FINANCIAL STATEMENT AND ANALYSIS

Nikolay Uchkunov

Student ID

2030588

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**

Statement of Financial Position as at 31st December 2020

	NOTE NO	Amt (£)
Non- Current assets		
Property, plant and equipment		632730
Current assets		
Inventory		330600
Trade receivables	**4**	171105
Cash		12900
Total assets		**1147335**
Current liabilities		
Trade payables	**5**	171355
Other Current Liabilities	**6**	73000
Non current liabilities		
Loans and other borrowings	**7**	100000
Net assets		**802980**
Equity		
£1 ordinary shares		310000
10% £1 preference shares		300000

Retained profits	**8**	192980
Total Equity		**802980**

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**

ANSWER 2(A)

Calculation of Ratios of Choco Plc for the year 2020 and 2019

	Formula
1- ROCE	**Operating Profit /Capital Employed**
Capital Employed	**Total Asset - current liabilities**
2- ROE	**Profit after tax- Preference Dividend /**
3- Earnings per share ***Average Outstanding average number of Shares***	**EAT-preferred dividend / Average outstanding number of shares**
4- Net profit margin	**Net Income / Sales**
5- Asset turnover	**Sales/ Total Asset**
6- Stock holding days	**(Average Inventory/Cost of Sales)*365**
7- Debtors collection period	**(Average Account Receivables/ credit sales)* 365**
8- Current ratio	**Current Asset/ Current Liabilities**
9- Gearing ratio	**Total Debt/Total Equity**
10- Interest coverage ***EBIT***	**EBIT/Interest Expense** **EAT+Tax+Interest**

2020	2019
0.11	0.10
7225000000	7041000000
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 an important aspect of each economic entity's financial and economic activity, regardless of the sort of business or industry in which it works (Faccia & Mosco 2019). Readers utilize the information in financial statements to make resource allocation decisions. The income statement informs the reader about a business's ability to generate profit (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 that the balance sheet is founded on is Assets = Liabilities + Equity It gives a picture of assets and obligations and thus showing net worth at a particular point of time, a balance sheet is also known as a statement of financial position unlike profit and loss reports (Business.qld.gov.au, 2021).

The assets and liabilities of a corporation, as well as the shareholders' equity, are separated into two divisions in a balance sheet. Financial obligations, equity investments, and retained earnings all are balanced against the assets. These are the means of operation of the business (Businessnewsdaily.com, 2021).

Assets

Assets can be defined as rights or other access to future economic advantages that an organization has control over as a result of past transactions or occurrence (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:** Cash and other assets owned by the corporation that could be converted to cash in a year's time are called current asset. since 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.

Liability of a business can be defined as Financial Responsibility of Business as per financial accounting (FreshBooks, 2021). In simple terms liability can be defined as owing something to someone else (Rehayem, 2021). 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 predictable to take longer time. Companies must maintain track of all liabilities, including short-term ones, in order to accurately determine how to repay them. The accounting equation, often known as the balance sheet equation, subtracts a business's total assets from its total liabilities to determine shareholder equity, or how much the company owns.

The undistributed profits, which reflect retained earnings held and re-invested by the firm, equal the invested money that was distributed as shares plus the undistributed profits, which represent retained earnings held and re-invested by the organization. They aren't given out to stockholders. To put it another way, the company's business is financed by the equity of its shareholders. The size of the company's own operational money grows as the shareholders' equity grows. Thus, a balance gives complete view of the position of the company.

Answer 2B

Accounting can be thought of as a method for tracking the resolution of uncertainty through time (Penman, S., 2016). In order to make informed company decisions by the financial managers and analysts it is the goal of financial statement to provide complete financial information (Ncert.nic.in, 2021). Assessing a company's financial position and its performance is a difficult task. Every manager must possess this ability in order to make the greatest and most appropriate judgments for the firm. In order to assess and analyses 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 to use 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 & Popescu2019), We utilize a variety of liquidity indicators to predict whether corporations will be able to satisfy their short-term obligations using their current assets. The gearing ratio is a financial leverage indicator that illustrates how much of a company's operations are funded by equity rather than debt (Cmcmarkets.com, 2021).

