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QUESTION 1

Part A

KEDISON PLC

STATEMENT OF PROFIT AND LOSS FOR THE YEAR
ENDED 31st DECEMBER 2020

	£'000
Revenue	826,650
Cost of sales	<u>(578,650)</u>
Gross profit	248,000
Distribution costs	<u>(28,000)</u>
Administration expenses <u>W1</u>	<u>(38,980)</u>
Operating profit	181,020
Finance costs <u>W2</u>	<u>(4,000)</u>
Profit before tax	177,020
Taxation	<u>(68,000)</u>
Profit for the period	<u>109,020</u>

W1

Administrative Expenses	30,000 +
Directors Remuneration Expense	5,000 +
Salesman Commission Accrual Expense	3,000 +
Customer Goods Provision	980 =
 TOTAL	 38, 980 £

W2

Interest Expense on debenture 4% of 100,000 = 4,000
INTEREST PAID (2,000) + UNPAID (2,000)
TOTAL = 4,000

KEDISON PLC
STATEMENT OF FINANCIAL POSITION AS AT 31ST
DECEMBER 2020

	£'000	£'000
<u>ASSETS</u>		
Non-current assets		
Property, plant & equipment		632,730
Current assets		
Closing stock	330,600	
Debtors W3	169,145	
Cash and Bank	12,900	
		512,645
Total assets		1,145,375
<u>LIABILITIES</u>		
Current liabilities		
Trade Creditors	<u>171,355</u>	
Salesman Commission Accrual	<u>3,000</u>	
Interest Payable W4	<u>2,000</u>	
Current tax payable	<u>68,000</u>	
		<u>244,355</u>
Non-current liabilities		
4% Debentures	<u>100,000</u>	
		<u>100,000</u>
Total liabilities		<u>344,355</u>
Net assets		<u>801,020</u>
<u>EQUITY</u>		
£1 Ordinary Shares		310,000
10% £1 Preference Shares		300,000
Retained earnings W5		191,020
Total equity		<u>801,020</u>

W3

Debtors	170,125 –
Provision Customer goods	980 =
TOTAL	£ 169,145

W4

4% Debentures	4,000 –
Interest paid	2,000 =
TOTAL	£ 2,000

W5

Retained profits at 1st January 2020	132,000 +
Profit for the period ended 31 st December 2021	109,020 –
Ordinary dividend paid	30,000 –
Preference dividend paid	20,000 =
TOTAL	£ 191,020

Part B

To answer the question, some balance sheet features clarification needs to be made.

To determine the company's total value, we need to refer to some essential balance sheet sections: assets, liabilities, and equity.

Assets represent all the resources owned by a company. The company uses them to produce values.

Liabilities represent the obligation, the debts, everything that a company owes to someone else.

Equity, instead, represent everything left over.

In this respect, the balance sheet must meet the accounting formula:

$$\underline{\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}}$$

In a nutshell, assets must always balance liabilities and equity.

Example:

- I need to purchase a van for £5000. I use a £3000 loan (liability) and £2000 cash (equity) to pay it. Consequently, my assets worth £5000 equal liability (£3000) plus equity (£2000).

Therefore the principle of double-entry bookkeeping provides the main reason.

This latter helps us to record every financial transaction by satisfying the accounting equation (assets = liabilities + equity).

Example:

- I decide to sell my van worth £5000. In this case, my assets decrease, and at the same time, my cash account increase.

In conclusion, the statement of financial position (balance sheet) must always balance. If this does not happen, it means we made an error or some information is missing.

QUESTION 2

Part A

RATIO	WORKING (2020)	2020	WORKING (2019)	2019
ROCE	846/7225 X100	11,70%	710/7041 X100	10,08%
ROE	431/3088 X100	13,95%	366/2912 X100	12,56%
Earnings per share	431/600	0,72p	366/600	0,61p
Net profit margin	846/6738 X100	12,55%	710/6441 X100	11,02%
Asset Turnover	6738/7225	0,93	6441/7041	0,91
Stock holding period	708/3235 X365	79,88 (80 days)	659/3096 X365	77,69 (78 days)
Debtors collection period	1249/6738 X365	67,65 (68 days)	1287/6441 X365	72,93 (73 days)
Current ratio	2303/2511	0,91	2355/3046	0,77
Gearing ratio	4137/7225 X100	57,25%	4129/7041 X100	58,64%
Interest cover	846/226	3.8 times	710/181	4 times

Part B

INVESTMENT RATIOS

- ROCE: from 2019 to 2020, this ratio has increased due to a rise of profit before interest in Chocco plc. For every £100 investment made, £11,70 will return with 16,07% of change from 2019.
- ROE: In 2020, this ratio increased due to the profit attributable to ordinary shareholders since, for both years, the share capital was the same. For every £100 invested by the shareholders, Chocco plc. will generate £13,95 in return with an 11,6% change from 2019.
- Earnings per shares: In 2020, this ratio increased thanks to its rise in earnings. For every ordinary share in Chocco plc., it earns 0,72 pence of net profit.

EFFICIENCY RATIOS

- Asset turnover: Small increase in 2020 due to the relationship between ROCE and the asset turnover.
- Stock holding days: Small increase of days in 2020 due to slight rise in the average inventory held.
- Debtors collection days: Slight decrease in 2020. Trade receivables have slightly decreased. In addition, goods might have been worth good money, making the overall company's collection period decrease.

PROFITABILITY RATIOS

- Net Profit Margin: In 2020, this ratio increased due to the rise in profit before interest. It means the company will earn £12,55 for every £100 sale with a 13,88% change from 2019.

LIQUIDITY RATIOS

- Current ratio: massive decrease in the current liabilities. That is why this ratio had slightly increased in 2020.

FINANCIAL GEARING RATIOS

- Gearing ratios: slight decrease in 2020 due to the increase of non-current liabilities.
- Interest cover: slight decrease in 2020. The company can meet its interest payments more than four times over, due to an increase in the profit before the interest which is able to cover the interest liability.

During 2020 compared to 2019, Chocco plc. well performed in terms of efficiently generating profit from its capital according to ROCE. For shareholders, it is also a good sign since ROE increased in 2020. Moreover, it allows them to earn 0,72p per share if the business is performing well.

In terms of efficiency, Chocco plc. barely used its productive capacity when talking about generating revenue. As a result, the company held its inventory for 80 days in 2020, which means profit loss, and it needs to shorten its debtor collection time slightly.

Chocco plc. is also fairly turning sales into profit regarding profitability and better liquidity from assets.

Positive performance in terms of financial gearing. It can assess the financial risk and make “safe” the annual interest payment concerning profit.

In conclusion, Chocco plc. is making good progress, earning a good financial position and becoming more and more a reliable company.