7.2)
Income and Profit from Other Operations	3,447,088	707,717	9.1	2.7
Expenses and Losses from Other Operations	(44,418)	(8,678,556)	(0.1)	(33.1)
Financial Expenses (-)	(46,035,914)	(6,395,731)	(122,3)	(24,4)
Operating Profit (loss)	(43,951,475)	(16,263,420)	(116.7)	(62.0)
Extraordinary Income and Profits	42,872	184,667	(0.1)	0.7
Extraordinary Expenses and Losses (-)	(2006)	(42,697)	(0.005)	(0.2)
Income before Taxation	(43,910,609)	(16,121,450)	(116.6)	(61.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(43,910,609)	(16,121,450)	(116.6)	(61.5)

In year 2000, there was a net loss of 61.5% but this loss increased to 116.6% and this is due to the rise in the financial expenses. Cost of sales decreased to 56.7%, operating expenses also decreased, but these reductions in certain costs couldn't help the company to improve its situation.

	2000	1999	2000	1999
GROSS SALES	43,696,587	37,651,344	100%	100%
SALES DEDUCTION (-)	(5,173,821)	(8,371,684)	(11,8)	(22.9)
Net Sales	38,522,766	29,279,660	88.2	77.8
Cost of Sales (-)	(27,907,749)	(21,361,098)	(63.9)	(56.7)
Gross Profit (loss)	10,615,017	7,918,562	24.3	21.3
Operating Expenses (-)	(11,374,627)	(9,236,793)	(26.0)	(24.5)
Profit (loss) from Main Operations	(759,610)	(1,318,231)	(1.7)	(3.5)
Income and Profit from Other Operations	2,635,940	3,447,088	6.0	9.1
Expenses and Losses from Other Operations	(39,111)	(44,418)	(0.09)	(0.1)
Financial Expenses (-)	(130,194,092)	(46,035,914)	(69.1)	(122.3)
Operating Profit (loss)	(128,356,873)	(43,951,475)	(64.9)	(116.7)
Extraordinary Income and Profits	60,171	42,872	0.1	(0.1)
Extraordinary Expenses and Losses (-)	(819,956)	(2006)	(1.9)	(0.005)
Income before Taxation	(29,116,658)	(43,910,609)	(66.6)	(116.6)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(29,116,658)	(43,910,609)	(66,6)	(116.6)

From the table it can be seen that the net loss improved from the 116.6% to 66.6% and this improvement is due to a decrease in financial expenses that was 116.7% and dropped to 69.1%. Net sales also increased by 10.4%.

	2000	1999	2000	1999
GROSS SALES	38,191,722	43,696,587	100%	100%
SALES DEDUCTION (-)	(4,611,381)	(5,173,821)	(12,1)	(11.8)
Net Sales	33,580,341	38,522,766	87.9	88.2
Cost of Sales (-)	(23,473,971)	(27,907,749)	(61.5)	(63.9)
Gross Profit (loss)	10,106,370	10,615,017	26,5	24.3
Operating Expenses (-)	(10,001,981)	(11,374,627)	(26.2)	(26.0)
Profit (loss) from Main Operations	104,389	(759,610)	(0.3)	(1.7)
Income and Profit from Other Operations	3,322,649	2,635,940	8.7	6.0
Expenses and Losses from Other Operations	(6,780)	(39,111)	(0.02)	(0.09)
Financial Expenses (-)	(3,529,249)	(30,194,092)	(9.2)	(69.1)
Operating Profit (loss)	(108,991)	(28,356,873)	(0.3)	(64.9)
Extraordinary Income and Profits	9,669,952	60,171	25.3	0.1
Extraordinary Expenses and Losses (-)	(106,836)	(819,956)	(0.3)	(1.9)
Income before Taxation	9,454,125	(29,116,658)	28.4	(66.6)
Taxation and other Liabilities (-)	---	---	---	---
Net Income (loss)	9,454,125	(29,116,658)	28.4	(66.6)

From the table it can be seen that the net income had increased to 24.8% and this showed us that in year 2003 the company's performance is increased. This increase is the result of a decrease bin financial expenses, which was 69.1% in year 2002, and become 9.2% in year 2003.

4.1.4 Ratio Analysis

Ratio analysis expresses the relationship among selected items of financial statement data. The relationship is expressed in terms of a percentage, a rate or a simple proportion. There is a three kind of ratio analysis that we are going to calculate; Short-term liquidity, long-term credit risk and profitability ratio. The data used in calculation of ratios has been taken from Superfresh's financial statements, which appear in appendix 2.

	1999	**2000**	**2001**	**2002**	**2003**
Current Assets	29,121,811	27,524,695	30,982,765	33,603,761	23,220,183
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,641
Current Ratio	**1.36**	**0.8**	**0.4**	**0.3**	**1.5**

From the table it can be seen that the current ratio was 1.36 in year 1999 and in the following years this ration decreased to 0.3 and then in year 2003 it sharply increased to 1.5. According to creditors and bankers, it is believed that the company should have a current ratio 2:1 or higher to qualify as a good credit risk. In the situation of Superfresh, the creditability position is quite weak in years 2000, 2001 and 2003 and it is close to the average in years 1999 and 2003 but not at a satisfactory level.

	1999	**2000**	**2001**	**2002**	**2003**
Quick Assets	3,945,522	6,497,982	7,899,639	8,210,832	8,623,992
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Quick Ratio	**0.18**	**0.19**	**0.10**	**0.07**	**0.55**

From the table it can be seen that the quick ratio for the years 1999 and 2000 was almost the same but in year 2001 this ratio was almost halved and became 0.10 and then it decreased to 0.07, in year 2003 this ratio sharply increased to 0.55. According to bankers and other short-term financial creditors quick ratio must be 1:1 and even more that 1:1. In this case, the company's position is weak in short-term debt paying ability.

	1999	2000	2001	2002	2003
Current Assets	29,121,811	27,524,695	30,982,765	33,603,761	23,220,183
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Working Capital	**7,694,180**	**(7,069,821)**	**(47,223,290)**	**(80,041,742)**	**7,584,540**

There are some up and down fluctuations in current assets of the company from year to year but in 2003 it decreased to 23,220,183.

Current liabilities of the company was an increasing trend and it increased up to 113,645,503 in 2002, and then in year 2003 that amount decreased to 15,635,643 which is a good situation for the company. In 1999 the company didn't have any problems in paying their debts but in years 2000, 2001 and 2002 the company was in a bad situation when it comes to debt payments and eventually in year 2003 the company improved its position and was able to pay its debts.

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Cash Flow from Operations to Current Liabilities	**0.81**	**0.67**	**0.37**	**0.34**	**2.14**

From the table it can be seen that the cash flow from operations to current liabilities was 0.81 and this ratio started to fall down in years 2000, 2001, and 2002 and then it increased in year 2004 to 2.14.

	1999	2000	2001	2002	2003
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Average Account Receivables	3,052,063	5,025,463	6,898,025	7,486,223	7,824,468
Receivables Turnover Rate	**5.69**	**4.60**	**4.24**	**5.14**	**4.29**

The receivables turnover rate actually computed to find the days to collect accounts receivables. Higher the turnover rate the quicker the company collects its receivables.

From the table it can be seen that the highest receivable turnover rate was at the highest rate which showed that in 1999 the company collected its A/R quicker than the other years. Then in 2000 this rate decreased to 4.60 and then to 4.24. In year 2002, this rate increased to 5.14 and the next year it decreased again to 4.29.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	5.69	4.60	4.24	5.14	4.29
Days to collect Accounts Receivables	**64.15**	**79.34**	**86.10**	**71.01**	**85.10**

In year 1999, the company collected its accounts receivables in 64.15 days as the receivables turnover rate started to decrease in year 2000 and 2001, then accounts receivables collection period increased to 79.34 days in 2000 and 86.10 days in 2001.

As the receivables turnover rate increased in 2002 then the accounts receivables collection period decreased to 71.01 days and in year 2003 this rate increased to 85.10.

	1999	2000	2001	2002	2003
C.O.G.S	9,373,748	16,671,453	21,361,098	27,907,749	23,473,971
Average Inventory	20,011,222	22,994,877	21,182,808	22,736,071	18,829,552
Inventory Turnover Rate	**0.47**	**0.72**	**1.07**	**1.23**	**1.25**

Inventory turnover rate indicates how many times a year the company is able to sell a quantity of goods equal to its average inventory. The higher the turnover means it can sell quicker inventory and higher rate is better for the company. In year 1999 this ratio was 0.47 and low but in the following years this ratio was in an increasing trend and finally come up to 1.25 which is good for the company, means that the company would sell its inventory quicker.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.47	0.72	1.01	1.23	1.25
Days to sell Average Inventory	**776.6**	**506.9**	**361.5**	**296.7**	**292**

Days to sell average inventory indicates how quickly the inventory sells and converts into cash or accounts receivable. In 1999 the company was in a very bad situation and in 1999 the company headed 776.6 days to sell its inventory but from year to year this ratio was steadily increasing and finally in year 2003 the company needed 292 days to convert its average inventory into cash.

	1999	2000	2001	2002	2003
Days to Collect A/R	64.15	79.34	86.10	71.01	85.10
Days to Sell Average Inventory	776.60	506.90	361.40	296.70	292
Operating Cycle	**840.75**	**586.24**	**447.5**	**367.71**	**377.1**

Operating cycle indicates in days how quickly cash is invested in inventory converts back into cash. In this situation in year 1999 the operating cycle was 840.75 days and as the company's situation is getting better this ratio went down to 377.1 days, thus this ratio was in favor of the company.

	1999	2000	2001	2002	2003
Gross Profit	7,989,742	6,439,600	7,918,562	10,515,017	10,106,370
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Gross Profit Rate	**0.46**	**0.28**	**0.20**	**0.28**	**0.30**

Gross profit rate is the gross profit expressed as a percentage of net sales and measures the profitability of the company's products. In year 1999 the gross profit rate was 46% and then this ratio decreased up to 20% in year 2001 and then again started to increase in year 2002 and finally in year 2003 this ratio increased up to 30%.

	1999	2000	2001	2002	2003
Operating Expenses	4,364,600	8,336,450	9,236,793	11,374,627	10,001,981
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Operating Expense Ratio	**0.25**	**0.36**	**0.31**	**0.29**	**0.30**

Operating expense ratio refers to the proportion of expenses in the net sales so lower the ratio, lower are the expenses. This means lower expenses are more profitable and preferable in operations. In year 1999 this ratio was at its lowest level and this ratio increased in 2000 to 36% and started to decline and decreased to 30% which is quite a high percentage.

	1999	2000	2001	2002	2003
Gross Profit (loss)	7,989,742	6,439,600	7,918,562	10,615,017	10,106,370
Operating Expenses	4,364,600	8,336,450	9,236,793	11,374,627	10,001,981
Operating Income	**3,624,754**	**(1,318,231)**	**(1,894,850)**	**(759,610)**	**104,389**

Shows the relationship between revenue earned from customers and expenses incurred in producing that revenue.

In this situation in year 1999 the operating income of the company was 3,624,754 and in the following years as there was more increase in the operating expenses then as a result the operation loss occurred in years 2000, 2001 and 2002 but finally in year 2003 the company made an operating income of 104,389.

	1999	2000	2001	2002	2003
Operating Income	3,624,754	(1,318,231)	(1,896,850)	(759,610)	104,389
Average Total Assets	32,046,490	41,078,999	46,478,539	54,319,986	54,975,666
Return on Assets	**11.31%**	**(3.21)%**	**(4.08)%**	**1.40%**	**0.19%**

It is a measure of productivity of assets regardless how assets are financed. The general agreement among the financial analyst is that 15% or more return on average total assets is successful. In year 1999 this ratio was below 15% and it was 11.31% and in years 2000, 2001 and 2002 the company had an operation loss therefore these ratios went down to negative numbers and eventually in year 2003 the company improved its position and its return on assets became a positive number to 0.19% which is still too much below the average.

	1999	2000	2001	2002	2003
Net Income	107,109	(16,121,450)	(43,910,609)	(29,116,658)	9,454,125
Average Total Equity	13,573,726	8,350,055	(17,079,982)	(46,608,663)	(49,747,621)
Return on Equity	—	—	—	—	—

It is a ratio which looks only at the returned earned by management by stockholder's investment. Stockholders usually expect to earn an average return of 12% or more from equity investments in large financially strong companies. A company that suffers provides its stockholder with a negative return on stockholder's equity.

V. LIMITATIONS

Both Dardanel and Superfresh are the most successful companies of the food industry in Turkey. They both operate globally and have foreign investments.

All the financial information, everything that a company does, good or bad, should be found on the web sites of the company, from the articles, and from the news sites. However, in the situation of these two companies there was no detailed information about their financial performance. The companies' financial statements were not available at their web sites. This is because of the authorities of the company who do not announce their financial performance due to security reasons. With the limited information found from the other sources, it is actually impossible to find the answers for certain analysis, such as earnings per share, dividend yield, book value per share and other components necessary to calculate certain ratios.

With information obtained from the other financial institutions, some of the analysis needed for the evaluation of the financial performance can be done. More information can be obtained from the company's own resources and then more detailed analysis, which reflects the position of the company in the market, could also be done.

CONCLUSION AND RECOMMENDATIONS

The financial statements are primarily prepared for decision-making and they include useful resources for investors, creditors and external users.

In my project, the financial statement analysis are categorized under three different sections. Financial statement research methodology section and analysis of financial statements of both Dardanel and Superfresh in order to obtain financial information about both companies.

Dardanel and Superfresh are companies in the food industry in Turkey. In the previous pages the general ideas about the performances or the companies are mentioned but these analysis are not enough to understand the financial position of each company regarding their competitors. By comparing Dardanel and Superfresh with each other, we will have a clear understanding about their financial performance.

The comparison parts include Dollar and Percentage Changes, Trend analysis (Horizontal Analysis), Component Percentages (Vertical Analysis) and Ratio Analysis with short-term solvency, long-term solvency and profitability ratios. The calculations of Dardanel can be found in Appendix 1 and the ones for Superfresh in Appendix 2.

Fist of all, I made the vertical analysis of Dardanel by comparing it with Superfresh for the year 2002. To be able to do the vertical analysis income statement and its components such as net sales, cost of the goods sold, operating expenses, financial expenses and net income were used.

Starting with the net sales, we saw that Dardanel had 87.8% of gross sales and Superfresh has 88.2%, which is more than Dardanel. This shows that Superfresh had reported better net sales in year 2002. Cost of the goods sold by Dardanel was 68.9% and for Superfresh this was 63.9%. In this case, the cost of Superfresh's products was cheaper and this shows that the management used higher technology production and therefore the profitability of the company could be higher. When comparing the operating expenses on the companies, Dardanel had 11.7% where Superfresh had 26%, which shows that Dardanel had a more effective management. Dardanel had 79.3% financial expenses and this of Superfresh was lower than Dardanel which was 69.1% and this shows that both companies needed financial support when making investments but Dardanel needed more support.

Finally, the net loss for Superfresh in 2002 was 29,116,125 millions TL which is 66.6% of gross sales and also Dardanel has made a loss of 36,660,665 millions TL which is 69.5%. When comparing their overall performance, both made loss but Superfresh has made less loss and this was because of the more effective cost management than Dardanel.

To be able to analyze the current position of both companies, the comparisons of year 2003 should be analyzed. For the net sales for year 2003, Dardanel had 78.8% and Superfresh had 87.9%. Again, Superfresh had more sales than Dardanel. Both of them also reduced the percentage of their net sales in this year. Dardanel had a better performance in reducing its cost of sales, in year 2002 the cost of sales was above

Superfresh but Dardanel managed to reduce it below the Superfresh's costs. There was no change in Superfresh's operating expenses but Dardanel had increased its operating expenses from 7.4% to 19.4%. Superfresh decreased its financial expenses by 60% which was a good improvement for the company. As well as Superfresh, Dardanel also managed to decrease its financial expenses almost by 65%. Finally, Superfresh performed tremendously well in year 2003 where in year 2002 there was a loss of 66.6% but with good management it increased its net income up to 24.8%. Actually, Dardanel's performance in 2003 was better than Superfresh where Dardanel increased its net income by 144%, which is an outstanding performance. As a result, in year 2003, Dardanel performed better and is a stronger company than Superfresh.

After conducting the component percentage (vertical) analysis of both Dardanel and Superfresh, I made Trend percentage (horizontal) analysis of both companies.

While doing this analysis, Net Sales, C.O.G.S and Gross profit were analysed and year 1999 was taken as a base year. Dardanel had up and down fluctuations in net sales over the past five years but the company managed to increase their sales by 2.23 times comparing to base year. Also Superfresh had an increasing trend in net sales except year 2003. In 2003 the net sales decreased by 30% comparing to the year 2002. When compared the net sales with the base year Superfresh achieved 1.93 times more sales. Dardanel in this situation had a better performance than Superfresh. The C.O.G.S. for both companies had an increasing trend and in year 2003 C.O.G.S for Dardanel has increased by 4.15 times than the base year and Superfresh had an increase of 3.4 times when compared with the base year. In this case, Superfresh's management was more effective in cost effectiveness.

