

FUNDAMENTALS

TABLE OF CONTENTS

TABLE OF CONTENTS	2
QUESTION 1.....	3
Profit and loss account for the year ended 31st December 2020 for Kedison PLC	3
Balance sheet as at 31st December 2020 for Kedison PLC	3
Describing the reason for financial Position balance	5
QUESTION 2.....	5
a) Calculation of ratios	5
b) Explaining the financial position of Chocco plc.....	8
REFERENCES	11

QUESTION 1

Profit and loss account for the year ended 31st December 2020 for Kedison PLC

	Particulars	Amount £m
	Sales	826650
Less	COGS	578650
	Gross profit	248000
	Indirect Expenses	
Less	Administrative expenses	30000
Less	Interest paid	4000
Less	Directors remuneration	5000
Less	Salesmen commission	3000
Less	Distribution costs	28000
Less	Corporation tax	68000
	Net profit	110000

From the evaluation of above prepared income statement for the year it can be articulated that organization has earned the net profitability of 110000. For this purpose, company has incurred the expenses like administration, interest, director's remuneration, salesman commission, distribution cost, etc. in order to achieve the higher profitability. It becomes essential for company to get information regarding net profitability in turn dividend can be paid accordingly. The firm has given emphasis on generating higher profits by pending required level of expenses. Profit and loss statement prepared for the year indicates that company is possessing good level of liquidity for meeting its expenses for achieving success (Easton and et.al., 2018).

Balance sheet as at 31st December 2020 for Kedison PLC

	Amount £m
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Assets	
Fixed Assets	
Plant and equipment	632730
Current Assets	
Closing stock	329620
Debtors	171105
Cash and bank	12900
Total Assets	1146355
Liabilities	
Corporation tax	68000
Sales commission	3000
Interest paid	2000
Trade creditors	171355
4% Debentures long term debt	100000
Equities	
£1 ordinary shares	310000
Preference shares	300000
Retained profit	192000
Total liabilities	1146355

The above illustrated table has been formulated for assessing financial position of organization. The balance sheet comprises equities, assets and liabilities which helps in getting

full picture of financial position (Zakerean, 2021). On the basis of above formulated financial statement it can be identified that in order to pay current liabilities' organization has cash & equivalents assets that can provide assistance. The firm has good level of equity which includes ordinary, preference shares & retained profits. By analysing financial health of company it can be articulated that firm requires long term debt for meeting its operational practices in effective manner. From this it can be interpreted that Kedison PLC is having good financial health & profitability. It is important for the company to create financial position in effectual manner for the better processing and identifying available resources in order to make strategic decision.

Describing the reason for financial Position balance

Balance sheet comprises the assets, liabilities and equities of company for the specified period. The financial position is made by utilizing the double entry system which articulates that accounting transaction are recording at least two different account (*Why Does a Balance Sheet Need to Balance?* 2020). These are prepared according to the double entry system to make sure that firm is having appropriate recording by including all aspects of transaction to present the full picture. double entry system makes sure that all transaction is recorded as debit and credit in financial statement so that proper balance can be recorded in formulation of balance sheet.

It is prepared by following the equation of assets equals to liabilities plus equities. The assets comprise cash, equivalents, account receivables, prepaid expenses, inventory, marketable securities, land, property, trademark, etc. Liabilities involves accounts payable, accrued expenses, long term lease, etc. And equity part involves the retained earnings, etc. from the evaluation it can be identified that companies formulates the balance sheet by giving emphasis on proper assessment of liquidity position (Haralayya, 2021). The equation & double entry system is the main reason for which the balance sheet balances.

QUESTION 2

a) Calculation of ratios

ROCE

Particulars	Formula	2020	2019
Operating profit		805	699

(Total asset-Total Current liabilities)		(9,736-2,511) = 7,225	(10,087-3,046) =7,041
Return on capital employed	Operating profit / (Total asset-Total Current liabilities)*100	11.14	9.92

ROE

Particulars	Formula	2020	2019
Net profit		431	366
Shareholders' equity		3088	2912
Return on equity	Net profit / Shareholders' equity*100	13	12

Earnings per share

Particulars	Formula	2020	2019
Dividend per share		0.85	0.8
Market price		5.12	4
Earnings per share	Dividend per share/ Market price	0.166	0.201

Net profit margin

Particulars	Formula	2020	2019
Net profit		431	366

Revenue		6738	6441
NPM	Net profit/ Revenue*100	6.39	5.68

Asset turnover

Particulars	Formula	2020	2019
Revenue		6738	6441
Total assets		9736	10087
Asset turnover	Revenue/ Total assets	0.69	0.63

