



Programme: Business Management(BABM)

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Question 1

Prepare a Profit and Loss statement for the year ended 31st of December 2020 for Kedison PLC and a statement of financial position as at that date.

a) Profit and Loss statement for the year ended 31st December 2020

	Particulars	Amount (£)
	Revenue	826,650
Less	Cost of sales	578,650
	Gross profit	248,000
less	Distribution costs	31,000
less	Administration expenses	35,000
	Operating profit	182,000
less	Interest paid(4% of debentures)	4,000
	Profit before taxation	178,000
less	Corporation tax	68,000
	Profit for the Year	110,000

Statement of financial position for the Kedison PLC as on 31st December 2020

Current Assets		Current liability	
Cash and bank	12,900	Corporation tax	68,000
Stock	329,620	Trade creditors	171,355
		Interest	2,000
Debtors	170,125	Salesmen commission	3,000
Trade receivables (Goods sent to the customers)	980,00	Debentures borrowing	100,000
Fixed Assets		Equity	
Plant and equipment	632,730	£1 ordinary shares	310,000
		10% £1 preference shares	300,000
		Retained profits (dividend paid + admin costs)	82,000
		Profit for the Year	110,000
Total Assets	1,146,355	Total liabilities and equity	1,146,355

b) Why does the statement of financial position balance?

Statement of financial position is the summary of the assets, liability and equity. For example, Assets include any cash, property, stock. Anything the business owns. Liabilities are what the business owes outside - bank loan, suppliers and business loans.

Equity is the remaining part of the financial interest in the business after is been deducting the liabilities from the assets. To finalize, the statement of financial position balance is the representation of the business owns, of the business owes and all investments that the business has contributed in a specific time.

Question 2

Required:

- a) Calculate the following ratios for Chocco plc for 2020 and 2019, showing the formulas and workings:

1. ROCE – (Profit before interest / Assets employed(total assets – current liabilities)) x 100)%

Year 2019 - $699 / 7225 \times 100 = 9.67\%$

Year 2020 - $805 / 7041 \times 100 = 11.43\%$

2. ROE – (Profit for the Year / Ordinary share capital x 100)%

Year 2019 – $366 / 300 \times 100 = 22\%$

Year 2020 – $431 / 300 \times 100 = 44\%$

3. Earnings per share - (Earnings / Number of ordinary shares)

Year 2019 – $366 / 50 = 7.32$

Year 2020 – $431 / 50 = 8.62$

4. Net profit margin - (Net profit / Sales(Revenue) x 100)%

Year 2019 – $539 / 6441 \times 100 = 8.34\%$

Year 2020 – $620 / 6738 \times 100 = 9.20\%$

5. Asset turnover - (Revenue / Net Assets)

Year 2019 – $6441 / 2912 = 2.21$

Year 2020 – $6738 / 3088 = 2.18$

6. Stock holding days

(Inventory / Cost of sales x 365)

Year 2019 – $659 / 3096 \times 365 = 77$

Year 2020 – $708 / 3235 \times 365 = 80$

7. Debtors collection period

(Trade receivables / Credit sales x 365)

Year 2019 – $1287 / 655 \times 365 = 717.18$

Year 2020 – $1249 / 583 \times 365 = 781.96$

8. Current ratio

(Current assets / Current liabilities)

Year 2019 – $2355 / 3046 = 0.77$

Year 2020 – $2303 / 2511 = 0.92$

9. Gearing ratio

(DEBT(Non-current liabilities) / DEBT(Non current liabilities) + EQUITY) x 100)%

Year 2019 – $(4129 / 4129 + 2912) \times 100 = 58.64\%$

Year 2020 – $(4137 / 4137 + 3088) \times 100 = 58.75\%$

10. Interest cover

(Profit before interest (operational profit) / Interest payable(charges))

Year 2019 – $699 / 181 = 3.86$

Year 2020 – $805 / 226 = 3.56$

b) Financial performance and position of Chocco plc

The return of a capital employed is 14% compare to 2019 when is only 12%. The results of better companies use of capital invested is to be greater this proportion.

Propotion reflects on the way how the company's capital is invested. If the figures are greater the better eveluation could be registered for the managerial staff. Specifically for The Chocco plc - managerial staff should practice tougher control over the investments of the capital. Revisions of the investments for the past periods are fully advised for the Shocco plc. Levels above 10units of ROCO indicator will guarantee to the company's stability for the future middle-period of company's development.

The earnings per share ratio is the income divided by the number of shares, and it primarily represents the profitability of the company. Earnings per share for 2019 are 7.32%, while earnings per share for 2020 are 8.62%.

Return on equity is calculated by dividing net income by shareholders' equity, and it indicates the profitability of the company. The average performance is regarded as 10%, and anything below is seen as bad performance. As we can see, the 2019 ratio is 1.22(22%) and the 2020 ratio is 1.44 (44%), indicating that there is some improvement, but still not enough.

Net profit margin reflects on the capitalizing of the company. It's a very crucial indicator for the efficiency of the economic management measures. Ratio that describes capitalizing of Shocco plc. shows little activity in that direction. For the Year 2019 and 2020 ratios are respectively 8.34% and 9.20%.Which are signs of very slow positive movement in aspect of accountability.

Debtors collection period is of a great importance for realizing future developing measures. Ratio reflects on the capability or the company to have its own capital at its disposal so this working capital could affect positive figures. And to the contrary - if period is substantially large, as it is the case of Shocco plc., company hardly could make long term forecasts for its figures.

Need for improve is an obvious stuff. Measures for proposing short term of gathering debts are strongly advised. Company is not in condition to rule its own working capital so its reflects in limiting company's developing.

Figures also show that debt collection ratio grows from 2019 to 2020, respectively 717 to 781 days. Results show tendencies of lack of control over debt collecting activities and adequate measures of preventing.

In conclusion financial statement of the company could be described as acceptable, but not quite enough.

Growth can be seen in profit and loss statement. It also could be seen that liabilities decreasing for the observing period. However debt collecting is in total regress which directly reflects in capability for quick and stable financial growth.

Control over expenses and cash flow could be also registered via figures and measures for debt collecting are strongly advised to be undertaken

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