After analyzing we came to the conclusion that the company in terms of profitability ratios are in 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 because the company has less short-term assets to cover the short-term liabilities, resulting into less working capital. If the number is more than one, the company would be in good financial shape.

After analyzing we can conclude that the company's effectiveness is less in 2020 based on the turnover assets 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 (www.aat-interactive.org.uk, 2021).

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.

References

Black, E.L. and White, J.J., 2003. An international comparison of income statement and balance sheet information: Germany, Japan and the US. *European Accounting Review*, *12*(1), pp.29-46.

Bragg, S., 2021. *The purpose of financial statements — AccountingTools*. [online] AccountingTools. Available at: <https://www.accountingtools.com/articles/what-is-the-purpose-of-financial-statements.html> [Accessed 2 September 2021].

Business.qld.gov.au, 2021. *Understanding balance sheets | Business Queensland*. [online] Business.qld.gov.au. Available at: <https://www.business.qld.gov.au/running-business/finances-cash-flow/managing-money/financial-statements-forecasts/balance-sheets> [Accessed 2 September 2021].

Businessnewsdaily.com, 2021. *What's a Balance Sheet, and Why Do I Need One?*. [online] Businessnewsdaily.com. Available at: <https://www.businessnewsdaily.com/25-balance-sheet-financial-insights.html> [Accessed 2 September 2021].

Cmcmarkets.com, 2021. *Gearing Ratio: Definition, Formula and Examples | CMC Markets*. [online] Cmcmarkets.com. Available at: <https://www.cmcmarkets.com/en/trading-guides/gearing-ratio-explained> [Accessed 23 August 2021].

Corporate Finance Institute, 2021. *Balance Sheet*. [online] Corporate Finance Institute. Available at: <https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/> [Accessed 2 September 2021].

Dicu, C., Bondoc, M.D. and Popescu, M.B., 2019. A Quantitative Approach to Profitability Ratios. *Scientific Bulletin-Economic Sciences, University of Pitesti*, *18*(1), pp.57-65.http://economic.upit.ro/repec/pdf/2019_1_7.pdf

Faccia, A. and Mosco, D., 2019. Understanding the Nature of Accounts Using Comprehensive Tools to Understand Financial Statements.

FreshBooks, 2021. *What Are Liabilities in Accounting? | Examples for Small Businesses*. [online] FreshBooks. Available at: <https://www.freshbooks.com/hub/accounting/liabilities-accounting> [Accessed 2 September 2021].

Hasanaj, P. and Kuqi, B., 2019. Analysis of financial statements. *Humanities and Social Science Research*, *2*(2), pp.p17-p17.

Ncert.nic.in, 2021. *Financial statement*. [online] Ncert.nic.in. Available at: <https://ncert.nic.in/textbook/pdf/leac203.pdf> [Accessed 23 August 2021].

Penman, S., 2016. Valuation: accounting for risk and the expected return. *Abacus*, *52*(1), pp.106-130.

Rehayem, M., 2021. *What Are Liabilities? (Definition, Examples, and Types)*. [online] Learn.g2.com. Available at: <https://learn.g2.com/liabilities> [Accessed 2 September 2021].

The economic times, 2021. Definition of 'Balance Sheet'. *The economic times*, [online] Available at: <https://economictimes.indiatimes.com/definition/balance-sheet> [Accessed 2 September 2021].

Types, R., 2021. *Ratio Analysis Types | Type of Ratio Analysis with Formula*. [online] EDUCBA. Available at: <https://www.educba.com/ratio-analysis-types/> [Accessed 2 September 2021].

www.aat-interactive.org.uk, 2021. *Calculating performance indicators - liquidity*. [ebook] www.aat-interactive.org.uk.Availableat:<http://www.aat-interactive.org.uk/elearning/level4/Calculating%20Liquidity%20Indicators.pdf> [Accessed 2 September 2021].