

Answer No 1: Preparation of Financial Statements

Kedison PLC

Statement of Financial Performance

For The Year Ended 31st December 2020

Particulars	Figures (£)
Sales (826650+980)	827,630
Cost of Sales (578650+3000)	(581,650)
Gross Profit	245,980
Director Remuneration	(5,000)
Distribution Cost	(28,000)
Admin Cost	(3,000)
Operating Profit	182,980
Interest Paid	(2,000)
Profit Before Tax	180,980
Tax	68,000
Net Profit	112,980
Retained Earnings (1-jan-18)	132,000
Profit	112,980
Ordinary Dividend	(20,000)
Performa Dividend	(30,000)
Retired Earning (31-dec-18)	194,980

Kedison PLC
Statement of Financial Position
As at 31st December 2020

Particulars

Assets

Non-Current Assets

Plant and Equipment 632,730

Current Assets

Stocks 330,600

Cash 12,900

Debtors (17125+980) 171,105

Total Assets 1,147,335

Equipment and Liabilities

Debentures 100,000

Current Liabilities

Trade Creditors 171,335

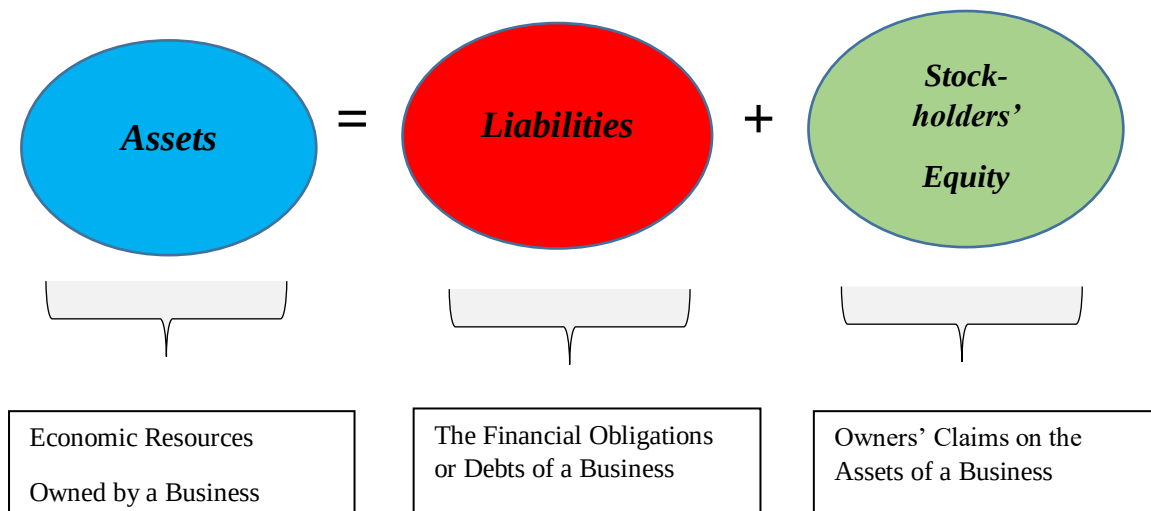
Tax Payable 68,000

Commission Payable 3,000

Total Equity Liabilities 1,147,335

Reason of The Statement of Financial Position Balances

The reason behind the balanced figure on the statement of financial position as it follows the equation of accounting. It states that all assets (resources) are equal to the sources that brought these assets (resources). The sources can be either from the liability side or from the side of the owner's equity (Turtle and Wang, 2017).



