

ANALYSIS OF FINANCIAL STATEMENT

Name of the Student

Veselina Uchkunova

Student ID

2028272

ANSWER 1 A

Kedison PLC

Profit and Loss statement for the year ended 31st December 2020

	Note NO	Amt (£)
Revenue	1	827630
Cost of sales		-578650
Gross profit		248980
Distribution costs		-28000
Administrative expenses		-30000
Interest on Debenture	2	-4000
Remuneration to Director		-5000
O/S Commission on sales	3	-3000
Profit/(loss) before taxation		178980
Taxation		-68000
Profit for the year		110980

Statement of Financial Position as at 31st December 2020

	NOTE NO	Amt (£)
Non- Current assets		
Property, plant and equipment		632730
Current assets		
Inventory		330600
Trade receivables	4	171105
Cash		12900
Total assets		1147335
Current liabilities		
Trade payables	5	171355
Other Current Liabilities	6	73000
Non current liabilities		
Loans and other borrowings	7	100000
Net assets		802980
Equity		
£1 ordinary shares		310000
10% £1 preference shares		300000
Retained profits	8	192980

Total Equity	802980
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NOTES TO ACCOUNT

1. Revenue

Sales	826650
Add: unrecorded debtor sales	980
Total Revenue	827630

2. Interest on Debenture

Interest Paid	2000
O/s interest payable	2000
Total Interest	4000

3. O/S Commision on sales

commision due	3000
Total	3000

4. Trade receivables

Debtor	170125
Add: unrecorded debtor	980
Total Trade Receivable	171105

5. Trade Payables

Creditors	171355
Total	171355

6. Other Current Liabilities

O/S Interest	2000
O/S Commision	3000
Income tax Payable	68000
Total	73000

7. Loans and other Borrowing

4% Debentures	100000
Total	100000

8. Retained Profit

Op balance of Retained profit	132000
Add: Net profit after Tax	110980
Less: Preference Dividend	-30000
Less: Ordinary Dividend	-20000
Total Retained Profit	192980

ANSWER 2(A)

Ratio Calculation of Choco Plc for the year 2020 and 2019

1. ROCE

Capital Employed

2. ROE

3. Earnings per share

Average Outstanding average number of Shares

4. Net profit margin

5. Asset turnover

6. Stock holding days

7. Debtors collection period

8. Current ratio

9. Gearing ratio

10. Interest coverage

EBIT

Formula	2020	2019
Operating Profit /Capital Employed	0.11	0.10
Total Asset - current liabilities	7225000000	7041000000
Profit after tax- Preference Dividend / Average Equity	0.01	0.04
EAT-preferred dividend / Average outstanding number of shares	3.00 58593750	1.65 75000000
Net Income / Sales	6.4%	5.7%
Sales/ Total Asset	0.69	0.64
(Average Inventory/Cost of Sales)*365	77	78
(Average Account Receivables/ credit sales)* 365	69	73
Current Asset/ Current Liabilities	0.92	0.77
Total Debt/Total Equity	1.34	1.42
EBIT/Interest Expense EAT+Tax+Interest	3.74	3.98

Answer 1B

Accounting is a critical component of any economic entity's financial and economic activity, notwithstanding the type of business or industry in which it is operating (Faccia & Mosco 2019).

In accounting, a balance sheet is a financial statement that shows the relationship between a company's assets, its liabilities, and shareholder equity at a specific point in time. These financial statements must be kept by all organization, along with the cash flow statement and income statement. It can be used to establish a company's net value (Finance Strategists, 2021). The balance sheet reveals the overall assets of the company as well as how they are financed (Corporate Finance Institute, 2021). The balance sheet is built on the following fundamental equation- $\text{Assets} = \text{Liabilities} + \text{Equity}$. It gives a picture of assets and obligations and thus showing net worth at a particular point of time. An income statement is a part of financial statement that shows how much money a business made over a specific time period. (Sec.gov, 2021).

The assets and liabilities of a corporation, as well as the shareholders' equity, are divided into two divisions in a balance sheet. Financial obligations, equity investments, and retained earnings all are balanced against the assets. These are the means of operation of the business.

