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Assignment 1

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1) Kedison PLC Financial position

a) Profit and Loss statement for Kedison PLC and a statement of financial position for the ended 31st December 2020

Profit and Loss statement for Kedison PLC for the ended 31st December 2020

	2020
Revenue	826,650
Cost of sales	578,650
Gross profit	248,000
Operating expenses	
Distribution costs	28,000
Administration expenses	30,000
Interest paid	2,000
Total operating expense	60,000
Operating profit	188,000
Taxation	68,000
Profit for the year	766,650

Table 1. Profit and Loss statement Kedison PLC for the ended 31st December 2020

1. Calculation gross profit

Gross profit=revenue-cost of sales	$GP=826,650-578,650=248,000$
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2. Calculation operating profit

Operating profit= operating profit-cost of goods sold -operating expenses	$OP=826,650-578,650-60,000=188,000$
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3. Calculation profit for the year

Profit=total revenue -total expenses	$Profit=826,650-60,000=766,650$
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Statement of Financial Position for Kedison PLC at the end of 31st December 2020

	2020	
ASSETS		£m
Non-current assets		
Property, plant & equipment	632,730	
Stock	330,600	
Debtors	170,125	
		1,133,455
Current assets		
Inventories		
Trade receivables	826,650	
Cash and bank	12,900	
		839,550
Total assets		1,973,005
LIABILITIES		
Current liabilities		
Trade creditors	171,355	
Ordinary dividend paid	20,000	
Preference dividend paid	30,000	
Administrative expenses	30,000	
Interest paid	2,000	
Distribution cost	28,000	
Director remuneration	5,000	
Tax	68,000	
		354,355
Non-current liabilities		
Debentures 4%	100,000	
Commission	3,000	
		103,000
Total liabilities		457,355
EQUITY		
Ordinary shares capital (£1)	310,000	
Preference share (£1) 10%	300,000	
Retained profit	132,000	
Owners' capital	773,650	
Total equity		1,515,650
		1,973,005

Table2.Statement of Financial Position at the end of 31st December 2020

b) Explanation of why statement of financial position balance

A financial statement shows where the company's money come from, where the money went and where it is now. The statement of financial position provides information on a firm's debit and credit. Based on the fundamental formula the assets must be equal to liabilities plus equity. (Kennon, 2021) Balance

must ensure the data is accurately recorded. For example, when recording an asset, it is important to balance with entry in liability of equity to explain where the money will come from to cover the assets. If the balance sheet balance it suggests a healthy management of finances.

2) **Chocco PLC Financial position 2020 and 2019**

Statement of Financial position as of 31st December 2020 and 2019

ASSETS	2020	2019
<u>Non-current assets</u>		
Property, plant & equipment	1,613	1,605
Motor vehicles/Investments	335	318
Intangible assets	5,485	5,809
	7,433	7,732
<u>Current assets</u>		
Inventories	708	659
Investments	145	232
Trade and other receivables(debts)	1,249	1,287
Cash and cash equivalents	201	177
	2,303	2,355
<u>Total assets</u>	<u>9,736</u>	<u>10,087</u>
LIABILITIES		
<u>Current liabilities</u>		
Trade and other payables	583	655
Other creditors	1,928	2,391
	2,511	3,046
Long term loans	4,137	4,129
<u>Total liabilities</u>	<u>6,648</u>	<u>7,175</u>
<u>Net assets (TA-CL)</u>	<u>3,088</u>	<u>2,912</u>
<u>Equity</u>		
Share capital/ordinary shares	300	300
Share premium	1,071	1,071
Retained earnings/profit	1,717	1,541
<u>Total equity</u>	<u>3,088</u>	<u>2,912</u>

Table3.Statement of Financial Position at the end of 31st December 2020 and 31st December 2019

Profit and Loss statement for the ended 31st December 2020 and 2019

	2020	2019
Revenue	6,738	6,441
Cost of sales	3,235	3,096
Gross profit	3,503	3,345
Other income/marketing and selling costs	1,324	422
Distribution costs	437	1,274
Administration expenses	937	950
Operating profit-net profit	805	699
Profit/loss on sale of fixed assets	19	5
Investment income	22	26
Interest payable	226	181
Profit before tax	620	539
Taxation	189	173
Profit for the period/earning	431	366

Table 4. Profit and Loss statement for the ended 31st December 2020 and 2019

a) Ratios for Chocco PLC for 2020 and 2019

1- ROCE

1. ROCE (Return on capital employed)	2020	2019
ROCE=profit before interest /assets employed	ROCE=805/7,225=0,11%	ROCE=699/7,041=0,10%
Assets employed=total assets-current liabilities	9,736-2,511=7,225	10,087-3,046=7,041

