

Financial Accounting

Report

**Researched companies:
(Aeroflot & Cathay Pacific Airways)**

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Words:

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Executive Summary

The aim of this report is to provide the importance of financial data as an asset to companies

Collecting and analyzing financial data is an asset to any company. The data has an impact on the management of the business and future plans such as forecast, budget etc. The data also provides information of the finances, which will give the company a general sense of the progress of the business as well as more accurate accounting reports. This particular report will compare two hospitality business companies which are Cathay Pacific and Aeroflot air. In general, this report presents the importance of financial data which contains and compares the financial data from statements of balance sheets and the income statements. Current liquidity ratio, Turnover asset ratio, Coverage ratio, revenue, and expenses are used to provide the financial data and comparative information for this report. Data of these contents are supported with graphs which act as a visual tool to interpret the significance of the financial data. In contents, methods of the calculation between company Cathay Pacific and Aeroflot are shown in the appendix and as well as in the references. After analyzing this report, a conclusion is shown of how important the financial data is to show different aspects of a business.

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1. Introduction

The aim of this report is to utilize and conscious the importance of the financial data and business management. To achieve this aim, Cathay Pacific Airline Company (founded in Hong Kong) and Aeroflot (Russian Airline Company) are chosen as research examples. In the following paragraphs, the background information of the two companies is presented. With the balance sheet and the income statement from those two airline companies, revenue, expenses, interest coverage ratio, current liquidity ratio, and asset turnover ratio are provided for the comparison of the financial data. After comparing and achieved aim, conclusion will be briefed on all the consequences.

2. The importance of this financial data on the Business management

Financial data is important in business management because it stimulates the growth of the company by increasing the profits and decreasing unnecessary expenses. There are lots of ratios and key concepts discussed in this report. Revenue, Expenses and three ratios (Current ratio, Coverage ratio, and Asset Turnover ratio) are given to support the comparison of the two airways companies. To have a good understanding about financial data is a precious asset to a company as it provides the trends and future development course for the company.

According to Carcello (2008 p, 199), Revenue is income which a company receives from normal business activities. Generally, income is from the sales of goods and services. But income might be different for other companies, for example some companies would receive the revenue from interest, dividends or royalties from other companies or individuals. To gain more revenue is justified as an asset to a company, but having more expenses may seem superfluous to the company. In terms of financial data for income statement, expenses reduce owners' equity (McGraw-Hill page 40). Income statement provides the total amount of expenses where the money is spent and may also show the internal operating efficiency of the company. It is necessary to know this data, so the company could control the budget and amount of expenses spent or will spend in the future.

According to (Roman L, Weil 2007) coverage ratio is also known as EBIT which measures the number of times a company can make payments on debt with earnings before interest and taxes. When coverage ratio is below 1.0, it means the company is having difficulties with the cash that is necessary to pay interest obligations.

According to (Lawrence j, 2000) current ratio could be called as 2:1 ratio. Current ratio provides credit rating of a company. There are positive and negative aspects in this ratio. High ratio proves

a great credit rating for the company and that the company will be able to make their necessary payments. As always, continuing the high current ratio makes investors consider investing in the company because investors will think that they are losing the chance to invest for their profit.

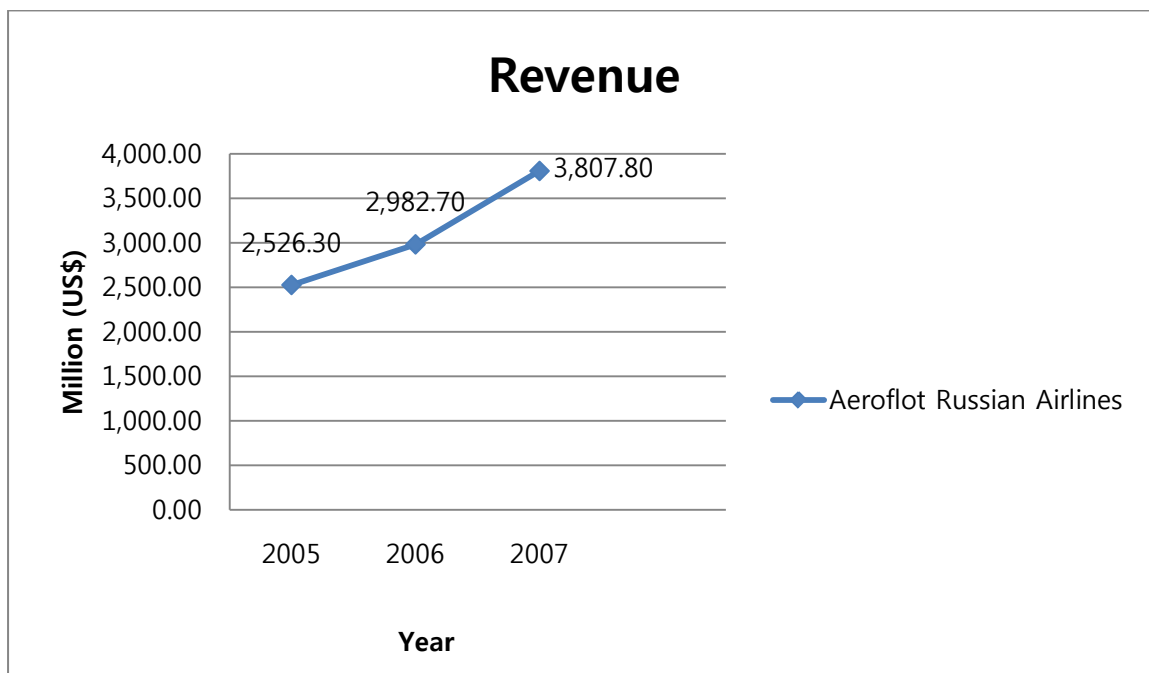
According to (Clye P. Stickney 2009). All the financial ratio are important in evaluating each year, while the asset turnover ratio is the most important for CEOs, borders, and accountants. Ratio is high, then it means that the company's asset rotation is highly fluid.

4. Comparison of Financial data on Aeroflot & Cathay Pacific Airways

4.1 Revenue

Revenue is the income received of the company from the general business activities which normally resulted from the customers in the goods and services sold (Schmidgall and Damiti o, 2006, p.21). Referring to Figure 1, Aeroflot Russian Airlines has \$2,526.3 million of revenue in year 2005; \$2,982.7 million in year 2006 and \$3,807.8 million in year 2007 (Appendix 1&2).

