



University of Wales Trinity Saint David

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Introduction

The basic accounting concepts are the concepts and rules that are based on the entire accounting sector. This report aims to solve the problems of Kedison Plc & Chocco Plc by preparing financial statements and analysing their financial results.

Question 1

Income statement of Kedison plc

Income statement		
For the year ended on 31st December 2020		
Particulars	Amount(£)	Amount(£)
Sales	826,650.00	
Add: Goods sold on 31st	980	827,630.00
Cost of goods sold		-578,650.00
Add: goods sold at 31st		-980
Gross Profit		248,000.00
Less: Expenses		
Administrative expenses	30,000.00	
Directors Remuneration	5,000.00	
Distribution cost	28,000.00	
Add: commission not recorded	3,000.00	66,000.00
Operating Profit		182,000.00
Interest paid		2,000.00
Net income before tax		180,000.00
Less: Tax		68,000.00
Net income		112,000.00

Financial statement of Kedison plc

Statement of Financial Position		
as on 31st December, 2020		
Particulars	Amount(£)	Amount(£)
Non-Current Assets		
Plant & Equipment		632,730.00
Current Assets		
Stock	330,600.00	
Less: Goods sold at 31st	-980	
Debtors	170,125.00	
Add: goods sold at 31st	980	
Cash and bank	12,900.00	513,625.00
Total Assets		1,146,355.00
Current Liabilities		
Trade creditors	171,355.00	
Sales commission	3,000.00	
Tax	68,000.00	-242,355.00
Noncurrent Liabilities		
4% Debentures	100,000.00	-100,000.00
Net Assets		804,000.00
Equity		
£1 Ordinary shares		310,000.00
10% Preference shares		300,000.00
Retained earnings	132,000.00	

Add: Net income	112,000.00	
Less: Ordinary Dividend	-20,000.00	
Preference dividend	-30,000.00	194,000.00
		804,000.00

Interpretation

Financial statements help to summarise key performance and operations. Therefore, all business organisations must prepare annual accounts. The income statement allows you to determine all the costs and benefits that the organisation can earn (Monte-Mor, Galdi and Costa, 2018). Take the example of Kedison plc, the association's gross profit is USD 248,000. After deducting all operating expenses, it can reach a net profit of \$112,000. Through the ethical application of all GAAP rules, liabilities and assets are valued in a similar manner. The organisation also adheres to international financial standards that can be adapted to all relevant workplaces.

Question 2

Profitability ratios

Gross margin

Particular	2019	2020
Gross profit	3345	3503
sales	6441	6738
Gross profit ratio = GP/Sales*100	51.90%	52.00%

Net profit ratio:

Particular	2019	2020
Net profit	366	431
sales	6441	6738

Net profit ratio = NP/sales*100	5.68%	6.40%
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Operating profit ratio

Particular	2019	2020
Operating profit	699	805
sales	6441	6738
Operating profit ratio = OP/sales*100	10.85%	11.95%

Liquidity ratio

Particular	2019	2020
Current assets	2355	2303
current liabilities	3046	2511
Current ratio = Current assets/current liabilities (Liang, and Yan, 2019).	0.77 times	.92 times

Quick ratio

Particular	2019	2020
Quick assets	1696	1595
Current liabilities	3046	2511
Quick ratio =	0.56 times	.64 times

Efficiency ratios

Stock turnover

Particular	2019	2020
Cost of goods sold	3096	3235
Stock.	659	708
Stock turnover = Cost of goods sold/stock	4.70 times	4.57 times

Receivable turnover

Particular	2019	2020
sales	6441	6738
Receivables	1287	1259
Receivable turnover = Sales / Receivables	5.00 times	5.35 times

Assets turnover ratio

Particular	2019	2020
sales	6441	6738
Total assets	10087	9736
Assets turnover ratio = Net sales/total assets	0.64 times	0.69 times

Investment ratios

Return on capital employed

Particular	2019	2020
Operating profit	699	805
Capital employed = Total assets - Current liabilities	7041	7225
ROCE % Operating profit \Capital employed	0.1	0.11

Return on equity ratio

Particular	2019	2020
Net income	6,441	6,738
Shareholder equity	2,912	3,088
ROE = Net income / Sharholder'sequity	2.21	2.08

Dividend pay-out ratio

Particular	2019	2020
Total dividend	£242m	255m
Net income	6,441	6,738
Dividend pay-out ratio = Total dividend \ Net income* 100	37.51	37.84

Earnings per share

Particular	2019	2020
Net profit	366	431
EPS = Net profit /price of equity share	£4.00	£5.12

Assessment of financial performance of Chocco Plc

The person responsible for the annual reports, calculations, profitability, efficiency, liquidity and investment ratio of Chocco Plc. When calculating all these factors, it was stated that Chocco Plc's performance in 2020 has increased compared to 2019. Because they can earn more net profit and gross profit, this has a direct effect on the association's liquidity position. The pace of revenue and dividend generation will also be accelerated (Florou, Kosi and Pope, 2017). This shows that Chocco Plc's management is developing effective business strategies to improve the company's performance.

Conclusion

Based on the above analysis, management can prepare balance sheets in accordance with all necessary accounting policies and utilisation rates using accounting policies and tools to compare and analyse financial results in order to develop effective business practices to manage their organisation's resources.

References

Florou, A., Kosi, U. and Pope, P.F., 2017. Are international accounting standards more credit relevant than domestic standards?. *Accounting and Business Research*, 47(1), pp.1-29.

Monte-Mor, D.S., Galdi, F.C. and Costa, C.M., 2018. The role of accounting fundamentals and other information in analyst forecast errors. *International Finance*, 21(2), pp.175-194.