The gross profit of Dardanel had almost decreased by 10% when compared with the base year where Superfresh has 26.5% increase in gross profit.

When analysing the overall performance in all three situations, Superfresh had achieved a better performance when compared to Dardanel. The company was in a stronger position.

The next step was the analysis of Dollar and Percentage changes. While doing this analysis, the components of income statement such as net sales and net income were used and analysis were made by comparing year 2003 over 2002 and changes in between. These years will be out concern. Net sales for Dardanel in years 2003 over 2002 have decreased by 22.0% and also there was a decrease in Superfresh's net sales but not as much as Dardanel. Superfresh has 12.8% decreased in its net sales. In such a situation, both companies' performances were not good but Superfresh was in a better position than Dardanel. When compared the net incomes, Dardanel had increased its net income by 70,553,885 million TL but as the result was a negative number we cannot calculate the percentage changes in years 2003 over 2002. Superfresh had decreased its net income by 19,662,533 in year 2003 over 2002, and this is an almost 67.5% decrease. Therefore, overall performance of Dardanel in this analysis was better than Superfresh the net income was our concern.

The most important step in company's performance analysis is the ratio analysis. The ratio analysis can be done in four different steps and each stem measures different things.

The first step is analyzing the short-term liquidity of the company. In this step, current ratio, quick ratio, and working capital gives us the most important measures for the creditors, and then receivables turnover rate, days to collect accounts receivable, inventory turnover rate, days to sell average inventory and finally operating cycle will be analysed.

In this situation, year 2002 was concerned, as the past performance of the companies and year 2003 was taken as the current performance. Firstly, 2002 analysis was made and then this analysis was compared with the current years' analysis.

In year 2002, the current ration of Dardanel was 0.14 and this is quite below the average of 2 and Superfresh had 0.3 which was still below the average but better than Dardanel. The quick ratio of both companies were too low and far below the average. The working capital of Superfresh was (80,041,742) million TL and Dardanel had a working capital of (134,812,580) million TL. Unfortunately, both companies were not in a good position in the short-term debt payments and creditors in such a situation will not be able to give them a good credit note. Also in year 2002, Dardanel has 29% cash flow from operations from current liabilities where Superfresh had 34%. Then this analysis showed us that both companies' short-term liquidity was not very good but Superfresh was in a better position than Dardanel. The receivables turnover rate of Dardanel was 3.22 in year 2002 where Superfresh had a ratio of 5.14. The higher the ratio the quicker the company collects its accounts receivables and Dardanel needed 113.35 days to collect its accounts receivable and Superfresh only needed

71.01 days. The inventory turnover rate indicates the company's ability to sell its products. The higher the ratio, the quicker they sell their products.

Dardanel had an inventory turnover rate on 4.45 where Superfresh only had 1.23, therefore, Dardanel this year can quickly sell its inventory and the company only needs 82.02 days to do this but Superfresh needs more days to sell its inventory. The operating cycle of both companies shows how many days they need to sell their inventory and collect their money and in year 2002, Dardanel needed only 195.37 days where Superfresh needed 367.71 days. Therefore, Dardanel had achieved a better performance in year 2002.

The long-term liquidity ratio was measured with the debt ratio. By comparing the total liabilities with total assets and the debt ratio of both companies are too much above the average accepted by the creditors, but Superfresh's debt ratio was much lower than Dardanel's where Dardanel had 504.69% and Superfresh had 197.77%.

The next step involves the analysis of profitability. Net income as a percentage of net sales in year 2002 for both Dardanel and Superfresh couldn't be calculated, as they didn't have any net income in that year.

The gross profit rate of Dardanel for year 2002 was 21.5% where Superfresh had 28%. Superfresh's performance was better.

Operating expense ratio expresses the management ability in controlling costs and in year 2002, Dardanel had 13.3% where Superfresh had 29%. This means that Dardanel's management had achieved a better performance.

The operating income for both companies in year 2002 was a negative number which proves that the management of both companies had high operating expenses in year 2002.

The return asset indicates the productivity of assets where Dardanel had an operating loss in year 2002 and therefore, the ROA was a negative number, but in return, Superfresh had ROA of 1.4% which is too far below the average 15%. In this situation, Superfresh had achieved a better performance in 2002.

Finally, when analyzing the return on equity, the return on equity ratio in this situation couldn't be calculated, as the average total equity was a negative number.

After evaluating the past performance results of both companies, I analysed the current performances – year 2002 – of both companies. When analyzing the short-term liquidity of both companies, Dardanel had increased its current ratio compared to the past year and Superfresh also increased its current ratio to 1.5. The quick ratio of Dardanel also increased up to 0.42 and again Superfresh had more increase than Dardanel and managed to increase its ratio up to 0.55.

The working capital also measures the short-term liquidity of companies where in the past performance of Dardanel, it was in a bad situation but it started to increase its position in the current year. Superfresh had a very bad performance in the past year but in 2003 it managed to improve its position.

By looking at the overall performances of both companies, it can obviously be seen that both companies achieved a good performance when compared to the past year but Superfresh's performance was better than Dardanel's.

When observing the cash flow from other operations, again the both companies increased their performance but again Superfresh displayed a better performance than Dardanel.

The receivables turnover rate for Dardanel and Superfresh decreased in 2003 and also this decrease affected the days to collect accounts receivables, which in turn increases the number of days which companies need to collect their receivables. Also inventory turnover rate of Dardanel, when compared to past performance, increased by 0.77 which in return also affected the days to sell the average inventory ratio, which in return increases the number of days needed to sell the average ratio in 2003. However, Superfresh had almost the same ratio when compared to the past performance, therefore, its current performance is almost the same and in this situation, the performance of Superfresh has improved again and achieved better results.

The operating cycle was affected by the changes in the days to collect average account receivable and days to sell the average inventory, therefore, the operating cycle for both companies had also changed.

The operating cycle of Dardanel when compared with the past performance had increased by 30 days where Superfresh's operating cycle increased by 10 days. In this case, Superfresh's current performance again was better than Dardanel.

The gross profit rates of both companies had increased slightly about 2% when compared to previous years. The operating expense ratio of Dardanel increased almost twice the previous year and reached to 24.7% where the operating expense ratio of Superfresh increased from 1% to 30%. Even with such a high increase in Dardanel's operating expense ration, in this situation, Dardanel's performance was more acceptable because if this ratio was low, the profitability of the company increases.

The operating income of both companies had increased but Dardanel had a better performance when compared to previous year and also with each other. The return on assets ratio for both companies increased. Superfresh had only 0.4% increase whereas Dardanel had 14.4% increase which again shows that Dardanel in year 2003 had achieved a better performance than Superfresh.

Finally, when analyzing the return on equity, we again could not calculate this ratio, as the average total equity was a negative number.

As a conclusion, all the ratios and other calculations, which had been done so far, showed that Superfresh in both years had achieved a better performance when compared to Dardanel.

Especially in 2001, Dardanel had lots of problems. Its stocks had been stopped in IMKB, and they couldn't trade in IMKB (www.bankrupt.com). Also Dardanel had made lots of investments all around the world. It had a joint venture with Japans and opened a fish production unit in Cyprus and they invested around 4.5 million dollars in this investment except the capital (www.aksam.com.tr). Also Dardanel had made an agreement with Vakifbank and extended their debt payment date until the end of 2004 (www.ntv.com.tr). These are the reasons why Dardanel had so much financial problems especially in years 2000-2001 and then the company started its recovery period and finally in 2003 it managed to sort out some of its problems.

In some situations Dardanel had achieved a better performance and especially in 2003, it could obviously be seen that Dardanel's management performance was better than Superfresh but this improvement couldn't help the company to become the market leader.

Finally, after finishing all the analysis related to the companies' performances, the picture that comes out was that Superfresh had achieved a better performance than Dardanel. In the short-term liquidity measurements, long-term liquidity measurements and also the measurements of profitability, except inventory, accounts receivables turnover rate and operating cycle. Superfresh, therefore, must improve its ability to sell its inventory and collects its accounts receivables in a shorter period. With the improvement in those ones, the amount of cash flows in the company will be more and in a shorter period. Then, as a result, the liquidity of the company will increase and this will make Superfresh even stronger in the market.

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APPENDIX 1 – FINDINGS ON DARDANEL

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	17,133,858	22,566,242	15,647,098	(5,432,384)	(24%)	6,919,144	44%
Net Income	(110,391,547)	(49,782,566)	(5,219,075)	(62,608,891)	--	(44,563,491)	--

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	35,009,898	44,985,481	17,133,858	(9,975,583)	(22)%	27,851,623	162%
Net Income	34,893,190	(35,660,665)	(40,391,457)	70,553,855	--	4,730,792	--

	2003	2002	2001	2000	1999
Net Sales	35,003,898	44,985,481	17,133,858	22,566,242	15,647,098
C.O.G.S	26,626,374	35,302,297	33,138,057	44,514,896	6,406,926
Gross Profit	8,383,524	9,683,184	(16,004,199)	(21,948,654)	9,240,172

	2003	2002	2001	2000	1999
Net Sales	223.8%	287.5%	109.5%	144.2%	100%
C.O.G.S	415.6%	551%	517.2%	694.8%	100%
Gross Profit	90.7%	104.8%	--	--	100%

	2000	1999	2000	1999
GROSS SALES	51,266,345	21,058,073	100%	100%
SALES DEDUCTION (-)	(6,280,864)	(3,924,215)	(12.2)	(18.6)
Net Sales	44,985,481	17,133,858	87.8	81.4
Cost of Sales (-)	(35,302,297)	(33,138,157)	(68.9)	(157.4)
Gross Profit (loss)	9,683,184	(16,004,199)	18.9	(76.0)
Operating Expenses (-)	(5,993,334)	(9,177,796)	(11.7)	(43.6)
Profit (loss) from Main Operations	(3,689,850)	(25,181,995)	(7.2)	(119.6)
Income and Profit from Other Operations	11,124,425	13,419,496	21.7	63.7
Expenses and Losses from Other Operations	(9,172,679)	(10,256,326)	(17.9)	(48.7)
Financial Expenses (-)	(40,679,021)	(96,133,895)	(79.3)	(456.5)
Operating Profit (loss)	(35,037,425)	(118,152,720)	(68.3)	(561.0)
Extraordinary Income and Profits	293,293	8,349,974	0.6	39.6
Extraordinary Expenses and Losses (-)	(916,533)	(588,711)	(1.8)	(2.8)
Income before Taxation	(35,660,665)	(110,391,457)	(69.5)	(524.2)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(35,666,665)	(110,391,457)	(69.5)	(524.2)

	2000	1999	2000	1999
GROSS SALES	44,459,912	51,266,345	100%	100%
SALES DEDUCTION (-)	(19,450,014)	(6,280,864)	(21.2)	(12.2)
Net Sales	35,009,898	44,985,481	78.8	87.8
Cost of Sales (-)	(26,626,374)	(35,302,297)	(59.9)	(68.9)
Gross Profit (loss)	(8,383,524)	(9,683,184)	(18.9)	(18.9)
Operating Expenses (-)	(8,649,809)	(5,993,334)	(19.4)	(11.7)
Profit (loss) from Main Operations	(266,285)	(3,689,850)	(0.6)	(7.2)
Income and Profit from Other Operations	34,539,836	11,124,425	77.7	21.7
Expenses and Losses from Other Operations	(16,248,042)	(9,172,679)	(14.0)	(17.9)
Financial Expenses (-)	(6,418,851)	(40,679,021)	(14.4)	(73.3)
Operating Profit (loss)	(21,606,658)	(35,037,425)	(48.6)	(68.3)
Extraordinary Income and Profits	15,650,104	293,293	35.2	0.6
Extraordinary Expenses and Losses (-)	(2,363,572)	(916,533)	(5.3)	(1.8)
Income before Taxation	(34,893,190)	(35,666,665)	(74.5)	(69.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(34,893,910)	(35,660,665)	(74.5)	(69.5)

	2000	1999	2000	1999
GROSS SALES	24,523,840	17,485,199	100%	100%
SALES DEDUCTION (-)	(1,957,598)	(1,838,101)	(8)	(10.5)
Net Sales	22,566,242	15,647,098	92%	89.5
Cost of Sales (-)	(44,514,896)	(6,406,926)	(181.5)	(36.6)
Gross Profit (loss)	(21,948,654)	9,240,172	(89.5)	52.8
Operating Expenses (-)	(13,084,973)	(2,190,011)	(53.4)	(12.5)
Profit (loss) from Main Operations	(35,033,627)	7,050,161	(142.9)	40.3
Income and Profit from Other Operations	7,194,344	3,188,142	29.3	18.2
Expenses and Losses from Other Operations	(11,410,528)	(3,442,698)	(46.5)	(19.7)
Financial Expenses (-)	(10,522,363)	(12,085,052)	(43.0)	(69.1)
Operating Profit (loss)	(49,802,174)	(5,289,447)	(203.1)	(30.2)
Extraordinary Income and Profits	83.701	97.360	0.3	0.6
Extraordinary Expenses and Losses (-)	(64,093)	(26,988)	(0.3)	(0.2)
Income before Taxation	(49,782,566)	(5,219,075)	(203.0)	(29.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(49,782,566)	(5,219,075)	(203.0)	(29.5)

	2000	1999	2000	1999
GROSS SALES	21,058,073	24,523,840	100%	100%
SALES DEDUCTION (-)	(3,924,215)	(1,957,598)	(18.6)	(8.0)
Net Sales	17,133,858	22,566,242	81.4	89.5
Cost of Sales (-)	33,138,057	(44,514,896)	(157.4)	(181.5)
Gross Profit (loss)	(16,004,199)	(21,948,654)	(76.0)	(89.5)
Operating Expenses (-)	(9,177,796)	(13,084,973)	(43.6)	(53.4)
Profit (loss) from Main Operations	(25,181,995)	(35,033,627)	(119.6)	(142.9)
Income and Profit from Other Operations	13,419,496	7,194,344	63.7	29.3
Expenses and Losses from Other Operations	(10,256,326)	(11,410,528)	(48.7)	(46.5)
Financial Expenses (-)	(96,133,895)	(10,522,363)	(406.5)	(43.0)
Operating Profit (loss)	(118,152,720)	(49,802,174)	(561.0)	(203.0)
Extraordinary Income and Profits	8,349,974	83,701	39.6	0.3
Extraordinary Expenses and Losses (-)	(588,711)	(64,093)	(2.8)	(0.3)
Income before Taxation	(110,391,457)	(49,782,566)	(524.2)	(203.0)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(110,391,457)	(49,782,566)	(524.2)	(203.0)

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Current Ratio	**1.77**	**0.50**	**0.16**	**0.14**	**0.71**

	1999	2000	2001	2002	2003
Quick Assets	5,039,100	9,721,008	17,295,718	11,729,762	14,156,245
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Quick Ratio	**0.20**	**0.17**	**0.14**	**0.08**	**0.42**

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	32,621,962
Working Capital	**19,749,051**	**(27,832,444)**	**(100,812,580)**	**(134,251,896)**	**(9,875,773)**

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	75,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Cash Flow from Operations to Current Liabilities	**0.61**	**0.40**	**0.14**	**0.29**	**1.04**

	1999	2000	2001	2002	2003
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Average Account Receivables	7,358,989	7,278,915	13,273,673	13,969,372	12,372,135
Receivables Turnover Rate	**2.13**	**3.1**	**1.29**	**3.22**	**2.83**

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	2.13	3.1	1.29	3.22	2.83
Days to collect Accounts Receivables	**171.36**	**117.74**	**282.94**	**113.35**	**128.97**

	1999	2000	2001	2002	2003
C.O.G.S	6,406,926	44,514,896	33,138,057	26,626,374	35,302,297
Average Inventory	31,374,785	29,389,635	10,419,601	5,891,101	9,601,568
Inventory Turnover Rate	**0.20**	**1.51**	**3.18**	**4.45**	**3.68**

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.20	1.51	3.18	4.45	3.68
Days to sell Average Inventory	**1825**	**241.72**	**114.77**	**82.02**	**99.18**

	1999	2000	2001	2002	2003
Days to Collect A/R	171.36	117.74	282.94	113.35	128.97
Days to Sell Average Inventory	1825	241.72	114.77	82.02	99.18
Operating Cycle	**1996.36**	**359.46**	**397.71**	**195.37**	**228.15**

	1999	2000	2001	2002	2003
Total Liabilities	51,304,958	77,434,212	177,332,524	216,852,600	190,479,275
Total Assets	57,289,735	41,469,760	33,720,838	42,967,234	54,738,995
Debt Ratio	**89.5%**	**186.72%**	**525.88%**	**504.69%**	**348%**

	1999	2000	2001	2002	2003
Gross Profit	9,240,172	(21,948,654)	(16,004,199)	9,683,184	8,383,524
Net Sales	15,647,098	22,566,242	17,133,858	44,958,481	35,009,898
Gross Profit Rate	**59%**	**—**	**—**	**21.5%**	**23.9%**