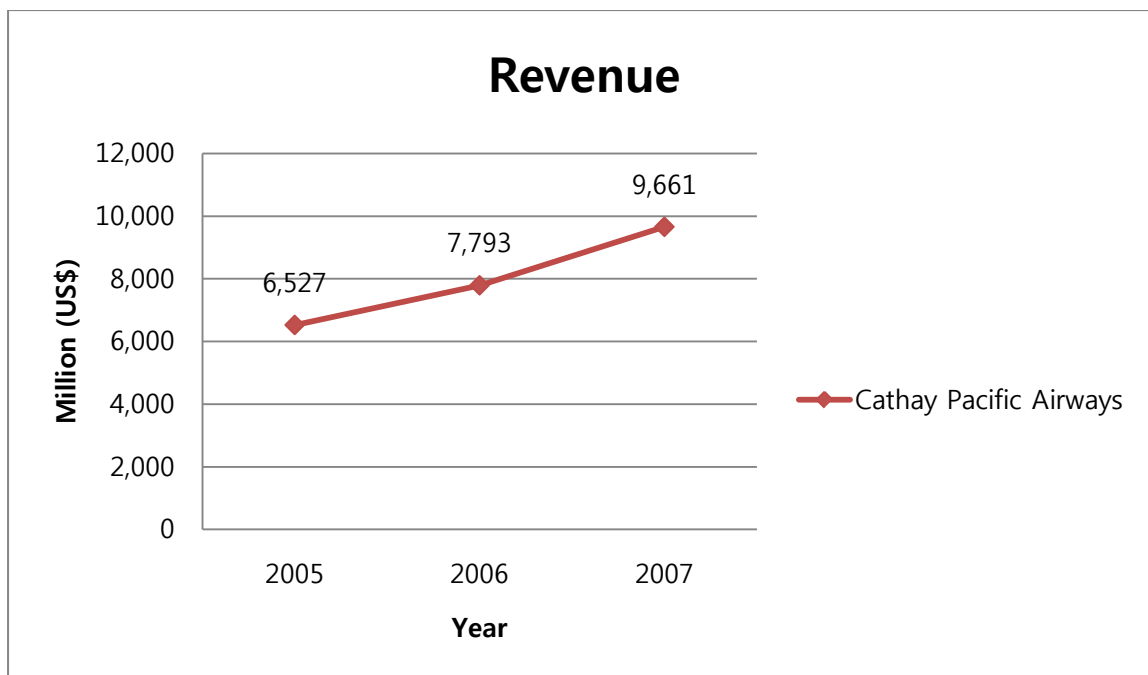
Figure 1. Revenue of Aeroflot Russian Airlines from year 2005 to year 2007



(Source: Aeroflot Financial data 2005 to 2007)

Similarly, referring to Figure 2, Cathay Pacific Airways has a total of \$6,527 million of revenue for year 2005; \$7,793 million for year 2006 and \$9,661 million for year 2007 (Appendix 3&4).

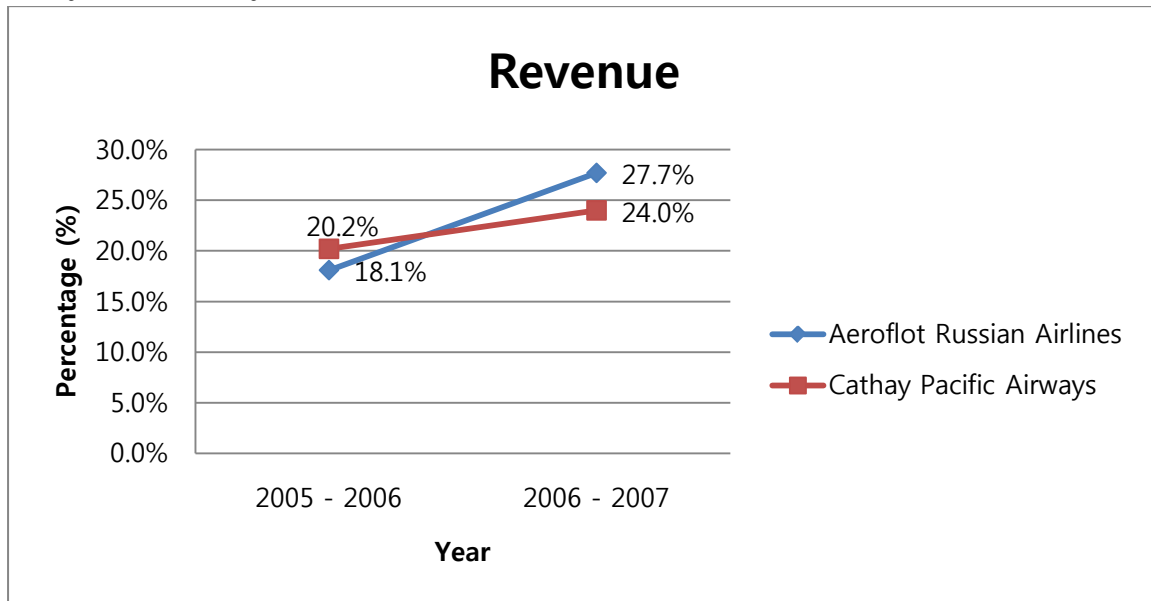
Figure 2. Revenue of Cathay Pacific Airways from year 2005 to year 2007



(Source: Cathay Pacific Airways)

For Aeroflot Russian Airlines, there is 18.1% (Appendix 5) increase in revenue from year 2005 to year 2006 and this increase continues from year 2006 to year 2007 and with a larger percentage of 27.7% (Appendix 6). For Cathay Pacific Airways, from year 2005 to year 2006, there is an increase percentage of 20.2% (Appendix 7); and in year 2006 to year 2007, there is a greater increase of 24.0% (Appendix 8) in the revenue. Referring to Figure 3, among these three years from 2005 to 2007, the revenue of both companies has increased. However, during the period of year 2005 to year 2006, Cathay Pacific Airways has a percentage of 2.1% (Appendix 9) more on revenue expansion than the Aeroflot Russian Airlines. Conversely, during the second period which is year 2006 to year 2007, the Aeroflot Russian Airlines has 3.7% (Appendix 10) more revenue than Cathay Pacific Airways. Nevertheless, Cathay Pacific Airways has a larger sum of revenue in total than Aeroflot Russian Airlines as in year 2005 and year 2006, it has 2.6 times (Appendix 11&12) more revenue than Aeroflot Russian Airlines and 2.5 times (Appendix 13) more in the year of 2007.