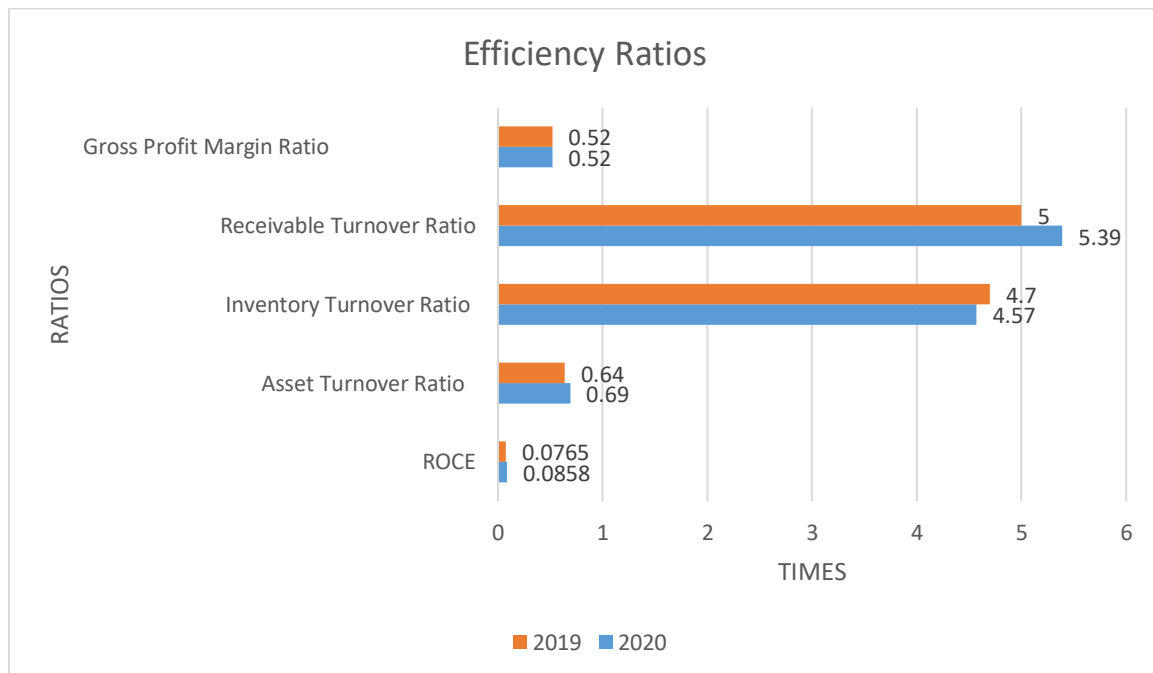
Answer No 2: Ratio Analysis

Data Extracted from financials of Chocco Pls

Years	2020	2019
Particulars	£ in Millions	£ in Millions
Revenue	6,738	6,441
Cost of Sales	3,235	3,096
Trade Payables	583	655
Gross Profit	3,503	3,345
Operating Profit	805	699
Profit of the Year	431	366
Current Assets	2,303	2,355
Inventory	708	659
Current Liabilities	2,511	3,046
Total Liabilities	6,648	7,175
Total Assets	9,736	10,087
Investment Income	22	26
Interest Payable	226	181
Net Assets	3,088	2,912
Trade Receivables	1,249	1,287
Total Outstanding Share	600	600
Total Dividend	255	242
EBIT	620	539
Capital Employed		
(Total Assets – Current Liabilities)	7,225	7,041

Efficiency Ratios

Efficiency Ratios	Formula	2020	2019
ROCE	EBIT/Capital Employed	8.58%	7.65%
Asset Turnover Ratio	Revenue/Total Asset	0.69	0.64
Inventory Turnover Ratio	Cost of Sales/ Inventory	4.57	4.70
Receivable Turnover Ratio	Revenue/ Trade Receivable	5.39	5.00
Gross Profit Margin Ratio	Gross Profit/Revenue	0.52	0.52



ROCE

A “Return on capital employed” is essential to compensate investors for the risks of investing in a company. In general, the higher the “Return on capital employed” (ROCE), the better it is for the investor (Turtle and Wang, 2017). It should be compared with the return that an investor can obtain on

an alternative investment with equivalent risk. In 2020 Chocco PLC has improved its ROCE which indicates better performance as compared to the 2019.

Asset Turnover Ratio

The increase in total asset turnover from 0.64 in 2019 to 0.69 in 2020 is a good progression, as it shows that a company can no longer operate with its assets. In other words: in 2019, the company generated 0.64 times more income than its assets, and in 2020 it generated 0.69 times more income than its assets. In general, higher ratios are ideal because they prove the actual use of the company's assets, but lower ratios generally do not mean negative standards for the company (Schroeder et al., 2019).

Inventory Turnover Ratio

In 2019, trading in Chocco Plc shares took 4,7 days to become assets. In 2020, the company reduced this incentive to 4,5, indicating a reduction in operating activity.

Receivable Turnover Ratio

Receivable Turnover Ratio was five days in 2019. This means this year the company was able to recover its accounts receivable in 5 days. In 2020 this ratio was extended, indicating that the company needs 5.39 days to collect its accounts receivable. This shows that Chocco Pls needs to reduce its cash flow to continue the revenue cycle.