	1999	2000	2001	2002	2003
Operating Expenses	2,190,011	13,084,973	9,177,796	5,993,334	8,649,809
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Operating Expense Ratio	**14%**	**58%**	**53.6%**	**13.3%**	**24.7%**

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Net Income as % of Net Sales	–	–	–	–	**6.99%**

	1999	2000	2001	2002	2003
Gross Profit (loss)	9,240,172	(16,004,199)	(21,948,654)	9,683,184	8,383,524
Operating Expenses	(2,190,011)	(9,177,796)	(13,084,973)	(8,649,809)	(5,993,334)
Operating Income	**7,050,161**	**(25,181,995)**	**(35,033,627)**	**(266,285)**	**3,698,850**

	1999	2000	2001	2002	2003
Operating Income	7,050,161	(25,181,995)	(35,033,627)	(266,285)	3,689,850
Average Total Assets	49,091,938	49,379,748	35,595,299	38,344,036	48,853,115
Return on Assets	**14.4%**	**(50.9)%**	**(93.2)%**	**(6.9)%**	**7.5%**

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Average Total Equity	8,279,583	(14,989,838)	(89,788,069)	(158,748,526)	(154,812,823)
Return on Equity	–	–	–	–	–

APPENDIX 2 – FINDINGS ON SUPERFRESH

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	29,279,660	23,111,053	17,363,096	6,618,607	28.6%	5,747,957	33.1%
Net Income	(43,910,609)	(16,121,450)	107,109	(27,789,159)	--	(16,228,559)	(151.5%)

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	33,580,341	38,522,766	29,279,666	(4,942,425)	(12.8%)	9.243.106	31.6%
Net Income (loss)	9,454,125	29,116,658	(43,910,609)	(19,662,533)	(67.5%)	73,027,267	--

	2003	2002	2001	2000	1999
Net Sales	33,580,341	38,522,766	39,279,660	23,111,053	17,363,096
C.O.G.S	(23,473,971)	(27,907,749)	(21,361,098)	(16,671,453)	(9,373,742)
Gross Profit	**10,106,370**	**10,615,017**	**7,918,562**	**6,439,600**	**7,989,354**

	2003	2002	2001	2000	1999
Net Sales	193.4%	221.9%	168.6%	133.1%	100%
C.O.G.S	340.4%	297.7%	227.9%	177.8%	100%
Gross Profit	**126.5%**	**132.8%**	**99.1%**	**80.6%**	**100%**

	2000	1999	2000	1999
GROSS SALES	26,220,886	18,980,278	100%	100%
SALES DEDUCTION (-)	(3,109,833)	(1,617,182)	(11.9)	(18.5)
Net Sales	23,111,053	17,363,096	88.1	91.5
Cost of Sales (-)	(16,671,453)	(9,373,742)	(163.5)	(47.1)
Gross Profit (loss)	6,439,660	7,989,354	24.6	42.1
Operating Expenses (-)	(8,336,450)	(4,364,600)	(31.8)	(23.0)
Profit (loss) from Main Operations	(1,896,850)	3,624,754	(7.2)	19.1
Income and Profit from Other Operations	(707,717)	702,959	(2.7)	3.7
Expenses and Losses from Other Operations	(8,678,556)	(166,884)	(33.1)	(0.9)
Financial Expenses (-)	(6,395,731)	(4,084,723)	(24.2)	(21.5)
Operating Profit (loss)	(16,263,420)	76,106	(62.0)	0.4
Extraordinary Income and Profits	187,667	31,981	0.7	0.2
Extraordinary Expenses and Losses (-)	(42,697)	(978)	(0.2)	(0.005)
Income before Taxation	(16,121,450)	107,109	(61.5)	0.6
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(16,121,450)	107,109	(61.5)	0.6

	2000	1999	2000	1999
GROSS SALES	37,651,344	26,220,886	100%	100%
SALES DEDUCTION (-)	(8,371,684)	(3,109,833)	(22.2)	(11.9)
Net Sales	29,279,660	23,111,053	77.8	88.1
Cost of Sales (-)	(21,361,098)	(16,671,453)	(56.7)	(63.5)
Gross Profit (loss)	7,918,562	6,439,660	21.3	24.6
Operating Expenses (-)	(9,236,793)	(8,336,450)	(24.5)	(31.8)
Profit (loss) from Main Operations	(1,318,231)	(1,896,850)	(3.5)	(7.2)
Income and Profit from Other Operations	3,447,088	707,717	9.1	2.7
Expenses and Losses from Other Operations	(44,418)	(8,678,556)	(0.1)	(33.1)
Financial Expenses (-)	(46,035,914)	(6,395,731)	(122,3)	(24,4)
Operating Profit (loss)	(43,951,475)	(16,263,420)	(116.7)	(62.0)
Extraordinary Income and Profits	42,872	184,667	(0.1)	0.7
Extraordinary Expenses and Losses (-)	(2006)	(42,697)	(0.005)	(0.2)
Income before Taxation	(43,910,609)	(16,121,450)	(116.6)	(61.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(43,910,609)	(16,121,450)	(116.6)	(61.5)

NEAR EAST UNIVERSITY

FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCES

BUSINESS DEPARTMENT

GRADUATION PROJECT

FINANCIAL STATEMENT ANALYSIS OF DARDANEL AND SUPERFRESH

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Submitted to

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ABSTRACT

Financial statement analysis is a process of evaluating and understanding the economic and financial position of the company. The investors, stockholders, and creditors need these analyses. It is important for investors to understand the position of the company in which they are making investments and creditors need these analysis to evaluate whether the company is worth giving financial support or not.

This study aimed to analyze the financial statements of both Dardanel and Superfresh between the years 1999-2003 and to evaluate which company is in a better position in the market.

After conducting all the needed analysis the final conclusion that appears is that even though Dardanel has achieved a better performance in year 2003, this performance couldn't help this company to reach the position of Superfresh in the market.

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INTRODUCTION

In today's global economy, investment capital is always on the move. There are well-organized capital markets, which act as an international and capital investment exchange. The investment increases in the areas which are expected to grow with good returns as well as minimal risk. These risks and returns are analyzed in a detailed way to make the investment safe and profitable.

This study concerns with the analysis of financial statements. The financial statement analysis provides insights into company's current status and leads to development of policies and strategies for the future. The analyst should be alert to the potential for management to influence the outcome of financial reporting in order to appeal to creditors, investors and other users.

Financial statement is a tool that helps the analysts and investors to make decisions by making use of the useful information. Additionally, it helps the investors to understand the key trends and relationship which gives clear understanding of all financial activities.

Financial ratios are the basis of analyzing the financial statements, as they are used to give answers to different kinds of questions regarding the firm's performance.

In this study, my aim is to analyze the financial statements of Dardanel Önentaş Gıda Sanayi A.Ş. and Kerevitaş A.Ş.(Superfresh) for the last five years (1999 to 2003) and compare the current performances with the past performances of the both companies.

Dardanel is a Turkish food company which has a good position in the Turkish food market, and which also has some other investments and joint ventures in the foreign countries. Also Kerevitaş (Superfresh) is in the same market, with the same product line with Dardanel and it is one of its competitors in the Turkish Food Market. Both companies are traded in Istanbul stock exchange. In the preparation process, I have gathered information from the IMKB's web site, from the books and from the discussions with my instructor.

The analyses of the both companies are conducted under five stages.

In the first part, the background information for Dardanel and Superfresh are included.

In the second part, some specific definitions and different approaches from various sources about the financial statements are included. The definitions and explanations about the functions and the importance of Balance Sheet, Income Statement, Statement of Stockholders Equity and Statement of Cash Flow are also included in this part.

Tools of analyzing the financial position of the company, such as Dollar and Percentage Changes, Trend Percentages (horizontal analysis), Component Percentages (vertical analysis) and also Ratio Analysis forms the third part of the project.

In the fourth part, the applications of Dollar and Percentage Changes, Trend Percentages (horizontal analysis), Component Percentages (vertical analysis) and also Ratio Analysis of both companies are included. With the help of this part, the analysis will be made easily.

The fifth part is the part of limitations where the limitations faced during the preparation of the project will be explained.

Finally, the conclusion and recommendations form the ending part of the study that will help the users to understand the financial statements easily.

I. HISTORICAL BACKGROUNDS

1.1 Historical Background of Dardanel

Dardanel Örentaş Gıda Sanayi A.Ş. was founded in 1984 by the chairman Mr. Niyazi Ören, with the scope of production on canned tuna, and other canned fish, fish flour, frozen sea food, cat and dog food, canned and frozen fruits and vegetables, frozen pastry, and frozen food products. The production capacity is 60.000 tons of fish, 30.000 tons of shellfish, 50.000 tons of canned and frozen fruits and vegetables, 3.000 tons of frozen pastry and frozen pre-cooked food. The number of employees working under companies is 2.000 people and the area covered by the company is 60.000 square meters inside and 40.000 square meters outside. The company qualifies for number of certificates such as, ISO9001, HACCP, TSE (for products), BRC, EFSIS, and TLC.

Dardanel exports 70% of its products to European countries, 20% to Egypt, Israel, Arabic countries and other Turkish republics. In year 2000, their export totaled to 24 million dollars. In the domestic market, they have an 80% share in canned tuna.

There are certain other companies working under the Dardanel Örentaş Gıda Sanayi A.Ş. Dardanel Meyve and Sebze Sanayi was founded in 1986, and specialized in canned and frozen fruit and vegetables, and it has a capacity of 50 tons per year and approximately 650 people work for it. Dardanel Hazır Gıda Sebze Sanayi was founded in 1989. It specialized in pastry products and pre-cooked products and it has a capacity of 3.000 tons every year. Dardanel Su Ürünleri Üretim was founded in 2001, with the 30% partnership with Japan Tohto Suisan Co. Ltd. Their capacity is 1.600 tons and they export all of their products to Japan.

In year 2003, Dardanel formed a joint venture with Japan and Turkish Cypriots and formed a fish farm in the Northern part of Cyprus. They invested 4.5 million dollars (not including the capital of the company) into this venture and they are expected to make $5 million of export in current situation, and also added that if they could increase their capacity to 3000 tons, then they expect to make an export of $100 million.

Dardanel Önentaş Gıda Sanayi A.Ş. has a vision of supporting a continuous understanding of total quality, and the company's strategies and objectives are;

- to establish itself as the strongest and an expert brand in primarily FMCG sea food
- to discover roads in Turkish eating habits and trends and to train housewives to use healthy, nutritious and convenient food for her family
- to adopt the company to continuous change in Turkish trade, supply and transportation etc. systems by working with third parties and by outsourcing activities as much as possible
- to collaborate with technical centers and sources in more advanced companies outside Turkey in order to synchronize company technology with most recent evolutions and developments.

1.2 Background Information of Superfresh

Kerevitaş was found in 1969 by the chairman, Mr. Cemil Merzeci. It is the producer, importer, exporter and distributor of whole range of frozen and canned food products and ice-cream. It has an experimental research laboratory, supported by a large quality laboratory in Bursa and in Istanbul.

The shareholders of Kerevitaş are Merzeci Holding A.Ş. with 37.76%, Shöller Holding Gmbh and Co. KG with 25,17%, Merzeci Family with 12.61% and others with 25.17%, which are on the stock market.

Kerevitaş is registered and traded in Istanbul Stock Exchange. It is the most dominant food company in Turkey. Superfresh's activities cover processing of various foodstuff, including vegetables, fruit, seafood products and dough products and further sales distribution, imports and exports of such products. Kerevitaş is the leading frozen and canned seafood, vegetable, fruit, preserves, concentrates and dough products company of the country in terms of quantities processed, product range and market share. In 1997 Kerevitaş also established Shöller Dondurma Sanayi A.Ş. with Shöller Holding of Germany to produce industrial ice cream. Kerevitaş also operate KSM seafood Corporation in Baton Rouge Louisiana, specialized in the processing and marketing of seafood both in the US and Europe.

Since over a quarter of a century, Kerevitaş adopted the principle of quality as its first priority, which in turn gave the positive outcome and rapid growth that it deserved. Wide range of products produced under tremendous heed for the customer satisfaction resulted in the achievement of the aliment sector, procuring about 68% of the "Local

Market Pie". Kerevitaş excelled by no surprise, but by committing itself to pursue "high quality and the state-of-the-art production" as the milestone of its policy.

Kerevitaş first started with seafood production and export. In the second half of the 70's company extended its activities to the processing of vegetables and fruit. During the 80's company increased its product range with the production of dough products and pizza. Also in 90's, it started producing potato products, especially frozen French fries. With an investment made in 1995 and 1996 they added canned tuna fish to the product range and increased the capacity of pizza and other dough products. Therefore, they reduced the company's dependence on volatility of agricultural industry to minimum and increased the capability to perform uninterrupted production and sales throughout the year. Operating five plants in Turkey, one in the USA and with more than 5.000 people Kerevitaş group employs highly trained expert teams to ensure first class selection of raw materials, sophisticated techniques of food processing and quality control systems. The production range of the company covers more than 187 different items and each product is mostly processed and packaged for direct consumer use. The entire production cycle takes place in aseptic areas, at controlled temperatures, which rigorously respect to EU hygienic regulations. Kerevitaş is the only company in food sector in Turkey, which has TS-EN-ISO 9001 certificate.

Concerning frozen products, Kerevitaş possesses an enormous infrastructure, which is a very important advantage in the market. The company's freezing and storing capacity are the largest among the private sector in Turkey, with an excess of

26.000kgs. Istanbul factory and storage facilities are very close to downtown and have a location advantage in terms of cold chain in the distribution system.

Kerevitaş is using its own refrigerated fleet now exceeding 200 trucks (plus 150 trucks for ice cream distribution). Due to a well established distribution system in the domestic and over the broader territories, the company exports 35% of its products, nearly 65% distributed in the domestic market.

Being 100% export oriented till 1990, Kerevitaş also started to supply the domestic retail market with frozen food, vegetables, seafood products, potato products, pizza and other dough products under its brand name SUPERFRESH. They market their products in more than 2000 outlets in Istanbul, 15000 in Turkey by distributing deep freezers to grocers, delicatessens, supermarkets and hypermarkets.

II. FINANCIAL STATEMENT

2.1 Balance Sheet

A balance sheet, also called the statement of conditions or statement of financial position, provides a wealth of information about a business firm, particularly when examined over a period of several years and evaluated in relation to the other financial statements (Fraser and Orminston, 2001).

The balance sheet shows the financial condition or the financial position of a company on a particular date. The statement is a summary of what the firm owns (assets), and what the firm owes to outsiders (liabilities), and to internal owners (stakeholders' equity).

The account balances on balance sheet must balance; that is the total of assets must be equal to sum of liabilities and stockholders' equity (Fraser and Ormimston, 2001).

Assets = Liabilities + Stakeholders' equity

This relationship always exists; in fact, the equity of these totals is why this financial statement is frequently called a balance sheet (Williams, Haka, Bettner and Meigs, 2002).

2.1.1 Assets

Assets are economic resources that are owned by a business and are expected to benefit future operations. The benefit to future operations comes in the form of positive future cash flows. The positive future cash flows may come directly as the asset is converted into cash or indirectly as the asset is used in operating the business

to create other assets that result in positive future cash flows (Meigs *et al*, 2002). Assets may have a definitive physical form such as buildings, machinery or an inventory of merchandise. On the other hand, some assets exist not in a physical or tangible form but in a form of valuable legal claims or rights; examples are amounts due from customers, investments in government bond, and patent rights (Meigs *et al*, 2002).

One of the most basic and at the same time most controversial problems in accounting is determining the dollar amount for the various assets of the business. At present, generally accepted accounting principles call for valuation of many assets in a balance sheet at cost, rather than at their current value. The specific accounting principles supporting cost as a basis for asset valuations are as follows; The cost principle, such assets as land, buildings, merchandise and equipment are typical of many economic resources that are required in producing revenue for business. The prevailing accounting view is that such assets should be presented at their cost. When we say that an asset is shown in the balance sheet at its historical cost, we mean the original amount the business entity paid to acquire assets.

Expectations to the cost principle are found in some of the most liquid assets. Amounts receivable from customers are generally included in the balance sheet at their net realizable value, which is an amount that approximates the cash that will be received when the receivable is collected (Meigs *et al*, 2002).

The balance sheet of a business is prepared on the assumption that the business is a continuing enterprise, or a going concern. Consequently, the present estimated prices

at which assets like land and buildings could be sold are of less importance than if these properties were intended for scale. These are frequently among the largest dollar amounts of a company's assets. Determining that an enterprise is a going concern may require judgment by the account (Meigs *et al*, 2002).

Another reason for using cost rather than current market values in accounting for most assets is the need for a definite, factual basis for valuation. The cost of land, buildings and many other assets purchased for cash can be rather definitely determined. Accountants use the term objective to describe asset valuations that are factual and can be verified by independent experts (Meigs *et al*, 2002).

The asset section of a balance sheet is divided into two basic components. Assets are classified as current assets or non-current assets on the basis of liquidity.

Current assets are cash and those other assets that will normally be converted into cash with a period of one year or one operating cycle if it is longer than a year (Bierman and Drebin, 1978).

