

Kedison Plc
Trial Balance
As at 31st December 2020

	Unadjusted Balance Debit £	Unadjusted Balance Credit £	Adjustment No	Journal Adjustments Debit £	Journal Adjustments Credit £		Adjusted Balance Debit £	Adjusted Balance Credit £	
B/Sheet Plant & Equipment	632,730						632,730		
B/Sheet Stock as at 31st Dec 2020	330,600		(3)		980	Goods Sent out Provision	330,600	980	
B/Sheet Debtors	170,125		(3)	980		Goods Sent out Provision	171,105		
B/Sheet Cash and bank	12,900						12,900		
B/Sheet Trade Creditors		171,355						171,355	
B/Sheet Other Creditors			(2)		3,000	Salesmen Comm Liability		3,000	
B/Sheet Corporation Tax Liability			(1)		68,000	Corp Tax Liability		68,000	
B/Sheet £1 Ordinary Shares		310,000						310,000	
B/Sheet 10% £1 Preference Shares		300,000						300,000	
B/Sheet 4% Debentures		100,000						100,000	
B/Sheet Retained Profits at 1st Jan 2020		132,000						132,000	
P&L Sales		826,650						826,650	
P&L Cost of Sales	578,650		(2)	3,000		Salesmen Comm Liability	581,650		
P&L Administration Expenses	30,000						30,000		
P&L Interest Paid	2,000						2,000		
P&L Directors Remuneration	5,000						5,000		
P&L Distribution Costs	28,000						28,000		
P&L Corporation Tax Provision			(1)	68,000		Corp Tax Liability		68,000	
P&L Ordinary Dividend Paid	20,000						20,000		
P&L Preference Dividend Paid	30,000						30,000		
	1,840,005	1,840,005		71,980	71,980		1,911,985	1,911,985	
		0.00 check					1,911,985.00 check	0.00 check	

P&L:
62,000

Journal Adjustments:

- | | | |
|----|--|------|
| 1) | Provision for Corporation Tax Liability at £68,000 | Done |
| 2) | Provision for Salesmen commission at £3,000
To be paid on 31st Jan 2021 | Done |
| 3) | Goods valued at £980 sent to customers as at 31st December 2020.
Receipt for this is due on 28th February 2021. | Done |

Notes:

- 1) Preference Shares to be included within equity.

QUESTION 1:

(a)

Profits and Loss Statement

As at 31st December 2020

	£	£
Revenue		826,650
Cost of Sales		581,650
Gross Profit		245,000
Distribution Costs		-28,000
Administration Expenses		-30,000
Directors Remuneration		-5,000
Operating Profit		182,000
Interest Paid		-2,000
Profit(Loss) before taxation		180,000
Taxation		-68,000
Profit(Loss) after taxation		112,000
Ordinary Dividend Paid		-20,000
Preference Dividend Paid		-30,000
Retained Profit for the Year		62,000

Statement of Financial Position

As at 31st December 2020

	£	£
Non-Current Assets:		
Plant & Equipment		632,730
		632,730
Current Assets:		
Inventory (Stock)		329,620
Trade receivables (Debtors)		171,105
Cash and bank		12,900
		513,625
Total Assets		1,146,355
Current Liabilities:		
Trade Creditors		171,355
Other Creditors		3,000
Corporation Tax Liability		68,000
		242,355
Net Assets		904,000
Equity:		
Ordinary Share Capital (£1 Shares)		310,000
10% £1 Preference Shares		300,000
4% Debentures		100,000
Retained Profits at 1st Jan 2020		132,000
Profit for the Year		62,000
		904,000
		0 check

- (b) The main reason that the statement of financial position balances is due to the basic fundamental principle of "double entry". There is always an equal and opposite two side entry known as either a Debit and a Credit ie. If a Debit entry is recorded, then an equal and opposite Credit entry needs to be made in order for the overall position to balance.

