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QUESTION1

The following balances relate to Kedison PLC for the year ended 31st December 2020

	£	£
£1 ordinary shares		310,000
10% £1 preference shares		300,000
4% Debentures		100,000
Plant and equipment	632,730	
Stock at 31 st December 2020	330,600	
Sales		826,650
Cost of sales	578,650	
Debtors	170,125	
Trade creditors		171,355
Cash and bank	12,900	
Retained profits at 1 st January 2020		132,000
Ordinary dividend paid	20,000	
Preference dividend paid	30,000	
Administrative expenses	30,000	
Interest paid	2,000	
Directors remuneration	5,000	
Distribution costs	28,000	
	<u>1,840,005</u>	<u>1,840,005</u>

ANSER 1(PART a)
INCOME STATEMENT FOR THE YEAR ENDED ON 31
DECEMBER 2020

PARTICULARS	AMOUNT
Revenue	827630
Cost of sales (W1)	578650
Gross profit	248980
Other Income	0
Distribution cost	28000
Administrative Expenses	30000
Director Remuneration	5000
Salesman Commission	3000
Operating profit	182980
Finance cost	4000
Profit before tax	178980
Taxation	68000
Profit for the period	110980

**A STATEMENT OF FINANCIAL POSITION AS AT THE YEAR
ENDED 31 DECEMBER 2020**

ASSETS	AMOUNT
Non current Assets	
Property, Plant & Equipment	632730
Intangible Assets	0
Current Assets	
Inventories	330600
Trade and other receivables	171105
Cash & Cash Equivalent	12900
Total Assets	1147335
LIABILITIES	AMOUNT
Current Liabilities	
Trade and other payables	176355
Short term borrowings	0
Current Tax payable	68000

Non Current Liabilities	
Long term Borrowings	100000
Net Assets	802980
Equity'	
Share Capital	610000
Share premium	0
other reserves	0
retained earnings	192980
Total Liabilities	1147335
• (W1) Cost of sales= opening stock+ purchases- closing stock (737895+171355-330600) = 578650	
• we have assumed that all the purchases are from the trade creditors	
• Total interest due for the current year is 4000 however in current year it is paid only of 2000 therefore 2000 has become payable and shown in liabilities.	
• Commission has been accrued during the year therefore expense has been booked in profit and loss account and equal amount has been shown in liabilities.	

Answer 1(Part b)

In given question there is missing information about purchases, opening creditors and opening stock. However we have assumed that the trade creditors

given in the question is equal to the purchases that means we have made entire purchases on credit which is equal to 171355. Opening stock is not given in the question, we have derived it from the formula ***opening stock = Cost of Goods Sold + Ending Inventory - Purchases*** which comes to 737895. Thereafter if we derive cost of sales from formula which come to $(737895 + 171355 - 330600 = 578650)$. Goods which are sent to customers but in respect of which cash has not been received is included in sales and debtors. Commission accrued has been shown as expenses and included in liabilities. Likewise interest in respect of debentures for the year is 4000 but only 2000 has been, balance 2000 is also shown as expense and included in liabilities. Corporation tax for the year amounted to 68000 which has been booked as expense and shown as provision for tax in liabilities. After calculation in trading account we got 248980 as gross profit and all considering all operating expenses we got operating profit of 182980. Opening retained earnings are 132000 (credit balance) . Summing up net profit of 110980 with opening credit balance of retained earnings and after deducting 30000 as dividend of preference and 20000 as ordinary dividend gives us net closing balance of retained earnings as 192980. . In this way our liabilities side totals to asset side

Question 2

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Profit and Loss statement for the year ended 31st December

	2020	2019
	£m	£m
Revenue	6,738	6,441
Cost of sales	<u>(3,235)</u>	<u>(3,096)</u>
Gross profit	3,503	3,345
Distribution costs	(437)	(422)
Marketing and selling costs	(1,324)	(1,274)
Administrative expenses	<u>(937)</u>	<u>(950)</u>
Operating profit	805	699
Profit/loss on sale of fixed assets	19	(5)
Investment income	22	26
Interest payable	<u>(226)</u>	<u>(181)</u>
Profit/(loss) before taxation	620	539
Taxation	<u>(189)</u>	<u>(173)</u>
Profit for the year	<u>431</u>	<u>366</u>