Figure 3. Comparison of revenue of Aeroflot Russian Airlines and Cathay Pacific Airways from year 2005 to year 2007

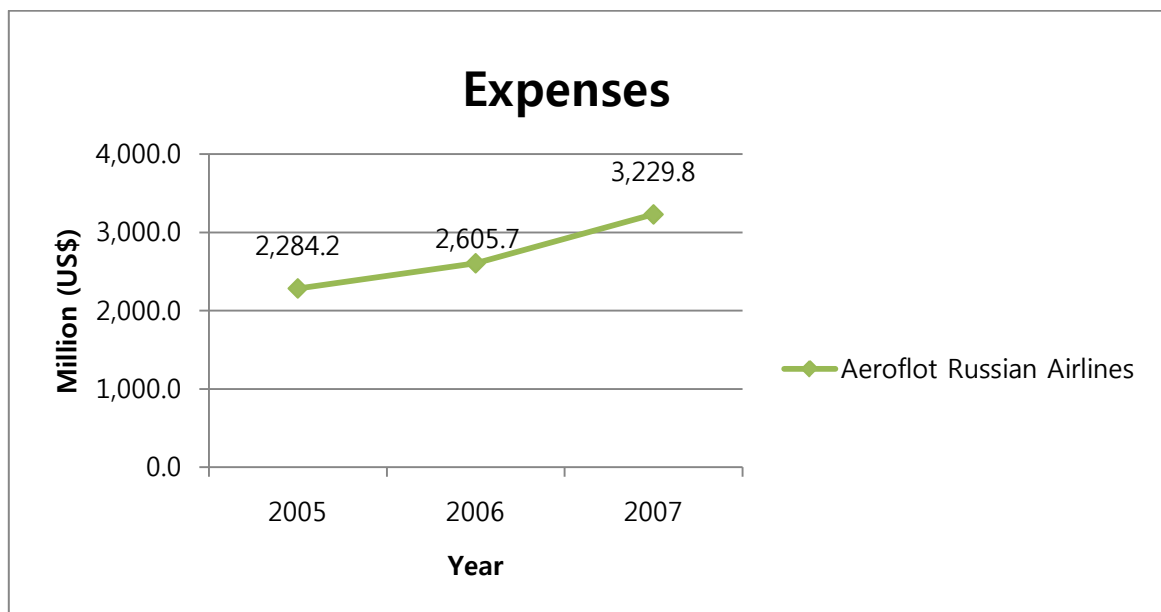


(Source: Aeroflot 2005 to 2007 & Cathay Pacific 2005 to 2007)

4.2 Expenses

Expenses are costs used for producing the sales revenue in terms of goods and services (Jagels, 2007, p.18). According to Figure 4, the overall expenses for Aeroflot Russian Airlines in year 2005 was \$2,284.2 million; \$2,605.7 million in year 2006 and \$3,229.8 million in year 2007 (Appendix 1&2).

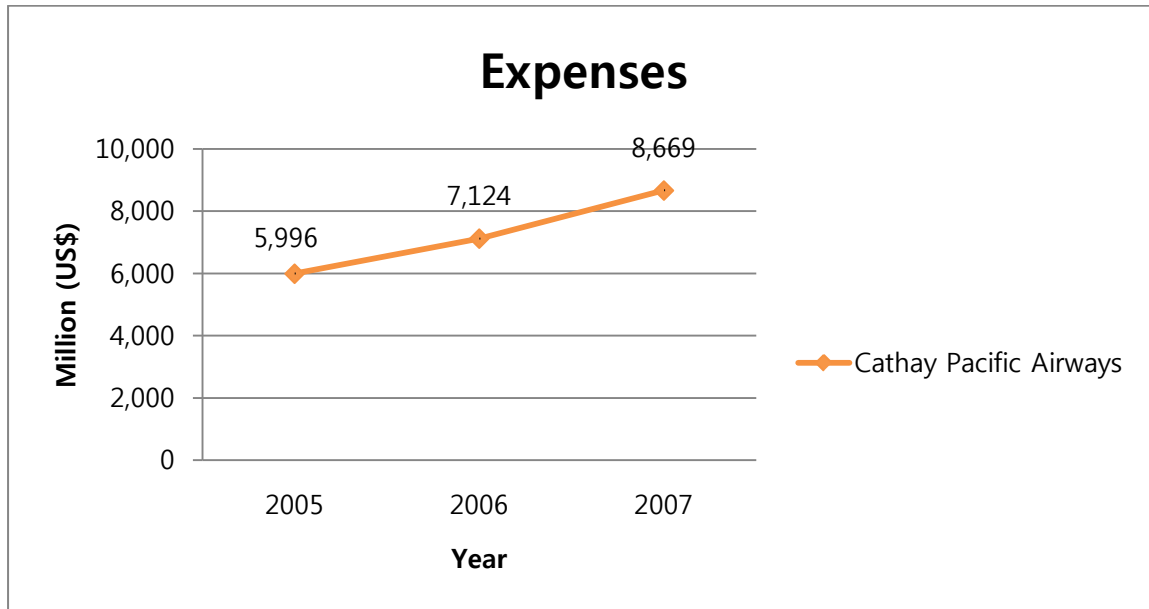
Figure 4. Expenses of Aeroflot Russian Airlines from year 2005 to year 2007



(Source Aeroflot airways 2005 to 2007)

Correspondingly, as shown in Figure 5, the total expenses for Cathay Pacific Airways was \$5,996 million in year 2005; \$7,124 million in year 2006 and \$8,669 million in year 2007 (Appendix 3&4).

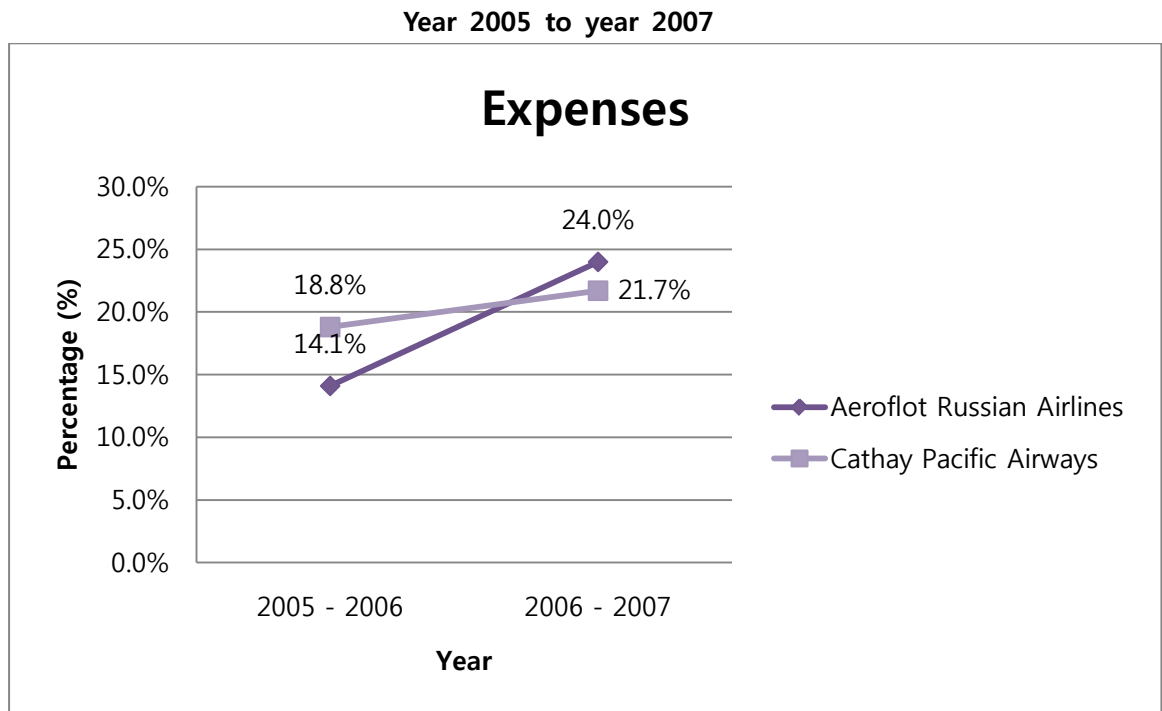
Figure 5. Expenses of Cathay Pacific Airways from year 2005 to year 2007