Stock holding days

Particulars	Formula	2020	2019
Average Inventory		708	659
COGS		3235	3096
Stock holding days	Average Inventory/ COGS *365	79.88	77.69

Debtors collection period

Particulars	Formula	2020	2019
Trade receivables		1249	1287
Sales		6738	6441
Debtors collection period	Trade receivables/ Sales*365	67.65	72.93

Current ratio

Particulars	Formula	2020	2019
Current assets		2303	2355
Current liabilities		2511	3046
Current ratio	Current assets / Current liabilities	0.92	0.77

Gearing ratio

Particulars	Formula	2020	2019
Total Debt		6648	7175
Total equity		3088	2912
Gearing ratio	Total Debt/ Total equity	2.15	2.46

Inventory cover Ratio

Particulars	Formula	2020	2019
COGS		3235	3096
Average inventory		708	659
Inventory turnover ratio	COGS/ Average inventory	4.5	5.44

b) Explaining the financial position of Chocco plc

- ROCE is associated with assessing that how much operating profit is generated by company from capital invested. From the evaluation of return on capital employed it can be identified that in the year 2019 & 2020 the obtained outcome is 9.92 and 11.14 respectively. On the basis of this it can be interpreted that ROCE of Chocco plc is in inclining trend. This is an indication of positive sign which is reflecting the financial

position. It is showing that firm can get higher return of capital to accomplish objective of higher profitability.

- Return on equity of Chocco plc in the year 2019 and 2020 is 12 & 13% that is showing upward sloping trend. It can be interpreted that company financial positions as compared to previous has improved but less than ideal ratio which is 15%. There is requirement of modification in order to improve financial performance effectively. The increasing ratio is showing that firm is paying attention on improving its monetary performance.
- Earnings per share is concerned with determining how much profit company can make from its each share (Prasoon and Reddy, 2021). The company's outcome regarding this is 0.201 & 0.166 respectively that is showing decreasing pattern. In addition to this, it can be stated that Chocco plc should put some more efforts to increase EPS in turn shareholders can be attracted for longer duration.
- Net profit margin refers to the ability of Chocco plc for generating profitability from its sales. The outcome obtained for the year 2019 and 2020 is 5.68 and 6.39% respectively that is showing upward going movement which is favourable and reflecting growth of company. Chocco plc has earned higher profitability as compared to previous that is less than ideal margin. This is presenting higher efficiency of specified firm to generate profit.
- Assets turnover ratio shows that how well firm uses its assets to generate revenue. From the assessment it can be recognised that the ratio is 0.63 & 0.69 for the year 2019 and 2020 respectively. The specific ratio is in upward movement that is favourable sign for company's growth. Financial health of company is good as compared to previous and higher than industrial standard. Organization can make more efforts to increase efficiency of firm to get higher revenue.
- Stock holding days of Chocco Plc for the two specified duration is 77.69 and 79.88 respectively. On the basis of computation, the outcome derived presents that the days of holding inventory is increasing as compared to earlier period. This is basically showing that company's replacing inventory is become ineffective due to inappropriate sales conversion rate. This is sign of adverse performance of firm which required modification to improve financial performance.

- Debtors collection period shows how effectively company receives the payment from the customers who have purchased goods on credit. From 2019 to 2020 it has lessened as reached 67.65 from 72.93 days. The attained result is favourable as it shows how effectively firm collects funds to maintain liquidity. This positive indication regarding the performance can help the firm to satisfy its stakeholders by reflecting efficiency of maintaining liquidity for continuous operation.
- Current ratio is used to assess the ability of enterprise to meet its short term liabilities with help of cash & equivalent assets (Benrqya and Jabbouri, 2021). Chocco Plc performance in 2019 & 2020 is 0.77 and 0.92 times which is lower as compared to benchmarking set. The ideal ratio lies in 1.2 to 1.5 times that reflects that negative performance and require improvement which can be done by selling outdated assets, etc.
- Gearing ratio is associated with assessing how much risk is concerned with company by evaluating debt & equity ratio. The derived outcome is 2.15 and 2.46 for current and previous year which is presenting that associated risk has lessened. This is positive sign of declined risk and help in getting smooth functioning.
- Inventory cover ratio derived for the two mentioned year is 5.44 & 4.5 respectively. The ideal ratio is between 5-10 which is greater than obtained outcome of current year 2020. This is showing that Chocco Plc financial health is not effective.

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