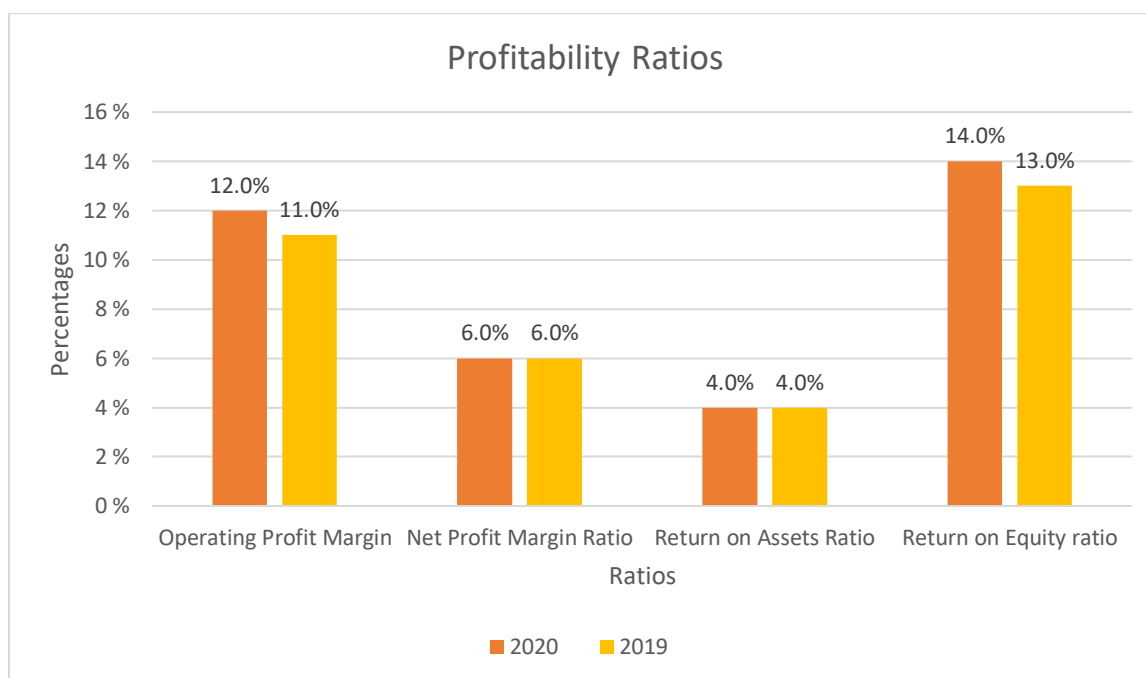
Gross Profit Margin Ratio

A similar pattern of gross profit shows that Chocco Plc can make an effort to generate more gross profit (Turtle and wang, 2017). While the company acquired 52% of gross profit per pound of assets in 1 year, this amount was saved in 2 years, and no additional was added to the operating margin.

Profitability Ratios

Profitability Ratios	Formula	2020	2019
Operating Profit Margin	Operating Profit/Revenue	0.12	0.11
Net Profit Margin Ratio	Profit ot the Year/Revenue	0.06	0.06

Return on Assets Ratio	Profit of the Year/Total Asset	0.04	0.04
Return on Equity Ratio	Profit of the Year/Net Assets	0.14	0.13



Operating Profit Margin

The operating profit margin is an estimate of the Company's profitability which reflects the share of profits remaining to the Company after the ban on operating expenses and costs of disposal of assets. The operating profit margin was £0.11 in 2019, which means that the Company repurchased £0.11 of the operating profit for £1. In 2020 it increased to £0.12 per £1 farm. This is better for the progress and work of Chocco Plc.

Net Profit Margin Ratio

The net profit margin is 0.06 in 2019 and is close to 2020, indicating the sustainable profitability of the company. The company's net profit of £1 has increased by £0.06, and nothing has increased. However, this is a normal margin as an indicator.

Return on Assets Ratio

In both years the return on assets was £0.04 given the company's ability to generate a net profit of £0.06 per £1 of estimated business activity. It is recommended that Chocco Plc.