(Source: Cathay Pacific Airways Financial Data 2005 to 2007)

For Aeroflot Russian Airlines, there is a slightly increase of expenses of 14.1% (Appendix 14) from year 2005 to year 2006 but a relatively greater increase of 24.0% (Appendix 15) in the year of 2006 to year 2007. For Cathay Pacific Airways, there is 18.8% (Appendix 16) increase in the expenses from year 2005 to year 2006 and the expenses increase even more from year 2006 to year 2007 which is about 21.7% (Appendix 17). Referring to Figure 6, the trend of the raising amount of expenses applied in both companies. From year 2005 to year 2006, Cathay Pacific Airways has a larger amount of expenses for 4.7% (Appendix 18) than Aeroflot Russian Airlines. However, Aeroflot Russian Airlines spent 2.3% (Appendix 19) more expenses from year 2006 to year 2007 than Cathay Pacific Airways. Above all, Cathay Pacific Airways has a greater total of expenses in year 2005 for 2.5 times (Appendix 20) more than Hilton Aeroflot Russian Airlines and 2.7 times (Appendix 21&22) more in year 2006 and year 2007 respectively.

Figure 6. Comparison of expenses of Aeroflot Russian Airlines and Cathay Pacific Airways from

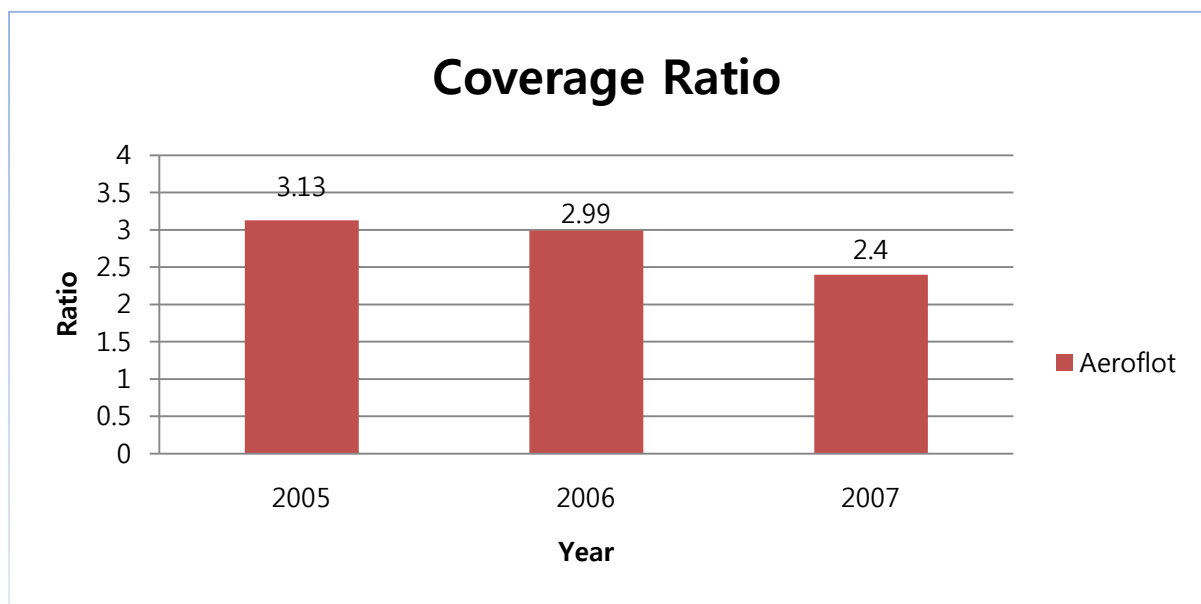


(Source: Aeroflot & Cathay Pacific Airways Year 2005 to 2007)

4.3 Interest Coverage ratio

Coverage ratio provides suppliers about company's crediting rating that company could pay for them. From this report, Figure 7, Figure 8 and Figure 9 will be providing Aeroflot and Cathay Pacific Airways coverage ratio. Brief on Figure 7, coverage ratio for Aeroflot; 3.13:1 was ratio in year 2005 (Appendix 23), 2.99:1 for year 2006 (Appendix 24) and 2.4:1 for year 2007 (Appendix 25).

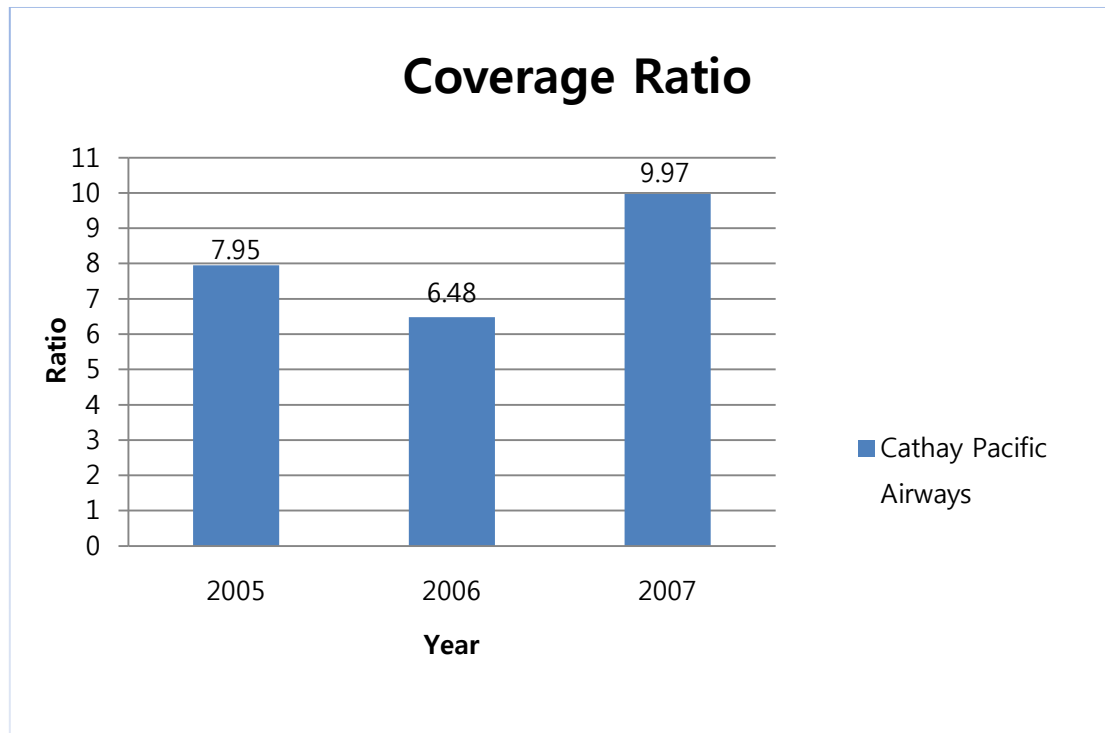
Figure 7. Interest Coverage Ratio for Aeroflot Year 2005 to 2007