Current assets include such items as the cash on hand, or in the bank, amounts due from customers (accounts receivable), materials, supplies or goods on hands (inventories), readily marketable securities that are expected to be sold within one year, and advance payments for insurance, rent and the like (called pre-paid expenses).

Non-current assets are those assets that are likely to be converted into cash in the normal operating cycle of the firm.

Non-current assets are also referred to as fixed assets or long-lived assets. This category includes such things as land, buildings and equipment. These items are normally expected to last more than one year and cannot be sold (turned into cash) without disrupting the normal business operations (Bierman and Drebin, 1978).

The distinction between current and non-current assets is made on the basis of intention or normal expectation rather than ability to convert to cash. Thus, inventories of materials are classified as current because they would normally be disposed of within one year. A building that might be disposed of just as easily is treated as non-current if it would not be sold within a year in the normal course of business.

2.1.2 Liabilities

Liabilities are the obligations and debts of the corporation. The terms are generally fixed by legal contract and have definite due dates (Bierman and Drebin, 1978).

The liability section is further divided on the basis of due date between current liabilities and non-current liabilities. The distinction is essentially the same as that applied to assets.

Current liabilities are those obligations that are to be paid within one year. Current liabilities include amounts owed to trade creditors (accounts payable), workers (wages

payable), government (taxes payable), investors (interest or dividends payable) and customers (advanced by customers). All are current liabilities if they are due within one year (of within operating cycle of the firm) (Bierman and Drebin, 1978).

Non-current or long-term liabilities are those coming due in more than one year. Long-term liabilities include amounts that are owed but do not have to be paid within one year. The most common long-term liabilities are bonds, mortgages, and notes. If a part of these items is due within twelve months, that amount should be classified as current liability. It is the due date, not the title that determines the classification (Bierman and Drebin, 1978).

2.1.3 Owner's Equity

Owner's equity represents the owners' claim on the assets of the business. Because creditors' claims have legal priority over those of the owner, owners' equity is residual amount. If you are the owner of a business, you are entitled to assets that are left after the claims of creditors have been satisfied in full. Therefore, owners' equity is always equal to total assets minus total liabilities (Meigs *et al*, 2002).

Owners' equity does not represent a specific claim to cash or any other particular asset. Rather, it is the overall financial interest of the entire company.

2.2 Income Statement

The income statement is a summarization of the company's revenue and expense transactions for a period of time. It is particularly important for the company's owners, creditors and other interested parties to understand the income statement. Ultimately, the company will succeed or fail based on its ability to earn revenue in excess of its expenses. Once the company's assets are acquired and business commences, revenues and expenses are important sources of cash flows for the enterprise (Meigs *et al*, 2002).

Two basic measures of a company's performance are obtained from the income statement. These are net income and earnings per share (Bierman and Drebin, 1978).

The period of time covered by an income statement is termed with the company's accounting period. To provide the users of financial statements with timely information, net income is measured for relatively short accounting periods of equal length. This concept is called the time period principle (Meigs *et al*, 2002).

2.2.1 Revenue

Revenue is the price of goods sold and services rendered during a given account period. Earning revenue causes owners' equity to increase. When a business renders services or sells merchandise to its customers, it usually receives cash or acquires the account receivable from customers. The inflow of cash and receivables from consumers increases the total assets of the company (Meigs *et al*, 2002).

When should revenue be recognized? In most cases, the realization principle indicates that revenue should be recognized at the time goods are sold or services are rendered. At this point, the business has essentially completed the earning process and the sales value of the goods or services can be measured objectively (Meigs *et al*, 2002, p. 98).

2.2.2 Expenses

Expenses are the costs of the goods and services used up in the process of earning revenue. Expenses include cost of employees' salaries, advertising, rent, utilities and the depreciation of buildings. All these costs are necessary to attract and serve and thereby earn revenue. Expenses are often called the "costs of doing business," that is, the cost of various activities necessary to carry on a business.

An expense always causes a decrease in owners' equity (Meigs *et al*, 2002, p.99).

A significant relationship exists between revenue and expenses. Expenses are incurred for the purpose of producing revenue. In measuring the net income for a period, revenue should be offset by all the expenses incurred in producing that revenue. This concept of offsetting expenses against revenue on the basis of cause and effect is called the matching principle. Timing is an important factor in matching (offsetting) revenue with the related expenses.

2.2.3 Net Income / Loss

Net income is determined by comparing sales prices of goods or services sold during the period with the costs incurred by the business in delivering these goods and

services. The technical accounting terms for these components of not income are revenue and expenses. Therefore, accountants say that net income is equal to revenue minus expanses. Should expenses exceed revenue, a net loss results.

2.3 Statement of Stockholders' Equity

The statement of stockholders' equity reconciles the beginning and ending balances of all accounts that appear in the stockholders' equity section of the balance sheet. Some firms prepare statement of retained earnings, frequently combined with the income statement, which reconciles the beginning and ending balances of the retained earnings account. Companies choosing the latter format will generally present the statement of stockholders' equity in a footnote disclosure (Fraser and Ormimston, 2001).

The top line of the statement includes the beginning balance of each major category of stockholders' equity and explains the nature and the amount of each change and computes the ending balance in each equity account (Meigs *et al*, 2002).

2.4 Statement of Cash Flow

The basic purpose of a statement of cash flow is to provide information about the cash receipts and cash payments of a business entity during the accounting period. The term cash flows include both cash receipts and cash payments. In addition, the statement is intended to provide information about the investing and financing activities of the company during the period. A statement of cash flow assists investors, creditors and others in assessing such factors as;

- The company's ability to generate positive cash flows in the future period.

- The company's ability to meet its obligations and to pay dividends.
- The company's need for external financing.
- Reasons for differences between the amount of net income and the related net cash flows from operating activities.
- Both the cash and non-cash aspects of the company's investments and financing transactions for the period.
- Causes of the change in the amount of cash and cash equivalents between the beginning and the end of the accounting period.

A statement of cash flow helps users of financial statements evaluate company's ability to have sufficient cash, both on a short-run and on a long-run basis. For this reason, the statement of cash flow is useful to virtually everyone interested in the company's financial health; short and long-term creditors, investors, management and both current and prospective competitors (Meigs *et al*, 2002).

The cash flows shown in the statement are grouped under three major categories;

1. Operating activities
2. Investing activities
3. Financing activities

2.4.1 Operating Activities

The operating activities section shows the cash effects of revenue and expense transactions. The operating activities section of the statement of cash flows includes the cash effects of those transactions reported in income statement. The largest cash inflow from operations is the collection of cash from customers. Smaller receipts of

interest on loans and dividends on stock investments. The outflows include payments for interest and taxes (Meigs *et al*, 2002).

2.4.2. Investing Activities

Cash flows relating to investing activities present the cash effects of transactions involving plant assets, intangible assets and investments (Meigs *et al*, 2002).

Investing activities include;

1. acquiring and selling or otherwise disposing of
    a) securities that are not cash equivalents and,
    b) productive assets that are expected to benefit the firm for long periods of time
2. lending money and collecting on loans (Fraser and Orminston, 2001).

2.4.3 Financing Activities

Financing activities include borrowing from creditors and repaying the principal and obtaining resource from owners providing them with a return on investment.

III. RESEARCH METHODOLOGY

3.1 Tools of Analysis

3.1.1 Dollar and Percentage Changes

The dollar amount of change from year to year is significant, and expressing the change in percentage terms adds perspective.

The dollar amount of any change is the difference between the amount of comparison year and the amount for a base year. The percentage change is computed by dividing the amount of dollar change between years by the amount for base year.

Computing the percentage changes in sales, gross profit, and net income from one year to the next gives insight into a company's rate of growth. If a company is experiencing growth in its economic activities, sales and earnings should increase at more than the rate of inflation (Meigs *et al*, 2002).

3.1.2 Trend Percentages (Horizontal Analysis)

The changes in financial statement items from a base year to the following years are often expressed as trend percentages to show the extent and direction of change. Two steps are necessary to compute trend percentages;

1- a base year is selected and each item in the financial statements for the base year is given a weight of 100%.

2- is to express each item in the financial statements for the following years as a percentage of its base-year amount.

This computation consists of dividing an item such as sales in the years after the base year by the amount of sales in the base year (Meigs *et al*, 2002).

3.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in a total. This shows quickly the relative importance of each type of asset as well as relative amount of financing obtained from current creditors, long-term creditors, and stockholders. By computing component percentages for several successive balance sheets we can see which items are increasing in importance and which are becoming less significant.

Another application of component percentages is to express all items in an income statement as a percentage of net sales. Such a statement is called a common-size income statement.

3.1.4 Ratio Analysis

Ratios are useful because they summarize briefly the results of detailed and complicated computations (Fraser and Ormimston, 2001). A ratio is a simple mathematical expression of one relationship of one item to another.

Ratios are particularly important in understanding financial statements because they permit us to compare information from one financial statement with information from another financial statement.

3.1.4.1 Measure of Short-Term Liquidity

Liquidity refers to a company's ability to meet its continuing obligations as they arise. Analyzing an enterprise's liquidity and credit risk is very important (Meigs *et al*, 2002).

Current Ratio: It is the most widely used measure of short-term debt paying ability. Current ratio is computed as follows;

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

The higher the amount ratio, the more liquid the company appears to be. Some bankers and other short-term creditors have believed that a company should have a current ratio of 2 to 1 or higher to qualify as a good credit risk.

Quick Ratio: It is also known as the acid test ratio and it is a more rigorous test of short-run solvency than the current ratio because the numerator eliminates inventory, considered the least liquid current asset and most likely source of losses. Quick ration is calculated as follows (Fraser and Ormimston, 2001);

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick assets include cash, marketable securities and receivables.

<u>Working Capital</u>: It is a measurement often used to express the relationship between current assets and current liabilities. Working capital is the excess of current assets over current liabilities. Working capital measures a company's potential excess sources of cash over its upcoming uses of cash. Working capital is computed as follows;

Working Capital = Current Assets – Current Liabilities

<u>Cash Flow from Operations to Current Liabilities</u>: Indicates ability to cover currently maturing obligations from recurring operations and is computed as follows;

$$\text{Cash Flow from Operations to Current Liabilities} = \frac{\text{Cash flows from Operating Activities}}{\text{Current Liabilities}}$$

<u>Receivables Turnover Rate</u>: It indicates how quickly a company converts its accounts receivable into cash and it as computed ad follows;

$$\text{Receivables Turnover Rate} = \frac{\text{Net Sales}}{\text{Average A/R}}$$

<u>Days to Collect Average A/R</u>: It is the average number of days required to convert receivables into cash.

$$\text{Days to Collect Average A/R} = \frac{\text{365 days}}{\text{Receivables Turnover Rate}}$$

The average collection period helps gauge the liquidity of A/R, the ability of the firm to collect from customers. It may also provide information about a company's credit policies (Fraser and Ormimston, 2001).

<u>Inventory Turnover Rate</u>: Indicates how many times during the year the company is able to sell a quantity of goods equal to its average inventory. Inventory turnover rate is computed as follows;

$$\text{Inventory Turnover Rate} = \frac{\text{Cost of the Goods Sold}}{\text{Average Inventory}}$$

<u>Days to sell the Average Inventory</u>: It indicates how quickly the inventory sells and is computed as follows;

$$\text{Days to sell the Average Inventory: } \frac{\text{365 days}}{\text{Inventory Turnover Rate}}$$

<u>Operating Cycle</u>: The period of time required for a merchandising company to convert its inventory into cash is called the operating cycle.

Operating Cycle = Days to Sell Inventory + Days to Collect Receivables

It indicates in days how quickly cash invested in inventory converts back into cash.

3.1.4.2 Measures of Long-Term Credit Risk

Long-term solvency ratios measure the ability of the enterprise to survive over a long period of time. Long-term creditors and stockholders are interested in a company's long-run solvency, particularly its ability to pay interest as it comes due and repay the face value of the debt at maternity.

Debt Ratio: It is the basic measure of safety of creditor's claims, which states total liabilities as a percentage of total assets. It measures the creditor's long-term risk. The smaller the portion of total assets financed by creditors, the smaller the risk that the business may become unable to pay its debts. From the creditors point of view, lower the debt ratio, the safer their position. Debt ratio is computed as follows;

$$\text{Debt ratio: } \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

3.1.4.3 Measures of Profitability

Measures of a company's profitability are of the interest to equity investors and management and are drawn preliminary from the income statement.

Gross Profit Rate: It is the gross profit expressed as a percentage of net sales. It is a measure of the profitability of the company's products.

$$\text{Gross Profit Rate: } \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Operating Exchange Ratio: A measure of management's ability to control expenses. It is computed as follows;

Operating Expense Ration: $\dfrac{\text{Operating Expenses}}{\text{Net Sales}}$

Net Income as a Percentage of Net Sales: An indicator of management's ability to control costs.

Net Income as a Percentage of Net Sales: $\dfrac{\text{Net Income}}{\text{Net Sales}}$

Operating Income: It shows the relationship between revenue earned from customers and expenses incurred in producing this revenue. Operating income shows the probability of a company's basic business activities. Operating income is computed as follows;

Operating Income = Gross profit – Operating Expenses

Earnings Per Share: It shows the net income applicable to each share of common stock.

Earnings Per Share: $\dfrac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average number of common shares outstanding}}$

Return on Assets: it is a measure of productivity assets, regardless of how the assets are financed.

Return on Assets: $\dfrac{\text{Operating Income}}{\text{Average Total Assets}}$

Return on Equity: It is the rate of return earned on stockholders' equity in the business.

Return on Equity: $\dfrac{\text{Net Income}}{\text{Average Total Equity}}$

Return on Common Stakeholders' Equity: The rate of return earned on the common stakeholders' equity appreciates when company has both common and preferred stock.

Return on Common Stakeholders' Equity: $\dfrac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Common Stakeholders' Equity}}$

3.1.4.3 Measures of Evaluating The Current Market Price Of Common Stock

Price-Earnings Ratio: A measure of investors' expectations and current market conditions.

$$\text{Price-Earnings Ratio: } \frac{\text{Current Stock Price}}{\text{Earnings Per Share}}$$

Dividend Yield: Dividends expressed as a rate of return on the market price of the stock.

$$\text{Dividend Yield: } \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$$

Book Value Per Share: The recorded value of net assets underlying each share of common stock.

$$\text{Book Value Per Share: } \frac{\text{Common Stockholders' Equity}}{\text{Shares on C/S outstanding}}$$

IV. FINANCIAL STETMENT ANALYSIS OF DARDANEL AND SUPERFRESH

Starting with this page, different tables including income statements of Dardanel and Superfresh Companies reported for the years 1999, 2000, 2001, 2002, and 2003 are available. Under the light of these tables, I will try to make financial statement analysis of Dardanel and Superfresh. This analysis will give us general information about the companies on whether they are performing well and on whether they are profitable or non-profitable.

4.1. Findings of Dardanel

4.1.1 Dollar and Percentage Changes

The dollar amount of any change is the difference between the amounts of base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes, Net Sales and Net Income have been taken from Income Statement of Dardanel financial statements which appear in appendix 1.

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	17,133,858	22,566,242	15,647,098	(5,432,384)	(24%)	6,919,144	44%
Net Income	(110,391,547)	(49,782,566)	(5,219,075)	(62,608,891)	--	(44,563,491)	--

In this table, the net sales showed an increase of 44% between the years 1999 over 2000 but during the years 2001 over 2000 the net sales decreased by 5,432,384.

Net income, in years 2000 over 1999 decreased by 44,563,491 and in years 2001 over 2000 decreased further 62,608,891. In this situation, according to the rule which says that if the base year is a negative number, you cannot calculate the percentage changes. We couldn't calculate the changes in the percentages in years 2000 over 1999 and 2001 over 2000.

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	35,009,898	44,985,481	17,133,858	(9,975,583)	(22)%	27,851,623	162%
Net Income	34,893,190	(35,660,665)	(40,391,457)	70,553,855	--	4,730,792	--

Net sales increased by 162% in 2002 over 2001 but in years 2003 over 2002 net sales decreased by 9,975,583 which is 22%.

Net income increased by 4,730,792 in years 2002 over 2001 and increased further in years 2003 over 2002 to 70,553,855. However, as we mentioned above, according to the rule, we cannot calculate the percentage changes if the base year is a negative amount and for this reason we couldn't calculate the percentage changes as the base year 2002 and 2001 was a negative amount.

4.1.2 Trend Percentages (Horizontal Analysis)

Trend percentages (Horizontal Analysis) is a technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. During the calculation of trend percentages, Net Sales, cost of

goods sold and gross profit have been taken from income statement of Dardanel income statements which appear in appendix 1.

	2003	2002	2001	2000	1999
Net Sales	35,003,898	44,985,481	17,133,858	22,566,242	15,647,098
C.O.G.S	26,626,374	35,302,297	33,138,057	44,514,896	6,406,926
Gross Profit	8,383,524	9,683,184	(16,004,199)	(21,948,654)	9,240,172

	2003	2002	2001	2000	1999
Net Sales	223.8%	287.5%	109.5%	144.2%	100%
C.O.G.S	415.6%	551%	517.2%	694.8%	100%
Gross Profit	90.7%	104.8%	--	--	100%

When comparing with the base year, it can be seen that there is an increasing trend in net sales but in 2001 this increase is at the minimum amount which is almost 10% but in 2001 there is a boom in net sales and it has gone up to 287.5%.