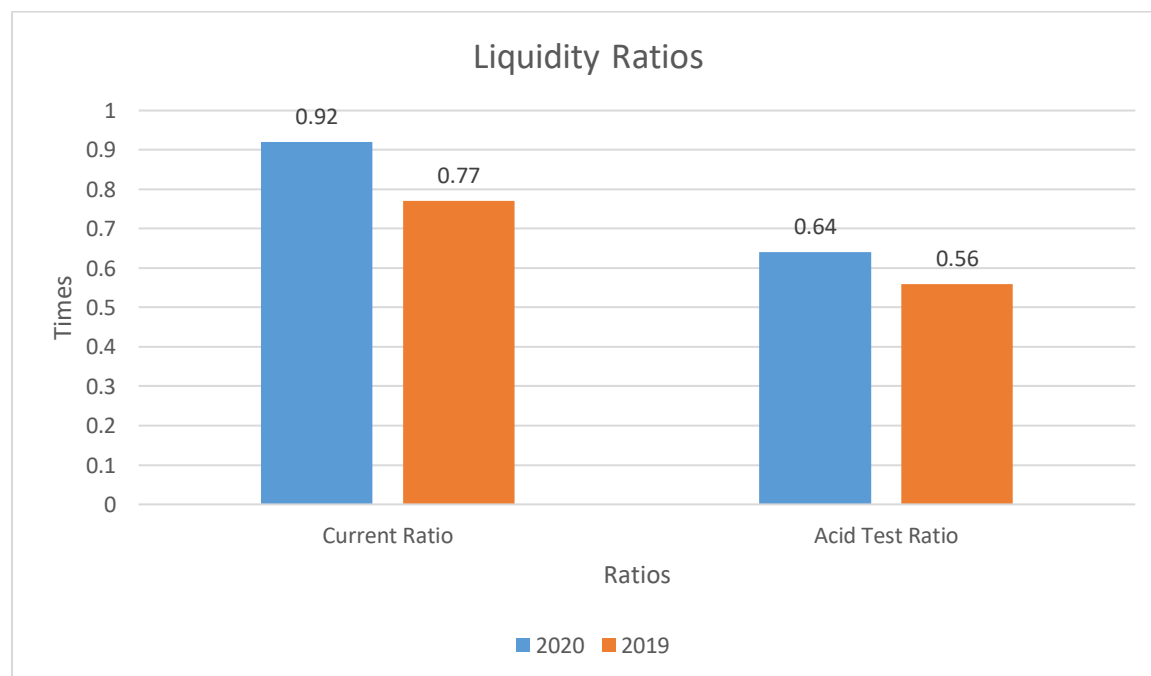
Build this from this point, which will show positive elements in the company's ability to generate net profit from its total assets (Schroeder et al.,2019).

Return on Equity Ratio

A significant increase in the return on investment, from 0.13 in 2019 to 0.14 in 2020, indicates an increase in estimated net assets. This means that the company's ability to generate net capital gains increased by almost 1%.

Liquidity Ratios

Liquidity Ratios	Formula	2020	2019
Current Ratio	Current Assets/Current Liabilities	0.92	0.77
Acid Test Ratio	(Current Assets – Inventory)/Current Liabilities	0.64	0.56