(Source Aeroflot Financial Data year 2005 to 2007)

Referring to figure 8, coverage ratio for Cathay Pacific year 2005 was 7.95:1 (Appendix 26), 6.48:1 (Appendix 27) in year 2006, and 9.97:1 (Appendix 28) for year 2007.

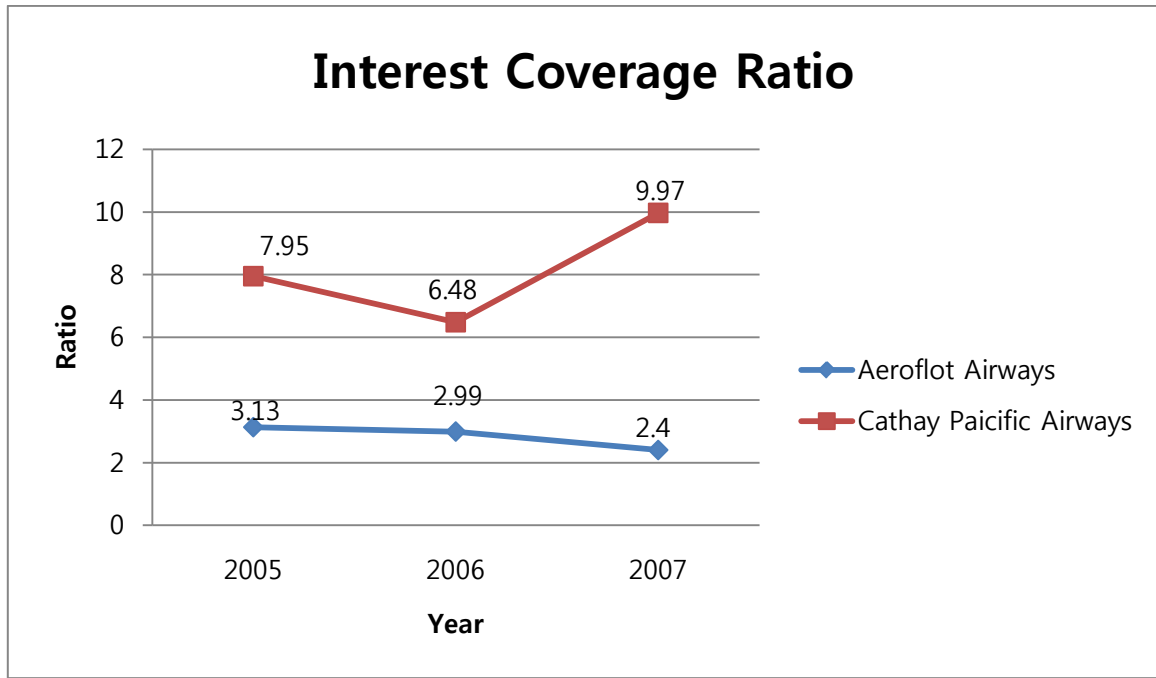
Figure 8, Coverage Ratio from Cathay Pacific Airways Year 2005 to 2007



(Source Cathay Pacific Airways year 2005 to 2007)

Referring to Figure 9, Cathay Pacific Airways is a head from Aeroflot Airways especially in year 2007 because in between year 2006 (6.48:1) and 2007(9.97), Cathay Pacific purchased Dragon Airway. However, Aeroflot Airways is decreasing on coverage ratio as 3.31 (2005), 2.99 (2006), and greatness of decreasing on 2.4(2007).

Figure 9, Comparison of Interest Coverage Ratio of Aeroflot and Cathay Pacific Airways from Year 2005 to 2007

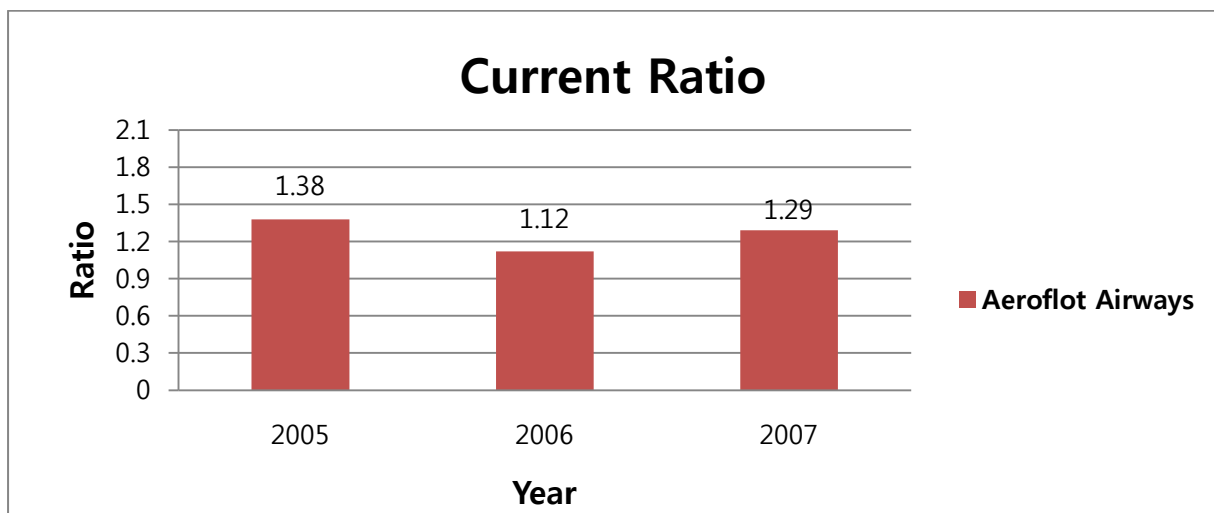


(Source: Financial Data from Aeroflot Airways & Cathay Pacific Airways Year 2005 to 2007)

4.4 Current liquidity ratio

According to Peter Atrill (1997 pg 64), current ratio is calculated dividing current asset by current liabilities. Current ratio provides compare the liquid assets (meaning of liquid asset is cash and other assets which are held, and those are turning to cash soon) of business with the current liabilities. Referring to Figure 10, the current ratio for Aeroflot airways for year 2005 was 1.38:1 (Appendix 29). In year 2006, the current ratio was 1.12:1 (Appendix 30) and 1.29 (Appendix 31) for year 2007.