Assets

Assets are rights or other access to future economic advantages that an entity has control over as a result of previous transactions or occurrence (Hasanaj & Kuqi 2019). In general, a company's assets are divided into two categories based on their ability to be converted into cash:

Current Asset: A current asset is known as an asset that can be transformed to cash or used to reduce current liabilities within a year. Some of the examples includes Cash & cash equivalents, short-term investments, accounts receivable, Inventory, and some prepaid liabilities that will be paid within a year (Courses.lumenlearning.com, 2021).

Non-current asset- These assets do not get easily convertible into cash by the company. Non-current asset are generally long-term investment of the company.

Liability: Liability of a business can be defined as Financial Responsibility of Business as per financial accounting (FreshBooks, 2021). In simple terms liability can be defined as owing something to someone else (Rehayem, 2021). Liabilities are generally divided into two parts in Balance sheet as Current Liabilities and Non-Current Liabilities. Liabilities that are current are expected to be paid off within a year, whereas Long-term liabilities are anticipated to take longer time. When a liability is expected to be settled within the normal course of the business's operations, it should be categorized as a current liability (www.masb.org, 2021). Companies must maintain track of all liabilities, including short-term ones, in order to accurately determine how to repay them. The accounting equation, often known as the balance sheet equation, subtracts a business's total assets from its total liabilities to determine shareholder equity, or how much the company owns.

The undistributed profits, which reflect retained earnings held and re-invested by the firm, equal the invested money that was distributed as shares plus the undistributed profits, which represent retained earnings held and re-invested by the organization. They aren't given out to stockholders. To put it another way, the company's business is financed by the equity of its shareholders. The size of the company's own operational money grows as the shareholders' equity grows. Thus, a balance gives complete view of the position of the company.

Answer 2B

Accounting can be thought of as a method for tracking the resolution of uncertainty through time (Penman, S., 2016). The goal of financial analysis is to provide information to financial managers and analysts so that they may make informed company decisions (Ncert.nic.in, 2021). In order to assess and analyses the importance of financial indicators in an enterprise, ratio analysis is used in this study for analyzing. It is a process for calculating financial ratios (Types, 2021) Profitability ratio is use to evaluate a company's potential to create earnings over time in relation to its revenue, cost of operating, Assets in balance sheet s, or shareholders' equity (Dicu, Bondoc & Popescu2019), We utilize a variety of liquidity indicators to predict whether corporations will be able to satisfy their short-term obligations using their current assets. Liquidity ratios have the advantage of being fairly precise, in terms of their components, because there are more actual. The gearing ratio (GEAR) is a financial leverage metric that reflects how creditor or equity capital is used to fund a company's operations. (Ali, 2015).

After evaluating and interpreting the data, we came to the conclusion that the company's profitability ratios had improved in 2020, but it had struggled to use its assets to generate revenue because the asset turnover ratio of the company is 0.69, however the company shows better turnover and a better return on capital this year. This shows that as the company's revenues climbed in 2020, its performance measures also improve by showing increase in the net profit ratio from 5.7% to 6.4%, and the earning per share of the company also increased from £1.65 to £3. Thus, leading the investors to pay more for the shares of the company resulting into higher market price however we must say book value of equity is more valuable than earnings. (Black. & White 2003) Liquidity Ratio of a company indicated that current ratio of the company is not good because current ratio is less than 1 which indicates that the company would face problem in meeting its

short-term obligation This is due to the fact that the company's short-term assets are insufficient to satisfy its short-term commitments resulting into less working capital. If the number is more than one, the company would be in good financial shape.

Based on the Asset turnover ratio, we can conclude that the company is not much effective in 2020 because it collected customer debts in 69 days on average for a year, which is not good for the company. A debt period of more than 60 days requires the company to adopt a more aggressive policy for its organization because debt collection period shows a company's effectiveness in Account receivable management policies. When the inventory holding period is examined, it is discovered that the company holds its stock for approximately 77 days, indicating that the company is not managing its inventory or having difficulty making sales. Thus, this ratio is used as a liquidity statistic to analyze a company's financial and operational performance. It measures the company's average time to change inventory into cash. (Eswap.global, 2021).

Based on the analysis we can conclude that the firm has less debt finance in 2020 based on the examination of financial ratios of long-term solvency, because the lower these factors are, the less debt-financed the company is. After making critical evaluation of financial performance we can say that the company has good financial statement because it has better profitability result, but it needs to adopt a more aggressive credit policy and increase its current asset ratio so that short-term obligations can be easily met.

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