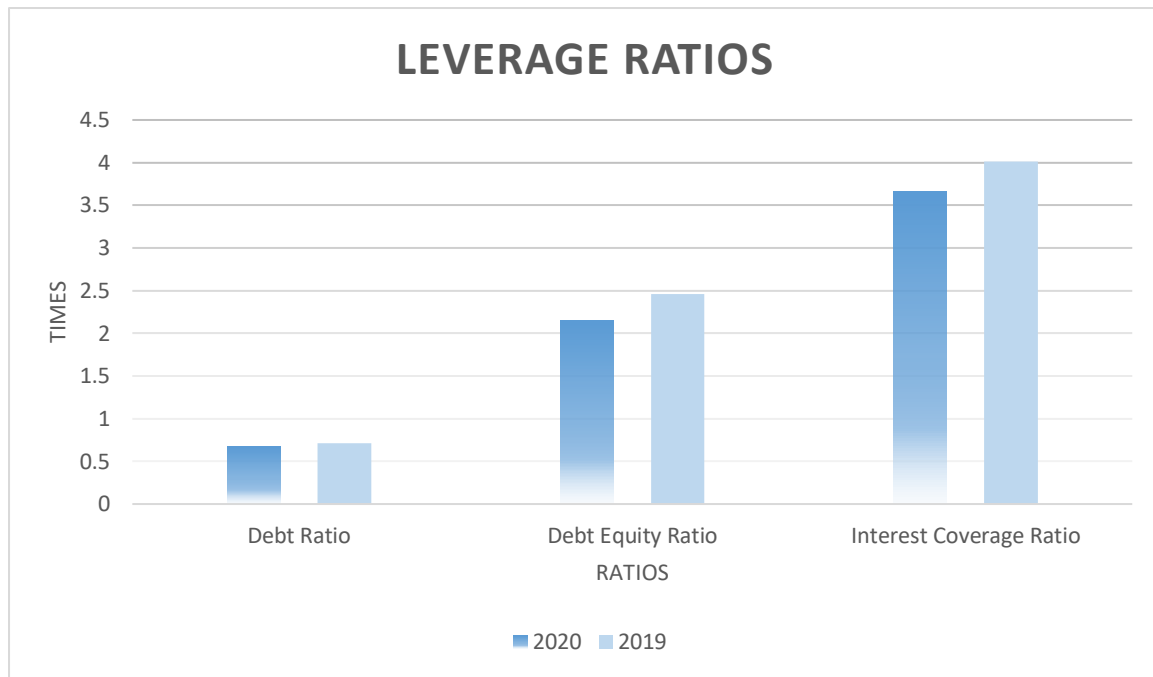
Current Ratio

The current ratio for 2019 is 0.77, which means that current assets equal to current liabilities are able to cover 0.77 times of current liabilities. The current ratio has been improved in 2020, but there are signs of a shortfall in the ratio, indicating that the company is struggling to pay its suppliers and creditors on time (Hawkins, 2017).

Acid Test Ratio

The quick liquidity ratio for 2019 is 0.56, which means that for every £1 of current liabilities, there are £0.56 of more liquid assets. The current liquidity ratio for the second year is a moderate 0.64, which is an improvement on the previous year. However, the company will continue to struggle to meet its current obligations (Schroeder et al. 2019).

Leverage Ratios	Formula	2020	2019
Debt Ratio	Total liabilities/Total Assets	0.68	0.71
Debt Equity Ratio	Total Liabilities/Net Assets	2.15	2.46
Interest Coverage Ratio	(Operating Income+Investment income) /Interest Payable	3.66	4.01



Debt Ratio

The debt ratio reflects the proportion of assets financed by liabilities. The situation is optimal when the debt ratio is in the regulatory range of 0.4 to 0.6. The debt ratio in 2019 was 0.71, which means that every pound was financed by debts worth £0.71 and this figure is in the “problem area”. (over 0.6). The debt ratio in 2020 was 0.68, which means a significant reduction in fiscal and risk compared to 2019.

Debt to Equity Ratio

The debt ratio reflects the relationship between total liabilities and equity. The actual use of the bond loan (assuming that the operating profit significantly exceeds the costs associated with the bond loan) leads to a situation where shareholders receive income from the impact on the financial statements. Ideally, the debt to equity ratio would be between 0.66 and 1.5. The increase in the debt to share ratio from 2.15 in 2019 to 2.46 in 2020 indicates that the company has probably financed its growth with debts generate higher profits. At the same time, the company’s ability to pay back long-term debts has increased.