The cost of good sold increased to 694.8% in year 2000 and then it started to decline.

In Gross profit situation, in year 2000-2001 the company was in a loss and this is due to the increasing trend in C.O.G.S and in year 2002 the gross profit increased and came up to the base year and in 2003 it declined but not too much when compared with 2000 and 2001. And as there is a loss we cannot calculate the gross profit percentages in years 2000 and 2001.

4.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in total.

During the calculation of component percentage; net sales, cost of sales, operating expense, and net income have been taken as a percentage of gross sales. The income statements' data has been taken from Dardanel's financial statements that are included in appendix 1.

	2000	1999	2000	1999
GROSS SALES	24,523,840	17,485,199	100%	100%
SALES DEDUCTION (-)	(1,957,598)	(1,838,101)	(8)	(10.5)
Net Sales	22,566,242	15,647,098	92%	89.5
Cost of Sales (-)	(44,514,896)	(6,406,926)	(181.5)	(36.6)
Gross Profit (loss)	(21,948,654)	9,240,172	(89.5)	52.8
Operating Expenses (-)	(13,084,973)	(2,190,011)	(53.4)	(12.5)
Profit (loss) from Main Operations	(35,033,627)	7,050,161	(142.9)	40.3
Income and Profit from Other Operations	7,194,344	3,188,142	29.3	18.2
Expenses and Losses from Other Operations	(11,410,528)	(3,442,698)	(46.5)	(19.7)
Financial Expenses (-)	(10,522,363)	(12,085,052)	(43.0)	(69.1)
Operating Profit (loss)	(49,802,174)	(5,289,447)	(203.1)	(30.2)
Extraordinary Income and Profits	83.701	97.360	0.3	0.6
Extraordinary Expenses and Losses (-)	(64,093)	(26,988)	(0.3)	(0.2)
Income before Taxation	(49,782,566)	(5,219,075)	(203.0)	(29.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(49,782,566)	(5,219,075)	(203.0)	(29.5)

In year 1999 the net loss was 29.5% and in the next year in 2000, this ratio grew up to 203% which shows us that the company is not in a good situation. This increase from year 1999 to 2000 was firstly due to a tremendous increase in the cost of sales which was 36.6% in year 1999 and increased to 181.5%, also operating expenses increased

by 40.9%. Net sales increased and also income from profit and other operations increased as well but those increases were not enough.

	2000	1999	2000	1999
GROSS SALES	21,058,073	24,523,840	100%	100%
SALES DEDUCTION (-)	(3,924,215)	(1,957,598)	(18.6)	(8.0)
Net Sales	17,133,858	22,566,242	81.4	89.5
Cost of Sales (-)	33,138,057	(44,514,896)	(157.4)	(181.5)
Gross Profit (loss)	(16,004,199)	(21,948,654)	(76.0)	(89.5)
Operating Expenses (-)	(9,177,796)	(13,084,973)	(43.6)	(53.4)
Profit (loss) from Main Operations	(25,181,995)	(35,033,627)	(119.6)	(142.9)
Income and Profit from Other Operations	13,419,496	7,194,344	63.7	29.3
Expenses and Losses from Other Operations	(10,256,326)	(11,410,528)	(48.7)	(46.5)
Financial Expenses (-)	(96,133,895)	(10,522,363)	(406.5)	(43.0)
Operating Profit (loss)	(118,152,720)	(49,802,174)	(561.0)	(203.0)
Extraordinary Income and Profits	8,349,974	83,701	39.6	0.3
Extraordinary Expenses and Losses (-)	(588,711)	(64,093)	(2.8)	(0.3)
Income before Taxation	(110,391,457)	(49,782,566)	(524.2)	(203.0)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(110,391,457)	(49,782,566)	(524.2)	(203.0)

Net loss was 203% in year 200 but this loss increased even further to 524.4% which showed that the company was really in a worse situation than the year 2000. The cost of sales increased by 24.1%, but this loss is due to an increase in financial expenses of which it was 43% in year 2000 but increase to 456.5% in year 2001. Net sales also decreased. Extraordinary income and profit and income and profit from other operations also increased.

	2000	1999	2000	1999
GROSS SALES	51,266,345	21,058,073	100%	100%
SALES DEDUCTION (-)	(6,280,864)	(3,924,215)	(12.2)	(18.6)
Net Sales	44,985,481	17,133,858	87.8	81.4
Cost of Sales (-)	(35,302,297)	(33,138,157)	(68.9)	(157.4)
Gross Profit (loss)	9,683,184	(16,004,199)	18.9	(76.0)
Operating Expenses (-)	(5,993,334)	(9,177,796)	(11.7)	(43.6)
Profit (loss) from Main Operations	(3,689,850)	(25,181,995)	(7.2)	(119.6)
Income and Profit from Other Operations	11,124,425	13,419,496	21.7	63.7
Expenses and Losses from Other Operations	(9,172,679)	(10,256,326)	(17.9)	(48.7)
Financial Expenses (-)	(40,679,021)	(96,133,895)	(79.3)	(456.5)
Operating Profit (loss)	(35,037,425)	(118,152,720)	(68.3)	(561.0)
Extraordinary Income and Profits	293,293	8,349,974	0.6	39.6
Extraordinary Expenses and Losses (-)	(916,533)	(588,711)	(1.8)	(2.8)
Income before Taxation	(35,660,665)	(110,391,457)	(69.5)	(524.2)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(35,666,665)	(110,391,457)	(69.5)	(524.2)

The net loss was 524.2% in year 2001 and this amount reduced to 69.5%. This improvement was in favor of the organization. The net income increased by 6%, the cost of sales reduced by 88.5%, operating expenses reduced by 31.9% and financial expenses reduced by 377.2% and these had an effect on the improvement of the net income.

	2000	1999	2000	1999
GROSS SALES	44,459,912	51,266,345	100%	100%
SALES DEDUCTION (-)	(19,450,014)	(6,280,864)	(21.2)	(12.2)
Net Sales	35,009,898	44,985,481	78.8	87.8
Cost of Sales (-)	(26,626,374)	(35,302,297)	(59.9)	(68.9)
Gross Profit (loss)	(8,383,524)	(9,683,184)	(18.9)	(18.9)
Operating Expenses (-)	(8,649,809)	(5,993,334)	(19.4)	(11.7)
Profit (loss) from Main Operations	(266,285)	(3,689,850)	(0.6)	(7.2)
Income and Profit from Other Operations	34,539,836	11,124,425	77.7	21.7
Expenses and Losses from Other Operations	(16,248,042)	(9,172,679)	(14.0)	(17.9)
Financial Expenses (-)	(6,418,851)	(40,679,021)	(14.4)	(73.3)
Operating Profit (loss)	(21,606,658)	(35,037,425)	(48.6)	(68.3)
Extraordinary Income and Profits	15,650,104	293,293	35.2	0.6
Extraordinary Expenses and Losses (-)	(2,363,572)	(916,533)	(5.3)	(1.8)
Income before Taxation	(34,893,190)	(35,666,665)	(74.5)	(69.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(34,893,910)	(35,660,665)	(74.5)	(69.5)

In year 2003 the company was in a good situation and net income was 74.5%. Even though the net sales decreased around 9%, also the operating expenses decreased. Income and profit from other operatings increased by 56% and financial expenses decreased by 65.3%, and also extraordinary income and profits increased by 34.6% and eventually as a result, the company made a profit of 75.4%.

4.1.4 Ratio Analysis

Ratio analysis expresses the relationship among selected items of financial statement data. The relationship is expressed in terms of a percentage, a rate or a simple proportion. There is a three kind of ratio analysis that we are going to calculate; Short-term liquidity, long-term credit risk and profitability ratio. The data used in calculation of ratios has been taken from Dardanel's financial statements, which appear in appendix 1.

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Current Ratio	**1.77**	**0.50**	**0.16**	**0.14**	**0.71**

From the table it can be seen that the current ratio in year 1999 is 1.77 and this ration started to decrease in 2000 and this fall continued until the year 2002 and eventually in 2003 this ratio increased to 0.71. According to creditors and bankers, it is believed that company should have a current ratio 2:1 or higher to qualify as a good credit risk. Only year 1999 was close to that ratio, and all other ratios are below 2:1 and company is weak in debt paying ability.

	1999	2000	2001	2002	2003
Quick Assets	5,039,100	9,721,008	17,295,718	11,729,762	14,156,245
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Quick Ratio	**0.20**	**0.17**	**0.14**	**0.08**	**0.42**

In year 1999 the quick ratio of the company was 0.20, which is a low amount and this rate decreased further in 2000, 2001, and 2002. In 2002, it came to the lowest rate, which was 0.08, and then in year 2003 this ratio started to increase and end up with 0.42.

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	32,621,962
Working Capital	**19,749,051**	**(27,832,444)**	**(100,812,580)**	**(134,251,896)**	**(9,875,773)**

Current assets of the company decreases year by year but it started to increase in the year 2003, and conversely the current liabilities started to increase from year 1999 to 2002 and came up to 155,594,850. However, in year 2003 this amount fell to 33,621,962. This shows us that the company is not able to pay its debts.

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	75,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Cash Flow from Operations to Current Liabilities	**0.61**	**0.40**	**0.14**	**0.29**	**1.04**

As can be seen from the table, cash flow from operations to current liabilities ratio started with 0.61 and started to decline and then the recovery started in year 2003 and that ratio came up to 1.04.

	1999	2000	2001	2002	2003
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Average Account Receivables	7,358,989	7,278,915	13,273,673	13,969,372	12,372,135
Receivables Turnover Rate	**2.13**	**3.1**	**1.29**	**3.22**	**2.83**

The receivables turnover rate actually computed to find the days to collect accounts receivables. Higher the turnover rate the quicker the company collects its receivables. When analyzing the receivables turnover rate, we realized that the rate has an unsteady movement where in year 1999 the rate was 2.13 and it went up the next year to 3.1 and then it fell to 1.29 and started to increase again. Decreasing receivable turnover rate shows that the maturities of accounts receivables are getting longer so the company cannot recover its receivables early.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	2.13	3.1	1.29	3.22	2.83
Days to collect Accounts Receivables	**171.36**	**117.74**	**282.94**	**113.35**	**128.97**

Since the accounts receivable turnover rate has an unsteady increase and decrease the days to collect A/R varies. In 1999, it started with 171.36 and in 2002 it ended with 128.97 days. This means that the company started to collect it account receivables in a shorter period.

	1999	2000	2001	2002	2003
C.O.G.S	6,406,926	44,514,896	33,138,057	26,626,374	35,302,297
Average Inventory	31,374,785	29,389,635	10,419,601	5,891,101	9,601,568
Inventory Turnover Rate	**0.20**	**1.51**	**3.18**	**4.45**	**3.68**

Inventory turnover indicates how many times a year the company is able to sell a quantity of goods equal to its average inventory. The higher turnover means it can sell quicker inventory and higher rate is better for a company. From the table, it can be seen that in 1999 this rate was 0.20 which is a very low rate and was not good for the company but in later years this rate was in an increasing trend and this was in favor of the company meaning that the company will sell its inventory more.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.20	1.51	3.18	4.45	3.68
Days to sell Average Inventory	**1825**	**241.72**	**114.77**	**82.02**	**99.18**

Days to sell average inventory indicates how quickly the inventory sells and converts it into cash or account receivable. In 1999 the company was in a bad situation and 1825 days were needed but as the years passed the company improved its situation and in 2002 it only needed 82 days to convert its inventory into cash.

	1999	2000	2001	2002	2003
Days to Collect A/R	171.36	117.74	282.94	113.35	128.97
Days to Sell Average Inventory	1825	241.72	114.77	82.02	99.18
Operating Cycle	**1996.36**	**359.46**	**397.71**	**195.37**	**228.15**

Operating cycle indicates in days how quickly cash is invested in inventory converts back into cash. In this situation, in 1999, the company needed 1996.36 days and by

the time passes this amount decreased up to 195.37 days which is in favor of the organization.

	1999	2000	2001	2002	2003
Total Liabilities	51,304,958	77,434,212	177,332,524	216,852,600	190,479,275
Total Assets	57,289,735	41,469,760	33,720,838	42,967,234	54,738,995
Debt Ratio	**89.5%**	**186.72%**	**525.88%**	**504.69%**	**348%**

Debt ratio measures safely the creditors claims, which states total liabilities as a percentage of total assets. The smaller the portion of total assets financed by creditors, the smaller is the risk of the business may become unable to pay its debts. Each year of 50% or less is favorable for creditors. In the case of Dardanel in 1999 the debt ratio was 89.5% which was a quite high amount but as the years passed this amount increased up to 525.88% in 2002 and then started to decline again in 2003, but these ration indicate that the company is in an unfavorable situation.

	1999	2000	2001	2002	2003
Gross Profit	9,240,172	(21,948,654)	(16,004,199)	9,683,184	8,383,524
Net Sales	15,647,098	22,566,242	17,133,858	44,958,481	35,009,898
Gross Profit Rate	**59%**	**–**	**–**	**21.5%**	**23.9%**

Gross profit rate is the grossed profit expressed as a percentage of net sales and measures the profitability on the company's products.

In year 1999 the gross profit rate was 59% which as in the favor of the organization but in years this ratio fell and instead of profit the company made loss and in year

2002 this ratio increased to 21.5% and the next year the ratio kept increasing trend and came up to 23.9%. Also we cannot calculate ratios for years 2000 and 2001 because there was no gross profit.

	1999	2000	2001	2002	2003
Operating Expenses	2,190,011	13,084,973	9,177,796	5,993,334	8,649,809
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Operating Expense Ratio	**14%**	**58%**	**53.6%**	**13.3%**	**24.7%**

Operating exchange ratio refers to the proportion of expenses in net sales so lower the ratio, lower the expenses. This means lower expenses are more profitable in operations.

Here this ratio was 14% in 1999 and it increased too much to 58% which is not good for the company and then it started to decline in 2001 and in 2002 it decreased even below the year 1999 to 13.3% and then in 2003 it increased to 24.7%.

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Net Income as % of Net Sales	–	–	–	–	**6.99%**

Net income as a percentage of net sales shows what proportion of net sales reported as net income. As the company does not have any net income in years 1999, 2000, 2001, and 2002, we cannot calculate the net income as a percentage of net sales. Only year 2003's calculation has been made and this ratio is 0.99.

	1999	2000	2001	2002	2003
Gross Profit (loss)	9,240,172	(16,004,199)	(21,948,654)	9,683,184	8,383,524
Operating Expenses	(2,190,011)	(9,177,796)	(13,084,973)	(8,649,809)	(5,993,334)
Operating Income	**7,050,161**	**(25,181,995)**	**(35,033,627)**	**(266,285)**	**3,698,850**

Shows the relationship between revenue earned from customers and expenses incurred in producing that revenue.

In this situation, the company only had operating income in year 1999 which was 7,050,161 and then it had an operating loss in years 2000, 2001 and 2002 and then had an operating income in year 2003 which was 3,689,850.

	1999	2000	2001	2002	2003
Operating Income	7,050,161	(25,181,995)	(35,033,627)	(266,285)	3,689,850
Average Total Assets	49,091,938	49,379,748	35,595,299	38,344,036	48,853,115
Return on Assets	**14.4%**	**(50.9)%**	**(93.2)%**	**(6.9)%**	**7.5%**

Is a measure of productivity of assets regardless how assets are financed. The general agreement among the financial analyst is that 15% or more return on average total asset is successful. In year 1999 return on assets was at the average value but in year 2000, 2001 and 2002 as the company had an operating loss we could not calculate the return on assets but in year 2003 the company is in recovery period and return on assets had increased to 7.5%.

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Average Total Equity	8,279,583	(14,989,838)	(89,788,069)	(158,748,526)	(154,812,823)
Return on Equity	–	–	–	–	–

Return on equity is a ratio which looks only at the return earned by management by stockholder's investments. Stockholders usually expect to earn an average return of 12% or more from equity investments in large financially strong companies. A company that suffers provides its stockholders with a negative return on stockholders equity.

As in all years the average total equity was a negative numbers therefore we couldn't calculate the return on equity ratio.

4.2. Findings of Superfresh

4.2.1 Dollar and Percentage Changes

The dollar amount of any change is the difference between the amounts of base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes, Net Sales and Net Income have been taken from Income Statement of Superfresh financial statements which appear in appendix 2.

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	29,279,660	23,111,053	17,363,096	6,618,607	28.6%	5,747,957	33.1%
Net Income	(43,910,609)	(16,121,450)	107,109	(27,789,159)	--	(16,228,559)	(151.5%)

If the negative amount or zero amounts appears in the base year the percentage cannot be computed so we cannot compute year 2001 over year 2000 due to this reason. Net sales were 33.1% in 2000 over 1999 but it decreased to 28.6% in 2001 over 2000. net income dropped by 151.5% in 2000 over 1999 and we couldn't calculate the year 2001 over 2000 due to the reason mentioned above.