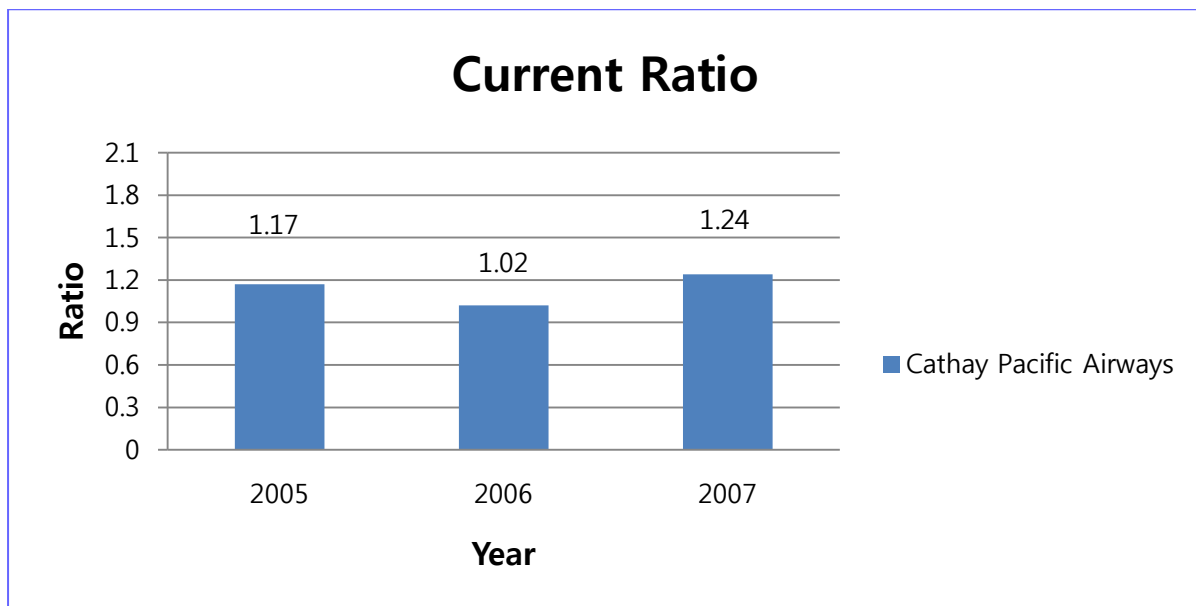
Figure 10. Current ratio of Aeroflot Airways from year 2005 to year 2007



(Source Aeroflot Airways, Year 2005 to 2007)

Referring to Figure 11 provides, the current ratio for Cathay Pacific Airways between year 2005 to 2007. In year 2005 was 1.17:1 (Appendix 32), year 2006 was 1.02:1 (Appendix 33) and year 2007 was 1.24:1 (Appendix 34)

Figure 11. Current ratio of 2005 to 2007 Cathay Pacific Airways



(Source: Cathay Pacific Airways, Year 2005 to 2007)

From above graph and paragraph from Aeroflot airways, the highest ratio was year 2005 (1.38:1) but for year 2006, the current ratio went down as 1.12:1. In year 2007 Aero airways began to show the growth of current ratio as 1.29:1. From this result, between year 2005 and 2006 Current liabilities was 58.24% (Appendix35) but between year 2006 to 2007 was 12.9% (Appendix36). Since current liabilities increased from year 2005 to year 2006, short term borrowings affected to increase on short term debt.

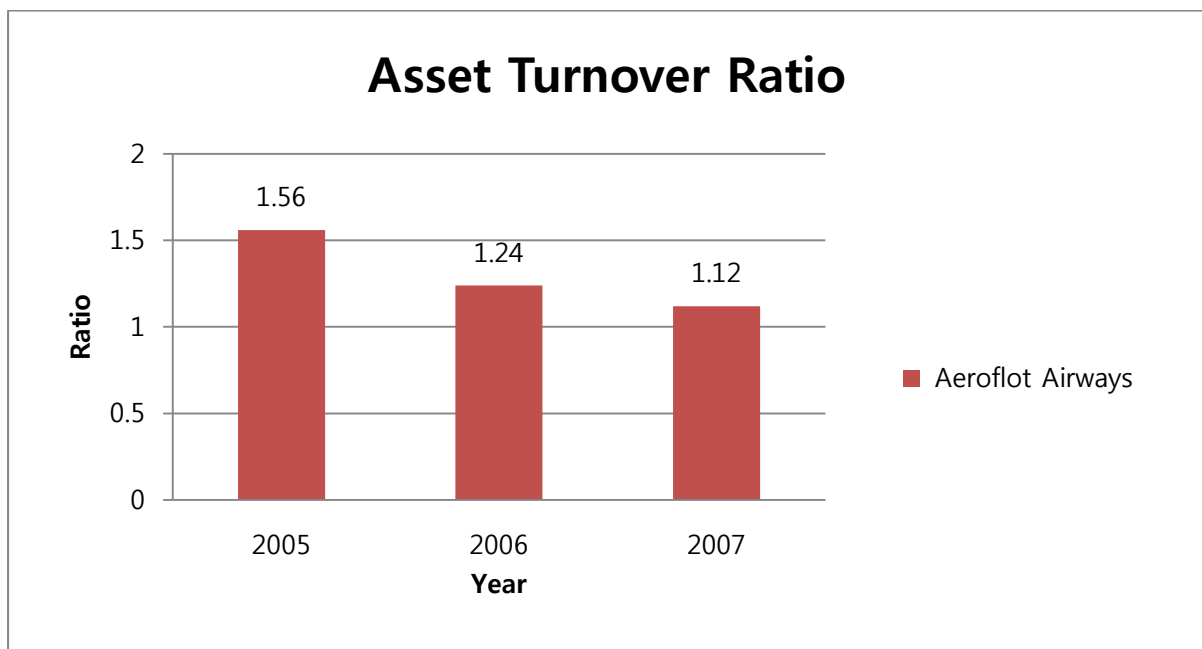
Figure 12. Comparison of Current Ratio of Aeroflot and Cathay Pacific Airways from Year 2005 to 2007

