Essay on financial reporting

ASSIGN BUSTER

I was allocated Cranswick plc for my coursework, where this company suppliesfoodsuch as fresh pork, cooked meat etc. Within this coursework I will analyse the operating performance and the financial positions of Cranswick plc. I will start with a brief discussion of the cash flow and the uses of the two method of constructing cash flow statements; followed by the re-computation of cash flow statements using direct method. I have also attempted the summary of the Cranswick plc's performance over the passed two years and analysis by using ratios calculating.

In the second part, have discussed the financial statements provided by the company; i. e. , Balance sheet, Income Statements and Cash Flow statements and equally discussed the state of my allotted company to the investors. I went on to discuss segmental reporting and the merits and demerits of reporting segments and also the impact of adoption of IFRS 8 by the company. Finally I have discussed the revised IAS 1 and its impact on Cranswick plc. Cash flow statement is one of the financial statements that company's use in the appraisal of the performance of an entity.

The accounting standard for cash flow reporting is IAS 7. The aim of IAS 7 is to provide users of financial information about the company's ability to generate cash and cash equivalents, as well as giving the cash needs of the company. Cash flow is normally constructed under the following headings of operating, investing and financing activities. They can be constructed using the direct method or indirect method. Direct method: analysis the cash record of the business showing all cash receipt and payments relating to operating activities.

This method gives a better picture of a true cash flow according to its advocates. It's normally said that a company would know whether they are experiencing liquidity [problems when this method is used. Therefore it can be said that this method provides more conclusive information about company's cash requirements. Indirect methods: Indirect method starts with the adjustments of net profit or loss before tax for the effects of non cash transaction.

The standard setters are more in favour of direct method, the business communalities are in favour of indirect method as this method is easier to construct. All in all the standard setters do no prescribe on method over the other. Cranswick shows a GPM of 16. 45% for the current financial year, which is a decrease of 7% on respectively the FY 2006which, was 17. 77, whereas that the profit margin of 6. 22% for 2007, which represents a 0. 83% decrease on the 7. 05%, achieved in 2006 but it does not appear to indicate a specific problem for the company.

This my due the increased of operating expenses and cost of sales, and this increase may caused a manipulation of stock or sales figures and changes in the cost of raw materials without a corresponding change in sales prices. Cranswick plc gearing ratio at the end of 2007 was 63. 73%%. It has slightly declined by 19% compared with FY06 79%. The level of the gearing would not be considered as being high. The decrease observed for Cranswick Plc gearing over the past year is mainly due to the decreased of the financial liabilities 77441m in 2006 to 76216m of 2007(p58)also so by the increase of the equity.

Although the gearing level slightly high, the company is able to generating enough profit to cover interest charges on their loans as their interest cover is 7. 94imes respectively in FY07. Cranswick plc has unsecured loans which is repayable in 5 semi- annual instalments of 5625000 from 01/09/2007 at a margin 0f 0. 5 to 0. 8 % above LIBOR. They receive LIBOR interest and pay fixed interest of 4. 98%. Liquidity Ratios: Liquidity ratios are fundamental to the businesses as a going concern.

Their purpose is to assess the capability of the company in meeting its short term (maturing) financial obligations. Current Ratio: It shows the extent to which current liabilities are covered by both cash an non cash asset that can be converted into cash within reasonable short time. The ideal ratio is to 2: 1 (i. e. 2 of current assets for every i?? 1 of cur rent liabilities). However, the type of business should be considered before deciding whether a company is insolvent or not. A much lower ratio indicates a company that could face liquidity problems in the future.