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	33,580,341	38,522,766	29,279,666	(4,942,425)	(12.8%)	9.243.106	31.6%
Net Income (loss)	9,454,125	29,116,658	(43,910,609)	(19,662,533)	(67.5%)	73,027,267	--

Net sales in 2002 over 2001 increased by 36.1% but in years 2003 over 2002, net sales decreased by 12.8% to 33,580,341.

Net income in years 2003 over 2002 decreased by 67.5% and then the next year there was an increase of 73,027,267 in net income but as mentioned above there is a rule, which states that if the base year is a negative amount, we don't calculate the percentage changes. As the year 2001 was a negative amount we couldn't calculate the percentage changes in year 2002 over 2001.

4.1.2 Trend Percentages (Horizontal Analysis)

Trend percentages (Horizontal Analysis) is a technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. During the calculation of trend percentages, Net Sales, cost of goods sold and gross profit have been taken from income statement of Superfresh income statements which appear in appendix 2.

	2003	**2002**	**2001**	**2000**	**1999**
Net Sales	33,580,341	38,522,766	39,279,660	23,111,053	17,363,096
C.O.G.S	(23,473,971)	(27,907,749)	(21,361,098)	(16,671,453)	(9,373,742)
Gross Profit	**10,106,370**	**10,615,017**	**7,918,562**	**6,439,600**	**7,989,354**

	2003	**2002**	**2001**	**2000**	**1999**
Net Sales	193.4%	221.9%	168.6%	133.1%	100%
C.O.G.S	340.4%	297.7%	227.9%	177.8%	100%
Gross Profit	**126.5%**	**132.8%**	**99.1%**	**80.6%**	**100%**

When comparing with the base year, it can be seen that there is a steady increase in net sales until year 2003, in year 2003 net sales decreased to 193.4%.

C.O.G.S increased each year, and finally come up to 340.4% which is more than an increase in net sale.

Gross profit decreased to 80.6% in year 2000 and then increased to 99.1% in year 2001, this decrease is the effect of the high increase in C.O.G.S and then in year 2002 gross profit increased to 132.8% and then the next year it decreased to 126.5%.

4.1.3 Component Percentages (Vertical Analysis)

Component percentages indicate the relative size of each item included in total.

During the calculation of component percentage; net sales, cost of sales, operating expense, and net income have been taken as a percentage of gross sales. The income statements' data has been taken from Superfresh's financial statements that are included in appendix 2.

	2000	1999	2000	1999
GROSS SALES	26,220,886	18,980,278	100%	100%
SALES DEDUCTION (-)	(3,109,833)	(1,617,182)	(11.9)	(18.5)
Net Sales	23,111,053	17,363,096	88.1	91.5
Cost of Sales (-)	(16,671,453)	(9,373,742)	(163.5)	(47.1)
Gross Profit (loss)	6,439,660	7,989,354	24.6	42.1
Operating Expenses (-)	(8,336,450)	(4,364,600)	(31.8)	(23.0)
Profit (loss) from Main Operations	(1,896,850)	3,624,754	(7.2)	19.1
Income and Profit from Other Operations	(707,717)	702,959	(2.7)	3.7
Expenses and Losses from Other Operations	(8,678,556)	(166,884)	(33.1)	(0.9)
Financial Expenses (-)	(6,395,731)	(4,084,723)	(24.2)	(21.5)
Operating Profit (loss)	(16,263,420)	76,106	(62.0)	0.4
Extraordinary Income and Profits	187,667	31,981	0.7	0.2
Extraordinary Expenses and Losses (-)	(42,697)	(978)	(0.2)	(0.005)
Income before Taxation	(16,121,450)	107,109	(61.5)	0.6
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(16,121,450)	107,109	(61.5)	0.6

From the table it can be observed that the net income in year 1999 was 0.6%, cost of sales was 47.1%. However, in year 2000 the company made a net loss of 61.5% and this is due to the rise in cost of sales which was 47.1% in year 1999 and came up to

63.5%, also operating expenses increase to 31.8%, and also there was an increase in expenses and losses from other operations which was 6.9% and increased to 33.1%.

	2000	1999	2000	1999
GROSS SALES	37,651,344	26,220,886	100%	100%
SALES DEDUCTION (-)	(8,371,684)	(3,109,833)	(22.2)	(11.9)
Net Sales	29,279,660	23,111,053	77.8	88.1
Cost of Sales (-)	(21,361,098)	(16,671,453)	(56.7)	(63.5)
Gross Profit (loss)	7,918,562	6,439,660	21.3	24.6
Operating Expenses (-)	(9,236,793)	(8,336,450)	(24.5)	(31.8)
Profit (loss) from Main Operations	(1,318,231)	(1,896,850)	(3.5)	(7.2)
Income and Profit from Other Operations	3,447,088	707,717	9.1	2.7
Expenses and Losses from Other Operations	(44,418)	(8,678,556)	(0.1)	(33.1)
Financial Expenses (-)	(46,035,914)	(6,395,731)	(122,3)	(24,4)
Operating Profit (loss)	(43,951,475)	(16,263,420)	(116.7)	(62.0)
Extraordinary Income and Profits	42,872	184,667	(0.1)	0.7
Extraordinary Expenses and Losses (-)	(2006)	(42,697)	(0.005)	(0.2)
Income before Taxation	(43,910,609)	(16,121,450)	(116.6)	(61.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(43,910,609)	(16,121,450)	(116.6)	(61.5)

In year 2000, there was a net loss of 61.5% but this loss increased to 116.6% and this is due to the rise in the financial expenses. Cost of sales decreased to 56.7%, operating expenses also decreased, but these reductions in certain costs couldn't help the company to improve its situation.

	2000	1999	2000	1999
GROSS SALES	43,696,587	37,651,344	100%	100%
SALES DEDUCTION (-)	(5,173,821)	(8,371,684)	(11,8)	(22.9)
Net Sales	38,522,766	29,279,660	88.2	77.8
Cost of Sales (-)	(27,907,749)	(21,361,098)	(63.9)	(56.7)
Gross Profit (loss)	10,615,017	7,918,562	24.3	21.3
Operating Expenses (-)	(11,374,627)	(9,236,793)	(26.0)	(24.5)
Profit (loss) from Main Operations	(759,610)	(1,318,231)	(1.7)	(3.5)
Income and Profit from Other Operations	2,635,940	3,447,088	6.0	9.1
Expenses and Losses from Other Operations	(39,111)	(44,418)	(0.09)	(0.1)
Financial Expenses (-)	(130,194,092)	(46,035,914)	(69.1)	(122.3)
Operating Profit (loss)	(128,356,873)	(43,951,475)	(64.9)	(116.7)
Extraordinary Income and Profits	60,171	42,872	0.1	(0.1)
Extraordinary Expenses and Losses (-)	(819,956)	(2006)	(1.9)	(0.005)
Income before Taxation	(29,116,658)	(43,910,609)	(66.6)	(116.6)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(29,116,658)	(43,910,609)	(66,6)	(116.6)

From the table it can be seen that the net loss improved from the 116.6% to 66.6% and this improvement is due to a decrease in financial expenses that was 116.7% and dropped to 69.1%. Net sales also increased by 10.4%.

	2000	1999	2000	1999
GROSS SALES	38,191,722	43,696,587	100%	100%
SALES DEDUCTION (-)	(4,611,381)	(5,173,821)	(12,1)	(11.8)
Net Sales	33,580,341	38,522,766	87.9	88.2
Cost of Sales (-)	(23,473,971)	(27,907,749)	(61.5)	(63.9)
Gross Profit (loss)	10,106,370	10,615,017	26,5	24.3
Operating Expenses (-)	(10,001,981)	(11,374,627)	(26.2)	(26.0)
Profit (loss) from Main Operations	104,389	(759,610)	(0.3)	(1.7)
Income and Profit from Other Operations	3,322,649	2,635,940	8.7	6.0
Expenses and Losses from Other Operations	(6,780)	(39,111)	(0.02)	(0.09)
Financial Expenses (-)	(3,529,249)	(30,194,092)	(9.2)	(69.1)
Operating Profit (loss)	(108,991)	(28,356,873)	(0.3)	(64.9)
Extraordinary Income and Profits	9,669,952	60,171	25.3	0.1
Extraordinary Expenses and Losses (-)	(106,836)	(819,956)	(0.3)	(1.9)
Income before Taxation	9,454,125	(29,116,658)	28.4	(66.6)
Taxation and other Liabilities (-)	---	---	---	---
Net Income (loss)	9,454,125	(29,116,658)	28.4	(66.6)

From the table it can be seen that the net income had increased to 24.8% and this showed us that in year 2003 the company's performance is increased. This increase is the result of a decrease bin financial expenses, which was 69.1% in year 2002, and become 9.2% in year 2003.

4.1.4 Ratio Analysis

Ratio analysis expresses the relationship among selected items of financial statement data. The relationship is expressed in terms of a percentage, a rate or a simple proportion. There is a three kind of ratio analysis that we are going to calculate; Short-term liquidity, long-term credit risk and profitability ratio. The data used in calculation of ratios has been taken from Superfresh's financial statements, which appear in appendix 2.

	1999	2000	2001	2002	2003
Current Assets	29,121,811	27,524,695	30,982,765	33,603,761	23,220,183
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,641
Current Ratio	**1.36**	**0.8**	**0.4**	**0.3**	**1.5**

From the table it can be seen that the current ratio was 1.36 in year 1999 and in the following years this ration decreased to 0.3 and then in year 2003 it sharply increased to 1.5. According to creditors and bankers, it is believed that the company should have a current ratio 2:1 or higher to qualify as a good credit risk. In the situation of Superfresh, the creditability position is quite weak in years 2000, 2001 and 2003 and it is close to the average in years 1999 and 2003 but not at a satisfactory level.

	1999	2000	2001	2002	2003
Quick Assets	3,945,522	6,497,982	7,899,639	8,210,832	8,623,992
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Quick Ratio	**0.18**	**0.19**	**0.10**	**0.07**	**0.55**

From the table it can be seen that the quick ratio for the years 1999 and 2000 was almost the same but in year 2001 this ratio was almost halved and became 0.10 and then it decreased to 0.07, in year 2003 this ratio sharply increased to 0.55. According to bankers and other short-term financial creditors quick ratio must be 1:1 and even more that 1:1. In this case, the company's position is weak in short-term debt paying ability.

	1999	2000	2001	2002	2003
Current Assets	29,121,811	27,524,695	30,982,765	33,603,761	23,220,183
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Working Capital	**7,694,180**	**(7,069,821)**	**(47,223,290)**	**(80,041,742)**	**7,584,540**

There are some up and down fluctuations in current assets of the company from year to year but in 2003 it decreased to 23,220,183.

Current liabilities of the company was an increasing trend and it increased up to 113,645,503 in 2002, and then in year 2003 that amount decreased to 15,635,643 which is a good situation for the company. In 1999 the company didn't have any problems in paying their debts but in years 2000, 2001 and 2002 the company was in a bad situation when it comes to debt payments and eventually in year 2003 the company improved its position and was able to pay its debts.

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Cash Flow from Operations to Current Liabilities	**0.81**	**0.67**	**0.37**	**0.34**	**2.14**

From the table it can be seen that the cash flow from operations to current liabilities was 0.81 and this ratio started to fall down in years 2000, 2001, and 2002 and then it increased in year 2004 to 2.14.

	1999	**2000**	**2001**	**2002**	**2003**
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Average Account Receivables	3,052,063	5,025,463	6,898,025	7,486,223	7,824,468
Receivables Turnover Rate	**5.69**	**4.60**	**4.24**	**5.14**	**4.29**

The receivables turnover rate actually computed to find the days to collect accounts receivables. Higher the turnover rate the quicker the company collects its receivables.

From the table it can be seen that the highest receivable turnover rate was at the highest rate which showed that in 1999 the company collected its A/R quicker than the other years. Then in 2000 this rate decreased to 4.60 and then to 4.24. In year 2002, this rate increased to 5.14 and the next year it decreased again to 4.29.

	1999	**2000**	**2001**	**2002**	**2003**
Days	365	365	365	365	365
Receivables Turnover Rate	5.69	4.60	4.24	5.14	4.29
Days to collect Accounts Receivables	**64.15**	**79.34**	**86.10**	**71.01**	**85.10**

In year 1999, the company collected its accounts receivables in 64.15 days as the receivables turnover rate started to decrease in year 2000 and 2001, then accounts receivables collection period increased to 79.34 days in 2000 and 86.10 days in 2001.

As the receivables turnover rate increased in 2002 then the accounts receivables collection period decreased to 71.01 days and in year 2003 this rate increased to 85.10.

	1999	2000	2001	2002	2003
C.O.G.S	9,373,748	16,671,453	21,361,098	27,907,749	23,473,971
Average Inventory	20,011,222	22,994,877	21,182,808	22,736,071	18,829,552
Inventory Turnover Rate	**0.47**	**0.72**	**1.07**	**1.23**	**1.25**

Inventory turnover rate indicates how many times a year the company is able to sell a quantity of goods equal to its average inventory. The higher the turnover means it can sell quicker inventory and higher rate is better for the company. In year 1999 this ratio was 0.47 and low but in the following years this ratio was in an increasing trend and finally come up to 1.25 which is good for the company, means that the company would sell its inventory quicker.

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.47	0.72	1.01	1.23	1.25
Days to sell Average Inventory	**776.6**	**506.9**	**361.5**	**296.7**	**292**

Days to sell average inventory indicates how quickly the inventory sells and converts into cash or accounts receivable. In 1999 the company was in a very bad situation and in 1999 the company headed 776.6 days to sell its inventory but from year to year this ratio was steadily increasing and finally in year 2003 the company needed 292 days to convert its average inventory into cash.

	1999	2000	2001	2002	2003
Days to Collect A/R	64.15	79.34	86.10	71.01	85.10
Days to Sell Average Inventory	776.60	506.90	361.40	296.70	292
Operating Cycle	**840.75**	**586.24**	**447.5**	**367.71**	**377.1**

Operating cycle indicates in days how quickly cash is invested in inventory converts back into cash. In this situation in year 1999 the operating cycle was 840.75 days and as the company's situation is getting better this ratio went down to 377.1 days, thus this ratio was in favor of the company.

	1999	2000	2001	2002	2003
Gross Profit	7,989,742	6,439,600	7,918,562	10,515,017	10,106,370
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Gross Profit Rate	**0.46**	**0.28**	**0.20**	**0.28**	**0.30**

Gross profit rate is the gross profit expressed as a percentage of net sales and measures the profitability of the company's products. In year 1999 the gross profit rate was 46% and then this ratio decreased up to 20% in year 2001 and then again started to increase in year 2002 and finally in year 2003 this ratio increased up to 30%.

	1999	2000	2001	2002	2003
Operating Expenses	4,364,600	8,336,450	9,236,793	11,374,627	10,001,981
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Operating Expense Ratio	**0.25**	**0.36**	**0.31**	**0.29**	**0.30**

Operating expense ratio refers to the proportion of expenses in the net sales so lower the ratio, lower are the expenses. This means lower expenses are more profitable and preferable in operations. In year 1999 this ratio was at its lowest level and this ratio increased in 2000 to 36% and started to decline and decreased to 30% which is quite a high percentage.

	1999	2000	2001	2002	2003
Gross Profit (loss)	7,989,742	6,439,600	7,918,562	10,615,017	10,106,370
Operating Expenses	4,364,600	8,336,450	9,236,793	11,374,627	10,001,981
Operating Income	**3,624,754**	**(1,318,231)**	**(1,894,850)**	**(759,610)**	**104,389**

Shows the relationship between revenue earned from customers and expenses incurred in producing that revenue.

In this situation in year 1999 the operating income of the company was 3,624,754 and in the following years as there was more increase in the operating expenses then as a result the operation loss occurred in years 2000, 2001 and 2002 but finally in year 2003 the company made an operating income of 104,389.

	1999	2000	2001	2002	2003
Operating Income	3,624,754	(1,318,231)	(1,896,850)	(759,610)	104,389
Average Total Assets	32,046,490	41,078,999	46,478,539	54,319,986	54,975,666
Return on Assets	**11.31%**	**(3.21)%**	**(4.08)%**	**1.40%**	**0.19%**

It is a measure of productivity of assets regardless how assets are financed. The general agreement among the financial analyst is that 15% or more return on average total assets is successful. In year 1999 this ratio was below 15% and it was 11.31% and in years 2000, 2001 and 2002 the company had an operation loss therefore these ratios went down to negative numbers and eventually in year 2003 the company improved its position and its return on assets became a positive number to 0.19% which is still too much below the average.

	1999	2000	2001	2002	2003
Net Income	107,109	(16,121,450)	(43,910,609)	(29,116,658)	9,454,125
Average Total Equity	13,573,726	8,350,055	(17,079,982)	(46,608,663)	(49,747,621)
Return on Equity	—	—	—	—	—

It is a ratio which looks only at the returned earned by management by stockholder's investment. Stockholders usually expect to earn an average return of 12% or more from equity investments in large financially strong companies. A company that suffers provides its stockholder with a negative return on stockholder's equity.