4.5 Asset Turnover ratios

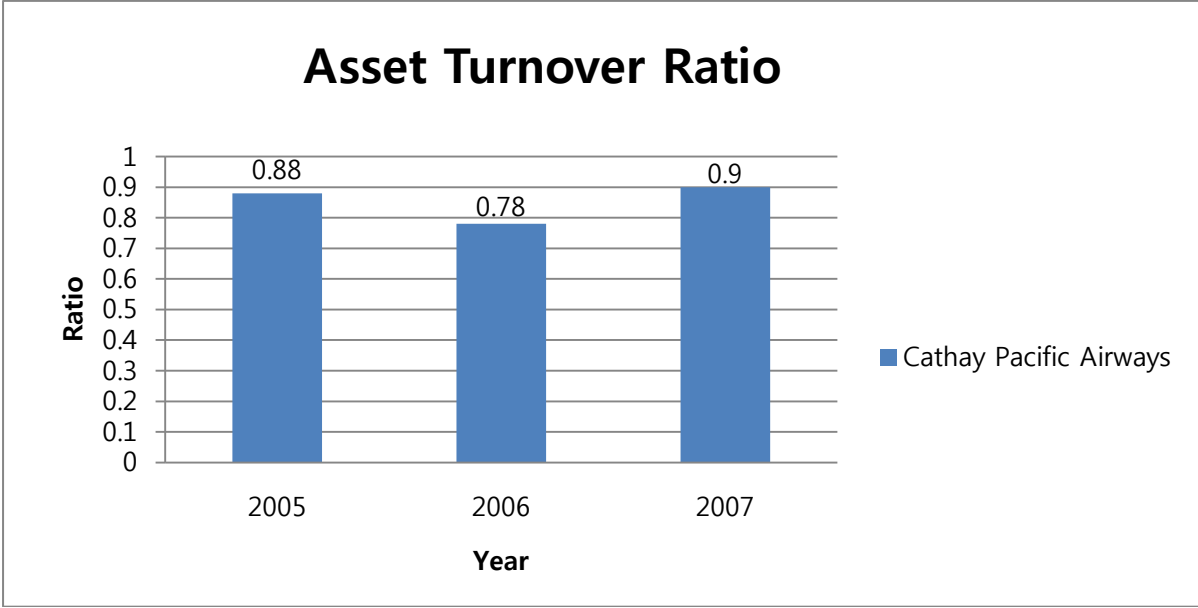
Figure

(Source:)

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Reference

Schmidgall S.R., Damitio W.J., 2006. *Hospitality Industry Financial Accounting*, 3rd Ed. Lansing: Educational Institute

OJSC "AEROFLOT – RUSSIAN AIRLINES"

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006**

(Amounts in millions of US Dollars, except shares and earnings per share amounts)

	Notes	2006	2005
Traffic revenue	6	2,474.3	2,079.3
Other revenue	7	508.4	447.0
Revenue		2,982.7	2,526.3
Operating costs	8	(2,099.3)	(1,861.9)
Staff costs	9	(409.2)	(342.3)
Depreciation	20	(97.2)	(80.0)
Operating costs		(2,605.7)	(2,284.2)
Operating income		377.0	242.1
Interest expense	10	(30.7)	(25.3)
Interest income		4.0	6.9
Share of result of equity accounted investments	17	8.4	5.7
Foreign exchange and translation gain/(loss), net		38.7	(12.8)
Other non-operating (expenses)/income, net	11	(9.5)	62.2
Profit before income tax		387.9	278.8
Income tax	12	(129.8)	(89.0)
Profit for the year		258.1	189.8
Attributable to:			
Equity holders of the parent		255.4	184.2
Minority interest		2.7	5.6
		258.1	189.8
Earnings per share, basic and diluted (US cents)		24.3	17.9
Weighted average number of shares outstanding (millions)	27	1,060	1,060

The accompanying notes form an integral part of these consolidated financial statements.
The Independent Auditors' Report is presented on pages 120-121.

Consolidated Statement of Income for the year ended 31 December 2007

(All amounts in millions of US dollars)

	Notes	2007	2006
Traffic revenue	6	3,165.4	2,473.1
Other revenue	7	642.4	519.2
Revenue		3,807.8	2,992.3
Operating costs	8	(2,529.6)	(2,100.2)
Staff costs	9	(555.2)	(408.3)
Depreciation	20	(145.0)	(97.6)
Operating costs		(3,229.8)	(2,606.1)
Operating profit		578.0	386.2
Financial income	10	62.0	42.2
Financial expenses	10	(53.2)	(32.2)
Share of results of equity accounted investments	17	6.0	8.4
Other non-operating expenses, net	11	(55.8)	(16.7)
Profit before income tax		537.0	387.9
Income tax	12	(223.6)	(129.8)
Profit for the year		313.4	258.1
Attributable to:			
Shareholders of the Company		305.3	255.4
Minority interest		8.1	2.7
		313.4	258.1
Earnings per share, basic and diluted (US cents)		28.8	24.1
Weighted average number of shares outstanding (millions)	28	1,061	1,060

These consolidated financial statements were approved by management on 11 June 2008 and were signed on its behalf by:

General Director



V. M. Okulov

Appendix 3

for the year ended 31st December 2006

	Note	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
Turnover					
Passenger services		35,155	30,274	4,507	3,881
Cargo services		14,251	12,852	1,827	1,648
Catering, recoveries and other services		11,377	7,783	1,459	998
Total turnover	1	60,783	50,909	7,793	6,527
Expenses					
Staff		(9,950)	(9,025)	(1,276)	(1,157)
Inflight service and passenger expenses		(2,347)	(2,033)	(301)	(261)
Landing, parking and route expenses		(8,066)	(6,947)	(1,034)	(891)
Fuel		(20,214)	(15,588)	(2,592)	(1,999)
Aircraft maintenance		(5,330)	(4,527)	(683)	(580)
Aircraft depreciation and operating leases		(5,283)	(4,893)	(677)	(627)
Other depreciation and operating leases		(862)	(790)	(111)	(101)
Commissions		(668)	(555)	(86)	(71)
Others		(2,845)	(2,408)	(364)	(309)
Operating expenses		(55,565)	(46,766)	(7,124)	(5,996)
Operating profit	2	5,218	4,143	669	531
Finance charges		(1,818)	(1,605)	(233)	(206)
Finance income		1,353	1,161	173	149
Net finance charges	3	(465)	(444)	(60)	(57)
Share of profits of associates	11	301	269	39	35
Profit before tax		5,054	3,968	648	509
Taxation	4	(782)	(500)	(100)	(64)
Profit for the year		4,272	3,468	548	445
Profit attributable to					
Cathay Pacific shareholders	5	4,088	3,298	524	423
Minority interests		184	170	24	22
		4,272	3,468	548	445
Dividends					
Interim – paid	6	786	676	101	87
Special – paid	6	1,259	–	161	–
Final – proposed	6	1,259	947	161	121
		3,304	1,623	423	208
Earnings per share					
Basic	7	115.9¢	97.7¢	14.9¢	12.5¢
Diluted	7	115.7¢	97.4¢	14.8¢	12.5¢
Dividend per share	6	84.0¢	48.0¢	10.8¢	6.2¢

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary information and are translated at HK\$7.8.