2- ROE

2.ROE (Return on equity)	2020	2019
ROE=net income /shareholder equity	ROE=431/3,088=0,14%	ROE=366/2,912=0,13%

3- Earnings per share

3. Earnings per share	2020	2019
EPS=net profit/ average share outstanding	EPS=431/300=1,44%	EPS=366/300=1,22%

4- Net profit margin

4. Net profit margin	2020	2019
Net profit margin =net profit/net sales*100%	Net profit margin=431/6,738*100=6,40	Net profit margin=366/6,441*100=5.68

5- Asset turnover

5. Asset turnover	2020	2019
Asset turnover = turnover/ total assets employed	Asset turnover =6,738/9,736=0,69	Asset turnover =6,441/10,087=0,64

6- Stock holding days

6. Stock holding days	2020	2019
Stock holding days= inventory/cost of sales *365	SHD=708/3,235*365=79,88days	SHD=659/3,096*365=77,69days

7- Debtor's collection period

7. Debtor's collection period	2020	2019
Debtors' collection period =trade receivable/revenue*365	1,249/6,738*365=67days	1,287/6,441*365=72 days

8- Current ratio

8. Current ratio	2020	2019
Current ratio =current assets/current liabilities	Current ratio=2,303/2,511=0.91	Current ratio=2,355/3,046=0.77

9- Gearing ratio

9. Gearing ratio	2020	2019
Gearing ratio= long term liabilities/total equity+ noncurrent assets*100	Gearing ratio= 4,137/7,225*100=57%	Gearing ratio =4,129/7,041*100=59%

10- Interest cover

10. Invertor cover (Interest cover)	2020	2019
ICR=profit before interest/interest charges	ICR=805/226=3,56times	ICR=699/181=3,86times

b. Financial performance and position of Chocco PLC.

RATIO	2020	2019
ROCE	0,11%	0,10%
ROE	0,14%	0,13%
Earnings per share	1,44%	1,22%
Net profit margin	6,40	5,68
Asset turnover	0,69	0,64
Stock holding days	79,88 days	77,69 days
Debtors' collection period	67 days	72 days
Current Ratio	0,91	0,77
Gearing Ratio	57%	59%
Invertor Cover	3,56 times	3,86 times

Table5. Ratios Results

Chocco PLC performance increased in 2020 compared to 2019. The Return on Capital employed is higher in 2020 compared to previous year. The ROCE determine how well Chocco PLC generated profit. Hayes suggested that the more profit the company can generate the better, so a higher ROCE indicates stronger profitability. (Hayes, 2021)

It has been registered slight increase of 0.01 in 2020. The factors that could have contributed to this are raise in selling price, increased sales, reduction in current assets, lower administrative expenses and other.

ROE increase of 0.01 in 2020. To increase ROE, should use the methods such as increasing the price of product, cutting the supply costs, or reducing other operating costs can help to boost the profit margins. Based on Based on Table 5 Ratios Results the earnings per share increased from 1,22 to 1,44. It is considered a crucial factor to understand the value of the firm. Therefore, the increase in earnings per share means the Chocco PLC value has also increased which is a good aspect for company performance. It is recommended to keep this number up and even increase it further.

The net profit margin has also slightly improved in 2020. This is an indicator of company financial health. It can be observed that the practices are more efficient compared to 2019. Another beneficial aspect for the company performance is the increase in the asset's turnover. The ratio determines the ability to generate assets by comparing the net sales of the company with the total assets. Th higher

the ratio is the better as it reflects the efficiency of assets usage. To increase it even more it is suggested to increase revenue, liquidate unnecessary assets, and manage the inventory better.

The result for stock holding days is higher in 2020 than in 2019. The indicator is positive because the higher the better. The firm is selling goods fast, and the demand increased. Another positive indicator for company performance is lower debtor collection period in 2020. On the other hand, it is recommended to lower even more the period. Some techniques that can be used include putting a vibrant credit policy, reduce the number of accounts receivable. (Wafula, 2019)

Current Ratio is higher, it indicates that the Choco PLC is more capable in 2020 to paying its obligations because of larger proportion of its short-term asset. (Ferndo, 2021) Furthermore, gearing ratio is lower in 2020 which means that it less exposed to risk. The current liabilities are lower along with long term liability and the owners fund is higher compared to higher gearing. The interest coverage ratio measures the ability to pay interest on its debts. Based on Table 5 Ratios Results the ratio is higher in 2019 which means the company had a higher chance to pay interest for its debts.

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