

FINANCIAL STATEMENT ANALYSIS

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ANSWER 1**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 Commision on sales	3	-3000
Profit/(loss) before taxation		178980
Taxation		-68000
Profit for the year		110980

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

Statement of Financial Position as at 31st December 2020

	NOTE NO
Non- Current assets	
Property, plant and equipment	
Current assets	
Inventory	
Trade receivables	4
Cash	
Total assets	
Current liabilities	
Trade payables	5
Other Current Liabilities	6
Non current liabilities	
Loans and other borrowings	7
Net assets	
Equity	
£1 ordinary shares	
10% £1 preference shares	
Retained profits	8
Total Equity	

Amt (£)

632730

330600

171105

12900

1147335

171355

73000

100000

802980

310000

300000

192980

802980

Calculation of Ratios of Choco Plc for the year 2020 and 2019**Formula****ROCE**

Operating Profit /Capital Employed

Capital Employed

Total Asset - current liabilities

Return on Equity

Profit after tax- Preference Dividend /

Earnings per shareEAT-preferred dividend / Average
outstanding number of shares**Average Outstanding average number of Shares****Net profit margin**

Net Income / Sales

Asset turnover

Sales/ Total Asset

Stock holding days

(Average Inventory/Cost of Sales)*365

Debtors collection period(Average Account Receivables/ credit
sales)* 365**Current ratio**

Current Asset/ Current Liabilities

Gearing ratio

Total Debt/Total Equity

Interest coverage**EBIT**EBIT/Interest Expense
EAT+Tax+Interest

2020	2019
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0.11

0.10

7225000000

7041000000

Average Equity

0.01

0.04

3.00

1.65

58593750

75000000

6.4%

5.7%

0.69

0.64

77

78

69

73

0.92

0.77

1.34

1.42

3.74

3.98

Answer 1(b)

Accounting is a crucial part of every economic entity's financial and economic activity, regardless of what type of business or industry it operates in (Faccia & Mosco 2019). Financial statements are financial statements that are prepared at the end of an accounting period to analyze the overall effect of business activities and to demonstrate a business concern's financial situation. (iEduNotem 2021). The income statement tells the reader about a company's ability to make money (Bragg, 2021).

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. On one side of the balance sheet there are assets, while on the other side it has liabilities (The economic times, 2021). The balance sheet reveals the overall assets of the company as well as how they are financed (Corporate Finance Institute, 2021). The fundamental equation based on which the balance sheet is founded on is $\text{Assets} = \text{Liabilities} + \text{Equity}$. The basic accounting equation attempts to explain the relationship between the assets that make up a corporation and the resources that were used to purchase them. It is also known as the balance sheet equation (Borad, 2021).

A balance sheet divides a company's assets and liabilities, as well as its shareholders' equity, into two sections. The assets are balanced against the financial liabilities, equity investments, and retained earnings. These are the means of operation of the business (Businessnewsdaily.com, 2021).

Asset

A resource which is owned or controlled by an individual, corporation, or government with the expectation of generating a positive economic benefit is referred to as an Asset. (Hasanaj & Kuqi 2019). In general, a company's assets are divided into two categories based on their ability to be converted into cash:

1. **Current Asset:** Current assets are anticipated to be consumed, sold, or turned into cash during the course of a year or the operating cycle, whichever comes first. On the balance sheet, they are normally shown in order of liquidity. (WallStreetMojo, 2021). It is used to meet short-term commitments of the company's activities; it is a crucial indicator of the company's financial situation.
2. **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.

Liabilities play a crucial role in the entire operation of a firm because they are utilized to fund operations and pay for company growth (UpCounsel, 2021). A liability, in general, relates to being accountable for something, such as a service or money owing to another party. Liabilities are generally divided into two parts in Balance sheet as Current Liabilities and Non-Current Liabilities. Current liabilities are expected to be paid off within one year, whereas long-term liabilities are anticipated to take longer time.

The invested money that was distributed as shares plus the undistributed profits, which represent retained earnings held and re-invested by the company, equals the invested money that was distributed as shares plus the undistributed profits. Stockholders do not receive them. To put it another way, the company's operations are supported by its shareholders' equity. As the

shareholders' equity grows, so does the size of the company's own operational money. As a result, a balance provides a thorough picture of the company's status.

Answer 2B

Accounting can be thought of as a method for tracking the resolution of uncertainty through time. The main goal of financial analysis is to provide information to financial managers and analysts so that they may make well-versed company decisions (Ncert.nic.in, 2021). In order to assess and analyse 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 used to evaluate a company's potential to create earnings over time in relation to revenue, operating costs, balance sheet assets, or shareholders' equity (Dicu, Bondoc & Popescu 2019). There are two major performance evaluation metrics: Return on assets (ROA) and return on equity (ROE) that are used to evaluate a company's capacity to produce revenue when compared to expenses or other financing instruments (Wong & Joshi 2015). 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 they are more actual. The gearing ratio (GEAR) is a financial leverage indicator that demonstrates how a company's operations are supported by creditor or equity capital. It's a financial ratio that compares a company's borrowed capital to its own equity (Kassi et al. 2019).

After analyzing we came to the conclusion that the company in terms of profitability ratios is in a better situation in the year 2020, and it is not much successful in using its assets to generate revenues because the asset turnover ratio of the company is 0.69, however the company shows better turnover and return on capital than last year. This shows that as the company's revenues

climbed in 2020, so did its performance measures net profit ratio in 2020, the net profit ratio increased 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 because the company has less short-term assets to cover the short-term liabilities, implying that there is less working capital. If the number is more than one, the company would be in good financial shape.

It is also found that the company's effectiveness is less in 2020 based on asset turnover ratio because it was collecting customer debts in 69 days approx. for one year which is not good for the company, a debt period beyond 60 requires the company to adopt more aggressive policy for its organization because debt collection period shows a company's effectiveness in Account receivable management policy. On analyzing inventory holding period it is found out the company holds its stock for 77 days approx. which means that the company is not managing its inventory or facing difficulties in making sales thus, this ratio tells us about the average number of periods, cash of the company is locked with inventory.

After analyzing financial position and its performance ratios we can conclude that the company use less debts in 2020, 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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