Appendix 4

Consolidated Profit and Loss Account

for the year ended 31st December 2007

	Note	2007 HK\$M	2006 HK\$M	2007 US\$M	2006 US\$M
Turnover					
Passenger services		45,129	35,155	5,796	4,507
Cargo services		16,238	14,251	2,082	1,827
Catering, recoveries and other services		13,991	11,377	1,793	1,459
Total turnover	1	75,358	60,783	9,661	7,793
Expenses					
Staff		(12,142)	(9,950)	(1,557)	(1,276)
Inflight service and passenger expenses		(2,903)	(2,347)	(372)	(301)
Landing, parking and route expenses		(9,950)	(8,066)	(1,276)	(1,034)
Fuel		(24,624)	(20,214)	(3,157)	(2,592)
Aircraft maintenance		(6,830)	(5,330)	(875)	(683)
Aircraft depreciation and operating leases		(6,369)	(5,283)	(817)	(677)
Other depreciation and operating leases		(998)	(862)	(128)	(111)
Commissions		(860)	(668)	(110)	(86)
Others		(2,943)	(2,845)	(377)	(364)
Operating expenses		(67,619)	(55,565)	(8,669)	(7,124)
Operating profit	3	7,739	5,218	992	669
Finance charges		(2,451)	(1,818)	(314)	(233)
Finance income		1,664	1,353	213	173
Net finance charges	4	(787)	(465)	(101)	(60)
Share of profits of associates	12	1,057	301	136	39
Profit before tax		8,009	5,054	1,027	648
Taxation	5	(799)	(782)	(103)	(100)
Profit for the year		7,210	4,272	924	548
Profit attributable to					
Cathay Pacific shareholders	6	7,023	4,088	900	524
Minority interests		187	184	24	24
		7,210	4,272	924	548
Dividends					
Interim – paid	7	985	796	126	101
Special – paid	7	–	1,259	–	161
Final – proposed	7	2,325	1,260	298	162
		3,310	3,305	424	424
Earnings per share					
Basic	8	178.3¢	115.9¢	22.9¢	14.9¢
Diluted	8	178.1¢	115.7¢	22.8¢	14.8¢
Dividend per share	7	84.0¢	84.0¢	10.8¢	10.8¢

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary.

Appendix 5

\$2,982.70 million - \$2,526.30 million = \$456.4 million
(\$456.4 million/\$2,526.30 million)*100% = 18.1%

Appendix 6

\$3,807.8 million - \$2,982.70 million = \$825.1 million
(\$825.1 million/\$2,982.70 million)*100% = 27.7%

Appendix 7

\$7,793 million - \$6,527 million = \$1,266 million
(\$1,266 million/\$6,527 million)*100% = 20.2%

Appendix 8

\$9,661 million - \$7,793 million = \$1,868 million
(\$1,868 million/\$7,793 million)*100% = 24.0%

Appendix 9

20.2% - 18.1% = 2.1%

Appendix 10

27.7% - 24.0% = 3.7%

Appendix 11

\$6,527 million/\$2,526.30 million = 2.6 times

Appendix 12

\$7,793 million/\$2,982.70 million = 2.6 times

Appendix 13

\$9,661 million/\$3,807.8 million = 2.5 times

Appendix 14

\$2,605.7 million - \$2,284.2 million = \$321.5 million
(\$321.5 million/\$2,284.2 million)*100% = 14.1%

Appendix 15

\$3,229.8 million - \$2,605.7 million = \$624.1 million
(\$624.1 million/\$2,605.7 million)*100% = 24.0%

Appendix 16

\$7,124 million - \$5,996 million = \$1,128 million
(\$1,128 million/\$5,996 million)*100% = 18.8%

Appendix 17

\$8,669 million - \$7,124 million = \$1,545 million
(\$1,545 million/\$7,124 million)*100% = 21.7%

Appendix 18

18.8% - 14.1% = 4.7%

Appendix 19

24.0% - 21.7% = 2.3%

Appendix 20

\$5,996 million/\$2284.2 million = 2.5 times

Appendix 21

\$7,124 million/\$2,605.7 million = 2.7 times

Appendix 22

\$8,669 million/\$3,229.8 million = 2.7 times

Method of Coverage Ratio

Interest before expenses and taxation / income tax

Coverage ratio for Aeroflot = Profit before income tax / Income tax

Appendix 23

Interest Coverage Ratio Aeroflot 2005

1. $278.8 / 89 = 3.1325$

Rounded: 3.13

***Ratio: 3.13 times or 3.13:1**

Appendix 24

Interest Coverage Ratio Aeroflot 2006

2. $387.9 / 129.8 = 2.98844$

Rounded: 2.99

***Ratio: 2.99 times or 2.99:1**

Appendix 25

Interest Coverage Ratio Aeroflot 2007

3. $537.0 / 223.6 = 2.40161$

Rounded: 2.40

***Ratio: 2.4 times or 2.4**

Coverage ratio for Cathay Pacific = Profit before tax / Taxation

Appendix 26

Interest Coverage Ratio Cathay Pacific 2005

1. $509/64 = 7.9531$

Rounded: 7.95

***Ratio: 7.95times or 7.95:1**

Appendix 27

Interest Coverage Ratio Cathay Pacific 2006

2. $648/100 = 6.48$

Rounded: 6.48

***Ratio: 6.48 times or 6.48:1**

Appendix 28

Interest Coverage Ratio Cathay Pacific 2007

3. $1027/103 = 9.970$

Rounded: 9.97

***Ratio: 9.97times or 9.97:1**

Appendixes (Calculation on Current Ratio)

Method of Current ratio

Current Asset / Current Liabilities = Current Ratio

Appendix 29

Current Ratio Aeroflot 2005

1. $780.9/ 567.0 = 1.3772486$

Rounded = 1.38

***Ratio: 1.38 times or 1.38: 1**

Appendix 30

Current Ratio Aeroflot 2006

$$2. \quad 1006.5/897.2 = 1.12182$$

Rounded = 1.12

***Ratio: 1.12 times or 1.12:1**

Appendix 31

Current Ratio Aeroflot 2007

$$3. \quad 1303.1/1012.9 = 1.286504$$

Rounded = 1.29

***Ratio: 1.29 times or 1.29:1**

Appendix 32

Current Ratio Cathay pacific 2005

$$1. \quad 2648/2254 = 1.1748$$

Rounded = 1.17

***Ratio: 1.17 times or 1.17:1**

Appendix 33

Current Ratio Cathay pacific 2006

$$2. \quad 3224/3170 = 1.01703$$

Rounded = 1.02

***Ratio: 1.02 times or 1.02:1**

Appendix 34

Current Ratio Cathay pacific 2007

$$3. \quad 4347/3512 = 1.2377$$

Rounded = 1.24

***Ratio: 1.24 times or 1.24:1**

Appendix 35

\$897.2 million - \$567 million = 330.2 million

$330.2/567 * 100\% = 58.236333\%$

Rounded: 58.24%

Appendix 36

\$1012.9 million - \$897.2 = 115.7 million

$115.7/897.2 * 100\% = 12.8956\%$

Rounded: 12.9%