V. LIMITATIONS

Both Dardanel and Superfresh are the most successful companies of the food industry in Turkey. They both operate globally and have foreign investments.

All the financial information, everything that a company does, good or bad, should be found on the web sites of the company, from the articles, and from the news sites. However, in the situation of these two companies there was no detailed information about their financial performance. The companies' financial statements were not available at their web sites. This is because of the authorities of the company who do not announce their financial performance due to security reasons. With the limited information found from the other sources, it is actually impossible to find the answers for certain analysis, such as earnings per share, dividend yield, book value per share and other components necessary to calculate certain ratios.

With information obtained from the other financial institutions, some of the analysis needed for the evaluation of the financial performance can be done. More information can be obtained from the company's own resources and then more detailed analysis, which reflects the position of the company in the market, could also be done.

CONCLUSION AND RECOMMENDATIONS

The financial statements are primarily prepared for decision-making and they include useful resources for investors, creditors and external users.

In my project, the financial statement analysis are categorized under three different sections. Financial statement research methodology section and analysis of financial statements of both Dardanel and Superfresh in order to obtain financial information about both companies.

Dardanel and Superfresh are companies in the food industry in Turkey. In the previous pages the general ideas about the performances or the companies are mentioned but these analysis are not enough to understand the financial position of each company regarding their competitors. By comparing Dardanel and Superfresh with each other, we will have a clear understanding about their financial performance.

The comparison parts include Dollar and Percentage Changes, Trend analysis (Horizontal Analysis), Component Percentages (Vertical Analysis) and Ratio Analysis with short-term solvency, long-term solvency and profitability ratios. The calculations of Dardanel can be found in Appendix 1 and the ones for Superfresh in Appendix 2.

Fist of all, I made the vertical analysis of Dardanel by comparing it with Superfresh for the year 2002. To be able to do the vertical analysis income statement and its components such as net sales, cost of the goods sold, operating expenses, financial expenses and net income were used.

Starting with the net sales, we saw that Dardanel had 87.8% of gross sales and Superfresh has 88.2%, which is more than Dardanel. This shows that Superfresh had reported better net sales in year 2002. Cost of the goods sold by Dardanel was 68.9% and for Superfresh this was 63.9%. In this case, the cost of Superfresh's products was cheaper and this shows that the management used higher technology production and therefore the profitability of the company could be higher. When comparing the operating expenses on the companies, Dardanel had 11.7% where Superfresh had 26%, which shows that Dardanel had a more effective management. Dardanel had 79.3% financial expenses and this of Superfresh was lower than Dardanel which was 69.1% and this shows that both companies needed financial support when making investments but Dardanel needed more support.

Finally, the net loss for Superfresh in 2002 was 29,116,125 millions TL which is 66.6% of gross sales and also Dardanel has made a loss of 36,660,665 millions TL which is 69.5%. When comparing their overall performance, both made loss but Superfresh has made less loss and this was because of the more effective cost management than Dardanel.

To be able to analyze the current position of both companies, the comparisons of year 2003 should be analyzed. For the net sales for year 2003, Dardanel had 78.8% and Superfresh had 87.9%. Again, Superfresh had more sales than Dardanel. Both of them also reduced the percentage of their net sales in this year. Dardanel had a better performance in reducing its cost of sales, in year 2002 the cost of sales was above

Superfresh but Dardanel managed to reduce it below the Superfresh's costs. There was no change in Superfresh's operating expenses but Dardanel had increased its operating expenses from 7.4% to 19.4%. Superfresh decreased its financial expenses by 60% which was a good improvement for the company. As well as Superfresh, Dardanel also managed to decrease its financial expenses almost by 65%. Finally, Superfresh performed tremendously well in year 2003 where in year 2002 there was a loss of 66.6% but with good management it increased its net income up to 24.8%. Actually, Dardanel's performance in 2003 was better than Superfresh where Dardanel increased its net income by 144%, which is an outstanding performance. As a result, in year 2003, Dardanel performed better and is a stronger company than Superfresh.

After conducting the component percentage (vertical) analysis of both Dardanel and Superfresh, I made Trend percentage (horizontal) analysis of both companies.

While doing this analysis, Net Sales, C.O.G.S and Gross profit were analysed and year 1999 was taken as a base year. Dardanel had up and down fluctuations in net sales over the past five years but the company managed to increase their sales by 2.23 times comparing to base year. Also Superfresh had an increasing trend in net sales except year 2003. In 2003 the net sales decreased by 30% comparing to the year 2002. When compared the net sales with the base year Superfresh achieved 1.93 times more sales. Dardanel in this situation had a better performance than Superfresh. The C.O.G.S. for both companies had an increasing trend and in year 2003 C.O.G.S for Dardanel has increased by 4.15 times than the base year and Superfresh had an increase of 3.4 times when compared with the base year. In this case, Superfresh's management was more effective in cost effectiveness.

The gross profit of Dardanel had almost decreased by 10% when compared with the base year where Superfresh has 26.5% increase in gross profit.

When analysing the overall performance in all three situations, Superfresh had achieved a better performance when compared to Dardanel. The company was in a stronger position.

The next step was the analysis of Dollar and Percentage changes. While doing this analysis, the components of income statement such as net sales and net income were used and analysis were made by comparing year 2003 over 2002 and changes in between. These years will be out concern. Net sales for Dardanel in years 2003 over 2002 have decreased by 22.0% and also there was a decrease in Superfresh's net sales but not as much as Dardanel. Superfresh has 12.8% decreased in its net sales. In such a situation, both companies' performances were not good but Superfresh was in a better position than Dardanel. When compared the net incomes, Dardanel had increased its net income by 70,553,885 million TL but as the result was a negative number we cannot calculate the percentage changes in years 2003 over 2002. Superfresh had decreased its net income by 19,662,533 in year 2003 over 2002, and this is an almost 67.5% decrease. Therefore, overall performance of Dardanel in this analysis was better than Superfresh the net income was our concern.

The most important step in company's performance analysis is the ratio analysis. The ratio analysis can be done in four different steps and each stem measures different things.

The first step is analyzing the short-term liquidity of the company. In this step, current ratio, quick ratio, and working capital gives us the most important measures for the creditors, and then receivables turnover rate, days to collect accounts receivable, inventory turnover rate, days to sell average inventory and finally operating cycle will be analysed.

In this situation, year 2002 was concerned, as the past performance of the companies and year 2003 was taken as the current performance. Firstly, 2002 analysis was made and then this analysis was compared with the current years' analysis.

In year 2002, the current ration of Dardanel was 0.14 and this is quite below the average of 2 and Superfresh had 0.3 which was still below the average but better than Dardanel. The quick ratio of both companies were too low and far below the average. The working capital of Superfresh was (80,041,742) million TL and Dardanel had a working capital of (134,812,580) million TL. Unfortunately, both companies were not in a good position in the short-term debt payments and creditors in such a situation will not be able to give them a good credit note. Also in year 2002, Dardanel has 29% cash flow from operations from current liabilities where Superfresh had 34%. Then this analysis showed us that both companies' short-term liquidity was not very good but Superfresh was in a better position than Dardanel. The receivables turnover rate of Dardanel was 3.22 in year 2002 where Superfresh had a ratio of 5.14. The higher the ratio the quicker the company collects its accounts receivables and Dardanel needed 113.35 days to collect its accounts receivable and Superfresh only needed

71.01 days. The inventory turnover rate indicates the company's ability to sell its products. The higher the ratio, the quicker they sell their products.

Dardanel had an inventory turnover rate on 4.45 where Superfresh only had 1.23, therefore, Dardanel this year can quickly sell its inventory and the company only needs 82.02 days to do this but Superfresh needs more days to sell its inventory. The operating cycle of both companies shows how many days they need to sell their inventory and collect their money and in year 2002, Dardanel needed only 195.37 days where Superfresh needed 367.71 days. Therefore, Dardanel had achieved a better performance in year 2002.

The long-term liquidity ratio was measured with the debt ratio. By comparing the total liabilities with total assets and the debt ratio of both companies are too much above the average accepted by the creditors, but Superfresh's debt ratio was much lower than Dardanel's where Dardanel had 504.69% and Superfresh had 197.77%.

The next step involves the analysis of profitability. Net income as a percentage of net sales in year 2002 for both Dardanel and Superfresh couldn't be calculated, as they didn't have any net income in that year.

The gross profit rate of Dardanel for year 2002 was 21.5% where Superfresh had 28%. Superfresh's performance was better.

Operating expense ratio expresses the management ability in controlling costs and in year 2002, Dardanel had 13.3% where Superfresh had 29%. This means that Dardanel's management had achieved a better performance.

The operating income for both companies in year 2002 was a negative number which proves that the management of both companies had high operating expenses in year 2002.

The return asset indicates the productivity of assets where Dardanel had an operating loss in year 2002 and therefore, the ROA was a negative number, but in return, Superfresh had ROA of 1.4% which is too far below the average 15%. In this situation, Superfresh had achieved a better performance in 2002.

Finally, when analyzing the return on equity, the return on equity ratio in this situation couldn't be calculated, as the average total equity was a negative number.

After evaluating the past performance results of both companies, I analysed the current performances – year 2002 – of both companies. When analyzing the short-term liquidity of both companies, Dardanel had increased its current ratio compared to the past year and Superfresh also increased its current ratio to 1.5. The quick ratio of Dardanel also increased up to 0.42 and again Superfresh had more increase than Dardanel and managed to increase its ratio up to 0.55.

The working capital also measures the short-term liquidity of companies where in the past performance of Dardanel, it was in a bad situation but it started to increase its position in the current year. Superfresh had a very bad performance in the past year but in 2003 it managed to improve its position.

By looking at the overall performances of both companies, it can obviously be seen that both companies achieved a good performance when compared to the past year but Superfresh's performance was better than Dardanel's.

When observing the cash flow from other operations, again the both companies increased their performance but again Superfresh displayed a better performance than Dardanel.

The receivables turnover rate for Dardanel and Superfresh decreased in 2003 and also this decrease affected the days to collect accounts receivables, which in turn increases the number of days which companies need to collect their receivables. Also inventory turnover rate of Dardanel, when compared to past performance, increased by 0.77 which in return also affected the days to sell the average inventory ratio, which in return increases the number of days needed to sell the average ratio in 2003. However, Superfresh had almost the same ratio when compared to the past performance, therefore, its current performance is almost the same and in this situation, the performance of Superfresh has improved again and achieved better results.

The operating cycle was affected by the changes in the days to collect average account receivable and days to sell the average inventory, therefore, the operating cycle for both companies had also changed.

The operating cycle of Dardanel when compared with the past performance had increased by 30 days where Superfresh's operating cycle increased by 10 days. In this case, Superfresh's current performance again was better than Dardanel.

The gross profit rates of both companies had increased slightly about 2% when compared to previous years. The operating expense ratio of Dardanel increased almost twice the previous year and reached to 24.7% where the operating expense ratio of Superfresh increased from 1% to 30%. Even with such a high increase in Dardanel's operating expense ration, in this situation, Dardanel's performance was more acceptable because if this ratio was low, the profitability of the company increases.

The operating income of both companies had increased but Dardanel had a better performance when compared to previous year and also with each other. The return on assets ratio for both companies increased. Superfresh had only 0.4% increase whereas Dardanel had 14.4% increase which again shows that Dardanel in year 2003 had achieved a better performance than Superfresh.

Finally, when analyzing the return on equity, we again could not calculate this ratio, as the average total equity was a negative number.

As a conclusion, all the ratios and other calculations, which had been done so far, showed that Superfresh in both years had achieved a better performance when compared to Dardanel.

Especially in 2001, Dardanel had lots of problems. Its stocks had been stopped in IMKB, and they couldn't trade in IMKB (www.bankrupt.com). Also Dardanel had made lots of investments all around the world. It had a joint venture with Japans and opened a fish production unit in Cyprus and they invested around 4.5 million dollars in this investment except the capital (www.aksam.com.tr). Also Dardanel had made an agreement with Vakifbank and extended their debt payment date until the end of 2004 (www.ntv.com.tr). These are the reasons why Dardanel had so much financial problems especially in years 2000-2001 and then the company started its recovery period and finally in 2003 it managed to sort out some of its problems.

In some situations Dardanel had achieved a better performance and especially in 2003, it could obviously be seen that Dardanel's management performance was better than Superfresh but this improvement couldn't help the company to become the market leader.

Finally, after finishing all the analysis related to the companies' performances, the picture that comes out was that Superfresh had achieved a better performance than Dardanel. In the short-term liquidity measurements, long-term liquidity measurements and also the measurements of profitability, except inventory, accounts receivables turnover rate and operating cycle. Superfresh, therefore, must improve its ability to sell its inventory and collects its accounts receivables in a shorter period. With the improvement in those ones, the amount of cash flows in the company will be more and in a shorter period. Then, as a result, the liquidity of the company will increase and this will make Superfresh even stronger in the market.

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APPENDIX 1 – FINDINGS ON DARDANEL

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	17,133,858	22,566,242	15,647,098	(5,432,384)	(24%)	6,919,144	44%
Net Income	(110,391,547)	(49,782,566)	(5,219,075)	(62,608,891)	--	(44,563,491)	--

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	35,009,898	44,985,481	17,133,858	(9,975,583)	(22)%	27,851,623	162%
Net Income	34,893,190	(35,660,665)	(40,391,457)	70,553,855	--	4,730,792	--

	2003	2002	2001	2000	1999
Net Sales	35,003,898	44,985,481	17,133,858	22,566,242	15,647,098
C.O.G.S	26,626,374	35,302,297	33,138,057	44,514,896	6,406,926
Gross Profit	8,383,524	9,683,184	(16,004,199)	(21,948,654)	9,240,172

	2003	2002	2001	2000	1999
Net Sales	223.8%	287.5%	109.5%	144.2%	100%
C.O.G.S	415.6%	551%	517.2%	694.8%	100%
Gross Profit	90.7%	104.8%	--	--	100%

	2000	1999	2000	1999
GROSS SALES	51,266,345	21,058,073	100%	100%
SALES DEDUCTION (-)	(6,280,864)	(3,924,215)	(12.2)	(18.6)
Net Sales	44,985,481	17,133,858	87.8	81.4
Cost of Sales (-)	(35,302,297)	(33,138,157)	(68.9)	(157.4)
Gross Profit (loss)	9,683,184	(16,004,199)	18.9	(76.0)
Operating Expenses (-)	(5,993,334)	(9,177,796)	(11.7)	(43.6)
Profit (loss) from Main Operations	(3,689,850)	(25,181,995)	(7.2)	(119.6)
Income and Profit from Other Operations	11,124,425	13,419,496	21.7	63.7
Expenses and Losses from Other Operations	(9,172,679)	(10,256,326)	(17.9)	(48.7)
Financial Expenses (-)	(40,679,021)	(96,133,895)	(79.3)	(456.5)
Operating Profit (loss)	(35,037,425)	(118,152,720)	(68.3)	(561.0)
Extraordinary Income and Profits	293,293	8,349,974	0.6	39.6
Extraordinary Expenses and Losses (-)	(916,533)	(588,711)	(1.8)	(2.8)
Income before Taxation	(35,660,665)	(110,391,457)	(69.5)	(524.2)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(35,666,665)	(110,391,457)	(69.5)	(524.2)

	2000	1999	2000	1999
GROSS SALES	44,459,912	51,266,345	100%	100%
SALES DEDUCTION (-)	(19,450,014)	(6,280,864)	(21.2)	(12.2)
Net Sales	35,009,898	44,985,481	78.8	87.8
Cost of Sales (-)	(26,626,374)	(35,302,297)	(59.9)	(68.9)
Gross Profit (loss)	(8,383,524)	(9,683,184)	(18.9)	(18.9)
Operating Expenses (-)	(8,649,809)	(5,993,334)	(19.4)	(11.7)
Profit (loss) from Main Operations	(266,285)	(3,689,850)	(0.6)	(7.2)
Income and Profit from Other Operations	34,539,836	11,124,425	77.7	21.7
Expenses and Losses from Other Operations	(16,248,042)	(9,172,679)	(14.0)	(17.9)
Financial Expenses (-)	(6,418,851)	(40,679,021)	(14.4)	(73.3)
Operating Profit (loss)	(21,606,658)	(35,037,425)	(48.6)	(68.3)
Extraordinary Income and Profits	15,650,104	293,293	35.2	0.6
Extraordinary Expenses and Losses (-)	(2,363,572)	(916,533)	(5.3)	(1.8)
Income before Taxation	(34,893,190)	(35,666,665)	(74.5)	(69.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(34,893,910)	(35,660,665)	(74.5)	(69.5)