Question 2:

a)

Chocco plc
Year Ended 31st December 2020 and 2019

	2020	2019		
1) Return on Capital Employed (ROCE):	11.7%	10.2%	<u>Earnings before Interest and Tax</u> x Capital Employed (Total Assets over Current Liabilities) (Return on total capital employed in the company)	100
2) Return on Equity (ROE):	14.0%	12.6%	<u>Net Income (Profit for the Year)</u> x Shareholders Equity (Return on the Shareholders Equity)	100
3) Earnings Per Share:	0.718	0.61	<u>Net Income</u> x Number of Shares Issued (50p per share), therefore 6,000,000 Shares in Issue	100
4) Net Profit Margin:	6.4%	5.7%	<u>Net Income</u> x Net Sales (Net Income as a % of Revenue)	100
5) Asset Turnover:	69.21%	63.85%	<u>Net Sales Revenue</u> x Total Assets (Net Sales as a % of Total Assets)	100
6) Stock Holding Days:	79.88 Days	77.69 Days	<u>Inventory</u> x Cost of Sales (The amount of days stock is held before being sold)	365
7) Debtors collection period:	67.66 Days	72.93 Days	<u>Trade Receivables</u> x Revenue (How long in days does it take to collect trade receivables)	365
8) Current Ratio:	0.92	0.77	Current Assets / Current Liabilities (What is the cover of every Asset over Liabilities))	
9) Gearing Ratio:	133.9702073	141.7925824	Total Debt / Equity (Cover of debt over Equity)	
10) Invertor Cover:				
Creditors payable period:	65.77897991	77.22	Trade Payables Cost of Sales	x 365

b) Comments on the financial performance and position of Chocco plc:

- Positives:**
- * The company is in an overall liquid state with a Net Asset Value of £3.1m;
 - * The company has a positive cash balance of £201m;
 - * Revenue has increased by 4.61% from 2019;
 - * Profit for the year has increased by 1.01% - this is backed up by the increase in the Net Profit Margin ratio calculated ;
 - * 59% of the Profit for the Year in 2020 was paid out as Dividends to Shareholders, a reduction from the 66% in 2019 ;
 - * Return on Equity of 14% is substantially better than what could be earned if an investor placed their money in a bank account;
- Negatives:**
- * The company is fairly highly geared with Debt (Loans and other borrowings) - currently 75.42% if the debt is secured on the intangible assets of £5.5m;
 - * The intangible assets has reduced by £324m. It can only be assumed that this relates to the sale of fixed assets shown in the profit and loss statement which shows a profit of £19m on the sale;
 - * The Current Asset Ratio calculated shows that each £0.92 of Current Asset covers £1 of Current Liability. General industry practise recommends this at around £1- £1.10 as a minimum;
 - * Company took 67.7 days to collect money from its customers but took a lesser of 65.78 days to pay its trade payables. It would be more cash effecton for this to be the other way round so that collections should be quicker than what is being paid out.
 - * Stock Holding Days Ratio indicates it took 79.9 days before an item of stock is sold. The longer the stock remains unsold, this means the company's monies are tied down. With its monies tied down into unsold stock, the company is relying on its other assets to keep its operations going. The quick stock is sold the more efficient the company's; operations are.
- Opportunities:**
- * The company could be more efficiently run if it reduced its annual dividend payments, and instead used the cash to reduce its loans and borrowings. This could then reduce the annual interest cost and thereby lead to higher profits for the year;
 - * The company is heavily relying on the value of its Intangible Assets at £5.5m to cover its overall liquidity as an entity;
 - * Whilst the average share price has increased in 2020 (£5.12), there is scope to make improvements in the efficiency of how the company operates;
 - * Asset Turnover ratio of 69.2% indicates a decent usage of the company's asset to generate sales. However this could be better if making the assets work more efficiently i.e. collect trade receivable quicker than paying trade payables (would lead to an average increase in cash balance), reduction of dividends so greater cash balance could be re-invested into better processes, products, resources etc to provide greater operating efficiencies etc.....
 - * Stock holding days should be reduced so that stock can be turnaround quicker through sales - turn stock into money as quick as possible;
 - * The biggest costs lines in the Profit and Loss Statement are Cost of Sales and Market & Selling. Reducing these lines would create increased profits /cash for the company. This then would also lead to better returns for the Shareholders.