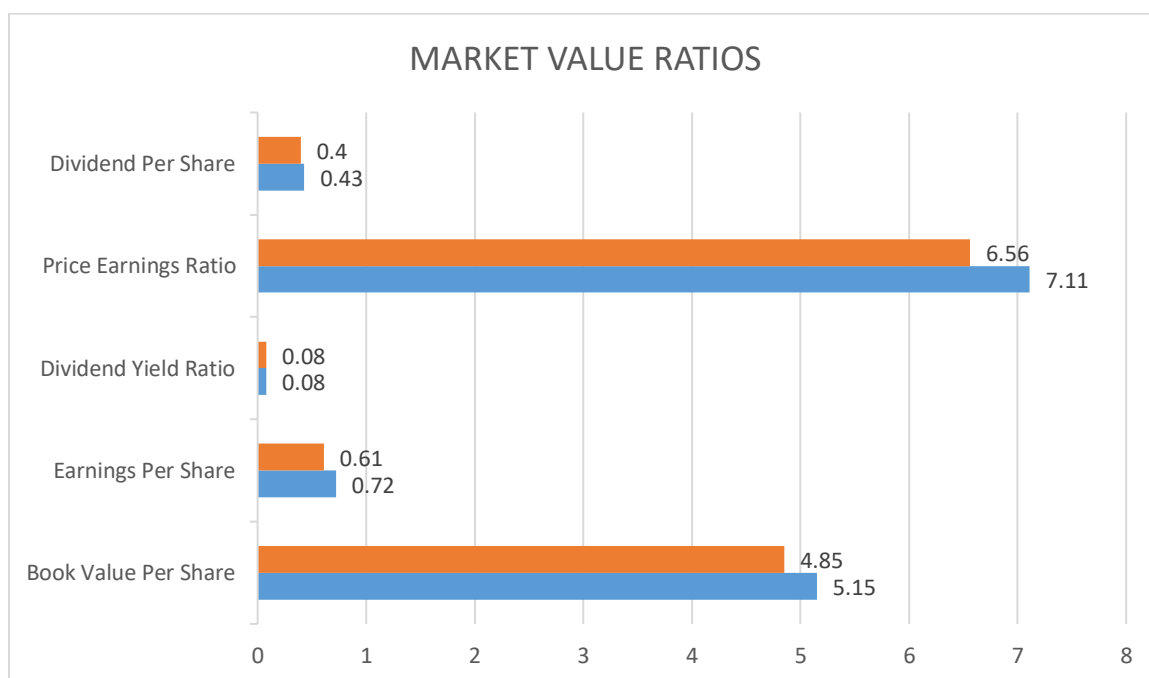
Interest Coverage Ratio

The interest coverage ratio shows investors how much they have earned for every pound of income they owe their shareholders. Against this background, and assuming an interest cover rate of £3.66 in 2019, Choco Plc has a profit of £4.01 per share of interest-bearing debts. The profit must, therefore

decrease proportionally to offset the loss. If the interest coverage ratio is 1, the company is very risk-averse and can easily pay the lender a fantastic amount of money without any restrictions. The interest coverage ratio has to be much higher than 1,5, in which case financial can easily provide loans.

Market Value Ratios

Market Value Ratios	Formula	2020	2019
Book Value Per Share	Net Assets/Total Outstanding Shares	5.15	4.85
Earnings Per Share	Profit of the Year/Total Outstanding Share	0.72	0.61
Dividend Yield Ratio	Dividend Per Share/Book Value Per Share	0.08	0.08
Price Earnings Ratio	Profit per Share/Total Outstanding Share	7.11	6.56
Dividend Per Share	Dividend Paid/No of Shares	0.43	0.40



Book Value Per Share

It is important to take into account the market value and balance sheet valuation of common shares (Schroeder et al.,2019). An accounting valuation is an accounting estimate of capital after deducting the liabilities of the company from its assets. The capital of the company is £3,088 million (for 2020). It determines how much shareholders pay for the capital of the company.

Earnings Per Share

In 2019 the Company's earnings per share were approximately 61%, increasing to 72% year-on-year. The pattern of earnings per share growth increases the likelihood of earnings per share and earnings per share increasing, which has a positive effect on the market valuation of the company's placement. This ratio is part of the net profit of each part of the ordinary shares (Turtle and Wang, 2017).

Price Earnings Ratio

The increase in the P/E ratio shows a company can make money from capital sources because the opportunities for development are great (Schroeder et al.,2019). It also shows that the company has overestimated, which can be compared with the company's valuation of its activity. The company generates £7.11 per share in its annual profit.

Dividend Yield Ratio

The Dividend yield ratio is a useful tool for investors who need to compare cash profits from different companies (Turtle and Wang, 2017). It tells them they will get compared to what they have to pay to get shares. In 2019 and 2020, the profit/return ratio was similar, which means that the company does have very uncertain capital.

References

- Hawkins. D.F.,2017. Financial Accounting Reading.
- Schroeder, R.G., Clark, M.W. and Cathey, J.M.,2019.Financial accounting theory and analysis: text and cases. John Wiley & Sons.
- Turtle, H.J. and Wang, K., 2017. The value in fundamental accounting information. Journal of Financial Research, 40(1), pp. 113-140.