Statement of Financial Position as at 31st December

	£m	£m
Non- Current assets		
Intangible assets	5,485	5,809
Property, plant and equipment	1,613	1,605
Investments	<u>335</u>	<u>318</u>
	<u>7,433</u>	<u>7,732</u>
Current assets		
Inventory	708	659
Trade receivables	1,249	1,287
Investments	145	232
Cash	<u>201</u>	<u>177</u>
	<u>2,303</u>	<u>2,355</u>
Total assets	<u>9,736</u>	<u>10,087</u>
Current liabilities		
Trade payables	(583)	(655)
Other creditors	<u>(1,928)</u>	<u>(2,391)</u>
	<u>(2,511)</u>	<u>(3,046)</u>
Non current liabilities		
Loans and other borrowings	<u>(4,137)</u>	<u>(4,129)</u>
Net assets	<u>3,088</u>	<u>2,912</u>
Equity		
Ordinary share capital (50p shares)	300	300
Share premium	1,071	1,071
Retained profits	<u>1,717</u>	<u>1,541</u>
	<u>3,088</u>	<u>2,912</u>

Answer 2(Part a)

Calculation of ratios		
	2020	2019
Return on capital employed= operating profit/ capital employed	805/7225	699/7041
	11.14187	9.927567
Return on Equity= net income/shareholder's equity	431/3088	366/2912
	13.95725	12.56868
Earning per share= total earnings/ number of shares	431/600	366/600
	0.718333	0.61
Net profit margin= Net profit/Revenue	431/6738	366/6441
	6.396557	5.682347
Asset turnover= net sales/ average total assets	6738/9912	6441/10087

	0.679782	0.638545
Stock holding days= average inventory/ cost of goods sold*365	684/3235*365	659/3096*365
	77.17465	77.69218
Debtors collection period= Average accounts receivable/ sales*365	1268/6738*365 68.68804	1287/6441*365 72.932
Current ratio= current assets/ current liabilities	2303/2511	2355/3046
	0.917164	0.773145
Gearing ratio= long term liabilities/ capital employed*100	4137/7225*100	4129/7041*100
	57.25952	58.64224
Interest coverage ratio= operating profit/ interest expense	805/226 3.561947	699/181 3.861878

Answer 2(Part b)

The return on capital employed in year 2019 is 9.93% however it is 11.14% in 2020 which is good indicator as more return is being earned on capital employer. Return on equity is 12.56% in 2019 and in 2020 it is 13.96% which means that company is giving better return on equity in 2020 than in 2019. Earnings per share in 2019 is 0.61 and in 2020 it is 0.72, which means that company is earning more per share in 2020 than in 2019 which is a good sign. Net profit margin ratio in 2019 is 5.68% however in 2020 it is 6.39% which is a positive sign in company's performance. The total asset turnover ratio compares the sales of a company to its asset base. The ratio measures the capability of an organization to produce sales, and is typically used by third parties to appraise the operations of a business. In 2019 it is 0.64 while in 2020 it is 0.68 and the higher the asset turnover ratio better it is. Stock holding period measures the number of days the inventory is held by its business. A low days inventory outstanding shows that a company is able to more quickly turn its inventory into sales. In 2019 and 2020 it is approximately same so there is no improvement gained by company in inventory holding period. Debtor

collection period shows the number of days for which debtors remains outstanding. In 2019 it is approx 73 days while in 2020 it is approx 69 days and lower the debtor collection period better it is and in 2020 company's debtor collection period is lower than in 2019 which is a good thing. Gearing ratio measures the extent of debt in capital employed. Lower it is better is for the company as company with low debt will be able to easily secure a loan. In 2019 it is 58.64% while in 2020 it is 57.26% which is a good indicator. Interest coverage ratio measures the extent of interest payment it can cover from its available earnings. A high interest coverage ratio indicates strong financial health. In 2019 it is 3.86 times while in 2020 it is 3.56 times which is little bit lower than 2019 which is not good indicator as it will be unattractive to company's investors. Overall the performance of the company is good and is better than 2019, however for maintaining its interest coverage ratio it can take several steps.