	2000	1999	2000	1999
GROSS SALES	24,523,840	17,485,199	100%	100%
SALES DEDUCTION (-)	(1,957,598)	(1,838,101)	(8)	(10.5)
Net Sales	22,566,242	15,647,098	92%	89.5
Cost of Sales (-)	(44,514,896)	(6,406,926)	(181.5)	(36.6)
Gross Profit (loss)	(21,948,654)	9,240,172	(89.5)	52.8
Operating Expenses (-)	(13,084,973)	(2,190,011)	(53.4)	(12.5)
Profit (loss) from Main Operations	(35,033,627)	7,050,161	(142.9)	40.3
Income and Profit from Other Operations	7,194,344	3,188,142	29.3	18.2
Expenses and Losses from Other Operations	(11,410,528)	(3,442,698)	(46.5)	(19.7)
Financial Expenses (-)	(10,522,363)	(12,085,052)	(43.0)	(69.1)
Operating Profit (loss)	(49,802,174)	(5,289,447)	(203.1)	(30.2)
Extraordinary Income and Profits	83.701	97.360	0.3	0.6
Extraordinary Expenses and Losses (-)	(64,093)	(26,988)	(0.3)	(0.2)
Income before Taxation	(49,782,566)	(5,219,075)	(203.0)	(29.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(49,782,566)	(5,219,075)	(203.0)	(29.5)

	2000	1999	2000	1999
GROSS SALES	21,058,073	24,523,840	100%	100%
SALES DEDUCTION (-)	(3,924,215)	(1,957,598)	(18.6)	(8.0)
Net Sales	17,133,858	22,566,242	81.4	89.5
Cost of Sales (-)	33,138,057	(44,514,896)	(157.4)	(181.5)
Gross Profit (loss)	(16,004,199)	(21,948,654)	(76.0)	(89.5)
Operating Expenses (-)	(9,177,796)	(13,084,973)	(43.6)	(53.4)
Profit (loss) from Main Operations	(25,181,995)	(35,033,627)	(119.6)	(142.9)
Income and Profit from Other Operations	13,419,496	7,194,344	63.7	29.3
Expenses and Losses from Other Operations	(10,256,326)	(11,410,528)	(48.7)	(46.5)
Financial Expenses (-)	(96,133,895)	(10,522,363)	(406.5)	(43.0)
Operating Profit (loss)	(118,152,720)	(49,802,174)	(561.0)	(203.0)
Extraordinary Income and Profits	8,349,974	83,701	39.6	0.3
Extraordinary Expenses and Losses (-)	(588,711)	(64,093)	(2.8)	(0.3)
Income before Taxation	(110,391,457)	(49,782,566)	(524.2)	(203.0)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(110,391,457)	(49,782,566)	(524.2)	(203.0)

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Current Ratio	**1.77**	**0.50**	**0.16**	**0.14**	**0.71**

	1999	2000	2001	2002	2003
Quick Assets	5,039,100	9,721,008	17,295,718	11,729,762	14,156,245
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Quick Ratio	**0.20**	**0.17**	**0.14**	**0.08**	**0.42**

	1999	2000	2001	2002	2003
Current Assets	45,328,177	28,211,200	19,644,727	21,342,954	23,746,189
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	32,621,962
Working Capital	**19,749,051**	**(27,832,444)**	**(100,812,580)**	**(134,251,896)**	**(9,875,773)**

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	75,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Current Liabilities	25,579,126	56,044,171	120,457,307	155,594,850	33,621,962
Cash Flow from Operations to Current Liabilities	**0.61**	**0.40**	**0.14**	**0.29**	**1.04**

	1999	2000	2001	2002	2003
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Average Account Receivables	7,358,989	7,278,915	13,273,673	13,969,372	12,372,135
Receivables Turnover Rate	**2.13**	**3.1**	**1.29**	**3.22**	**2.83**

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	2.13	3.1	1.29	3.22	2.83
Days to collect Accounts Receivables	**171.36**	**117.74**	**282.94**	**113.35**	**128.97**

	1999	2000	2001	2002	2003
C.O.G.S	6,406,926	44,514,896	33,138,057	26,626,374	35,302,297
Average Inventory	31,374,785	29,389,635	10,419,601	5,891,101	9,601,568
Inventory Turnover Rate	**0.20**	**1.51**	**3.18**	**4.45**	**3.68**

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.20	1.51	3.18	4.45	3.68
Days to sell Average Inventory	**1825**	**241.72**	**114.77**	**82.02**	**99.18**

	1999	2000	2001	2002	2003
Days to Collect A/R	171.36	117.74	282.94	113.35	128.97
Days to Sell Average Inventory	1825	241.72	114.77	82.02	99.18
Operating Cycle	**1996.36**	**359.46**	**397.71**	**195.37**	**228.15**

	1999	2000	2001	2002	2003
Total Liabilities	51,304,958	77,434,212	177,332,524	216,852,600	190,479,275
Total Assets	57,289,735	41,469,760	33,720,838	42,967,234	54,738,995
Debt Ratio	**89.5%**	**186.72%**	**525.88%**	**504.69%**	**348%**

	1999	2000	2001	2002	2003
Gross Profit	9,240,172	(21,948,654)	(16,004,199)	9,683,184	8,383,524
Net Sales	15,647,098	22,566,242	17,133,858	44,958,481	35,009,898
Gross Profit Rate	**59%**	**—**	**—**	**21.5%**	**23.9%**

	1999	2000	2001	2002	2003
Operating Expenses	2,190,011	13,084,973	9,177,796	5,993,334	8,649,809
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Operating Expense Ratio	**14%**	**58%**	**53.6%**	**13.3%**	**24.7%**

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Net Sales	15,647,098	22,566,242	17,133,858	44,985,481	35,009,898
Net Income as % of Net Sales	–	–	–	–	**6.99%**

	1999	2000	2001	2002	2003
Gross Profit (loss)	9,240,172	(16,004,199)	(21,948,654)	9,683,184	8,383,524
Operating Expenses	(2,190,011)	(9,177,796)	(13,084,973)	(8,649,809)	(5,993,334)
Operating Income	**7,050,161**	**(25,181,995)**	**(35,033,627)**	**(266,285)**	**3,698,850**

	1999	2000	2001	2002	2003
Operating Income	7,050,161	(25,181,995)	(35,033,627)	(266,285)	3,689,850
Average Total Assets	49,091,938	49,379,748	35,595,299	38,344,036	48,853,115
Return on Assets	**14.4%**	**(50.9)%**	**(93.2)%**	**(6.9)%**	**7.5%**

	1999	2000	2001	2002	2003
Net Income	(5,219,075)	(49,782,566)	(110,391,457)	(35,660,665)	34,893,190
Average Total Equity	8,279,583	(14,989,838)	(89,788,069)	(158,748,526)	(154,812,823)
Return on Equity	–	–	–	–	–

APPENDIX 2 – FINDINGS ON SUPERFRESH

	2001	2000	1999	2001 over 2000 amount	2001 over 2000%	2000 over 1999 amount	2000 over 1999%
Net Sales	29,279,660	23,111,053	17,363,096	6,618,607	28.6%	5,747,957	33.1%
Net Income	(43,910,609)	(16,121,450)	107,109	(27,789,159)	--	(16,228,559)	(151.5%)

	2003	2002	2001	2003 over 2002 amount	2003 over 2002%	2002 over 2001 amount	2002 over 2001%
Net Sales	33,580,341	38,522,766	29,279,666	(4,942,425)	(12.8%)	9.243.106	31.6%
Net Income (loss)	9,454,125	29,116,658	(43,910,609)	(19,662,533)	(67.5%)	73,027,267	--

	2003	2002	2001	2000	1999
Net Sales	33,580,341	38,522,766	39,279,660	23,111,053	17,363,096
C.O.G.S	(23,473,971)	(27,907,749)	(21,361,098)	(16,671,453)	(9,373,742)
Gross Profit	**10,106,370**	**10,615,017**	**7,918,562**	**6,439,600**	**7,989,354**

	2003	2002	2001	2000	1999
Net Sales	193.4%	221.9%	168.6%	133.1%	100%
C.O.G.S	340.4%	297.7%	227.9%	177.8%	100%
Gross Profit	**126.5%**	**132.8%**	**99.1%**	**80.6%**	**100%**

	2000	1999	2000	1999
GROSS SALES	26,220,886	18,980,278	100%	100%
SALES DEDUCTION (-)	(3,109,833)	(1,617,182)	(11.9)	(18.5)
Net Sales	23,111,053	17,363,096	88.1	91.5
Cost of Sales (-)	(16,671,453)	(9,373,742)	(163.5)	(47.1)
Gross Profit (loss)	6,439,660	7,989,354	24.6	42.1
Operating Expenses (-)	(8,336,450)	(4,364,600)	(31.8)	(23.0)
Profit (loss) from Main Operations	(1,896,850)	3,624,754	(7.2)	19.1
Income and Profit from Other Operations	(707,717)	702,959	(2.7)	3.7
Expenses and Losses from Other Operations	(8,678,556)	(166,884)	(33.1)	(0.9)
Financial Expenses (-)	(6,395,731)	(4,084,723)	(24.2)	(21.5)
Operating Profit (loss)	(16,263,420)	76,106	(62.0)	0.4
Extraordinary Income and Profits	187,667	31,981	0.7	0.2
Extraordinary Expenses and Losses (-)	(42,697)	(978)	(0.2)	(0.005)
Income before Taxation	(16,121,450)	107,109	(61.5)	0.6
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(16,121,450)	107,109	(61.5)	0.6

	2000	1999	2000	1999
GROSS SALES	37,651,344	26,220,886	100%	100%
SALES DEDUCTION (-)	(8,371,684)	(3,109,833)	(22.2)	(11.9)
Net Sales	29,279,660	23,111,053	77.8	88.1
Cost of Sales (-)	(21,361,098)	(16,671,453)	(56.7)	(63.5)
Gross Profit (loss)	7,918,562	6,439,660	21.3	24.6
Operating Expenses (-)	(9,236,793)	(8,336,450)	(24.5)	(31.8)
Profit (loss) from Main Operations	(1,318,231)	(1,896,850)	(3.5)	(7.2)
Income and Profit from Other Operations	3,447,088	707,717	9.1	2.7
Expenses and Losses from Other Operations	(44,418)	(8,678,556)	(0.1)	(33.1)
Financial Expenses (-)	(46,035,914)	(6,395,731)	(122,3)	(24,4)
Operating Profit (loss)	(43,951,475)	(16,263,420)	(116.7)	(62.0)
Extraordinary Income and Profits	42,872	184,667	(0.1)	0.7
Extraordinary Expenses and Losses (-)	(2006)	(42,697)	(0.005)	(0.2)
Income before Taxation	(43,910,609)	(16,121,450)	(116.6)	(61.5)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(43,910,609)	(16,121,450)	(116.6)	(61.5)

	2000	1999	2000	1999
GROSS SALES	43,696,587	37,651,344	100%	100%
SALES DEDUCTION (-)	(5,173,821)	(8,371,684)	(11,8)	(22.9)
Net Sales	38,522,766	29,279,660	88.2	77.8
Cost of Sales (-)	(27,907,749)	(21,361,098)	(63.9)	(56.7)
Gross Profit (loss)	10,615,017	7,918,562	24.3	21.3
Operating Expenses (-)	(11,374,627)	(9,236,793)	(26.0)	(24.5)
Profit (loss) from Main Operations	(759,610)	(1,318,231)	(1.7)	(3.5)
Income and Profit from Other Operations	2,635,940	3,447,088	6.0	9.1
Expenses and Losses from Other Operations	(39,111)	(44,418)	(0.09)	(0.1)
Financial Expenses (-)	(130,194,092)	(46,035,914)	(69.1)	(122.3)
Operating Profit (loss)	(128,356,873)	(43,951,475)	(64.9)	(116.7)
Extraordinary Income and Profits	60,171	42,872	0.1	(0.1)
Extraordinary Expenses and Losses (-)	(819,956)	(2006)	(1.9)	(0.005)
Income before Taxation	(29,116,658)	(43,910,609)	(66.6)	(116.6)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	(29,116,658)	(43,910,609)	(66,6)	(116.6)

	2000	1999	2000	1999
GROSS SALES	38,191,722	43,696,587	100%	100%
SALES DEDUCTION (-)	(4,611,381)	(5,173,821)	(12,1)	(11.8)
Net Sales	33,580,341	38,522,766	87.9	88.2
Cost of Sales (-)	(23,473,971)	(27,907,749)	(61.5)	(63.9)
Gross Profit (loss)	10,106,370	10,615,017	26,5	24.3
Operating Expenses (-)	(10,001,981)	(11,374,627)	(26.2)	(26.0)
Profit (loss) from Main Operations	104,389	(759,610)	(0.3)	(1.7)
Income and Profit from Other Operations	3,322,649	2,635,940	8.7	6.0
Expenses and Losses from Other Operations	(6,780)	(39,111)	(0.02)	(0.09)
Financial Expenses (-)	(3,529,249)	(30,194,092)	(9.2)	(69.1)
Operating Profit (loss)	(108,991)	(28,356,873)	(0.3)	(64.9)
Extraordinary Income and Profits	9,669,952	60,171	25.3	0.1
Extraordinary Expenses and Losses (-)	(106,836)	(819,956)	(0.3)	(1.9)
Income before Taxation	9,454,125	(29,116,658)	28.4	(66.6)
Taxation and other Liabilities (-)	--	--	--	--
Net Income (loss)	9,454,125	(29,116,658)	28.4	(66.6)

	1999	2000	2001	2002	2003
Current Assets	29,121,811	27,524,695	30,982,765	33,603,761	23,220,183
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,641
Current Ratio	**1.36**	**0.8**	**0.4**	**0.3**	**1.5**

	1999	2000	2001	2002	2003
Quick Assets	3,945,522	6,497,982	7,899,639	8,210,832	8,623,992
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Quick Ratio	**0.18**	**0.19**	**0.10**	**0.07**	**0.55**

	1999	2000	2001	2002	2003
Current Assets	29,121,811	27,524,695	30,982,765	33,603,761	23,220,183
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Working Capital	**7,694,180**	**(7,069,821)**	**(47,223,290)**	**(80,041,742)**	**7,584,540**

	1999	2000	2001	2002	2003
Cash Flow from Operating Activities	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Current Liabilities	21,427,631	34,594,516	78,206,055	113,645,503	15,635,643
Cash Flow from Operations to Current Liabilities	**0.81**	**0.67**	**0.37**	**0.34**	**2.14**

	1999	2000	2001	2002	2003
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Average Account Receivables	3,052,063	5,025,463	6,898,025	7,486,223	7,824,468
Receivables Turnover Rate	**5.69**	**4.60**	**4.24**	**5.14**	**4.29**

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Receivables Turnover Rate	5.69	4.60	4.24	5.14	4.29
Days to collect Accounts Receivables	**64.15**	**79.34**	**86.10**	**71.01**	**85.10**

	1999	2000	2001	2002	2003
C.O.G.S	9,373,748	16,671,453	21,361,098	27,907,749	23,473,971
Average Inventory	20,011,222	22,994,877	21,182,808	22,736,071	18,829,552
Inventory Turnover Rate	**0.47**	**0.72**	**1.07**	**1.23**	**1.25**

	1999	2000	2001	2002	2003
Days	365	365	365	365	365
Inventory Turnover Rate	0.47	0.72	1.01	1.23	1.25
Days to sell Average Inventory	**776.6**	**506.9**	**361.5**	**296.7**	**292**

	1999	2000	2001	2002	2003
Days to Collect A/R	64.15	79.34	86.10	71.01	85.10
Days to Sell Average Inventory	776.60	506.90	361.40	296.70	292
Operating Cycle	**840.75**	**586.24**	**447.5**	**367.71**	**377.1**

	1999	2000	2001	2002	2003
Gross Profit	7,989,742	6,439,600	7,918,562	10,515,017	10,106,370
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Gross Profit Rate	**0.46**	**0.28**	**0.20**	**0.28**	**0.30**

	1999	2000	2001	2002	2003
Operating Expenses	4,364,600	8,336,450	9,236,793	11,374,627	10,001,981
Net Sales	17,363,096	23,111,053	29,279,660	38,522,766	33,580,341
Operating Expense Ratio	**0.25**	**0.36**	**0.31**	**0.29**	**0.30**

	1999	2000	2001	2002	2003
Gross Profit (loss)	7,989,742	6,439,600	7,918,562	10,615,017	10,106,370
Operating Expenses	4,364,600	8,336,450	9,236,793	11,374,627	10,001,981
Operating Income	**3,624,754**	**(1,318,231)**	**(1,894,850)**	**(759,610)**	**104,389**

	1999	2000	2001	2002	2003
Operating Income	3,624,754	(1,318,231)	(1,896,850)	(759,610)	104,389
Average Total Assets	32,046,490	41,078,999	46,478,539	54,319,986	54,975,666
Return on Assets	**11.31%**	**(3.21)%**	**(4.08)%**	**1.40%**	**0.19%**

	1999	2000	2001	2002	2003
Net Income	107,109	(16,121,450)	(43,910,609)	(29,116,658)	9,454,125
Average Total Equity	13,573,726	8,350,055	(17,079,982)	(46,608,663)	(49,747,621)
Return on Equity	–	–	–	–	–