Statement of smith ltd

Finance

Company Analysis Here of Income ment of Smith Ltd. for the period ending 31/12 ? Sales 180, 000 Less cost of Sales 12000 Gross Profit 192, 000 Total Expenses (28, 072) Operating Profit 163, 928 Interest (5, 500) Profit before Tax 158, 428 Tax (5, 000) Profit for the year 153, 428 Statement of financial position of Smith Ltd. Company as at 31/12/2011 ? ? ? Assets Non-Current Assets Depreciation Net Value Patent 20, 000 200 19, 800 Brands 15, 000 3000 12000 Freehold land and buildings220, 000 4400 215600 Furniture 5, 000 500 4500 Vehicle I 15, 000 3000 12000 Vehicle II 8000 2000 6000 269, 900 Current Assets Cash 35, 000 Receivables 48, 500 Prepaid Expenses: Interest 800 Rates 375 84, 675 Total Assets 354, 575 Current Liabilities Accrued Expenses: Electricity 467 Wages 400 Interest 5500 Trade Payables 5, 000 Other payables Tax 5, 000 Non-Current Liabilities Mortgage 125, 000 Total Liabilities (140, 900) Net Assets 213, 675 Equity Share Capital Ordinary Shares 128, 000 Preference Shares 30, 000 Retained Earnings 55, 210 +153, 428 208, 638 Total Equity 366, 638 Smith Ltd. Company Statement of changes in equity for the year ended 31st December 2012 Share Capital Retained Earnings Revaluation Surplus Total Equity Euro Euro Euro Euro Balance at 1 January 2011 110, 000 55, 210 - 165, 210 Changes in accounting policy - - - - Correction of prior period error - - - - Restated balance 110, 000 55, 210 - 165, 210 Changes in equity for the year 2011 Issue of share capital - - - - - Income for the year - - - - - Revaluation gain - -- - - Dividends - - - - Balance at 31 December 2011 110, 000 55, 210 - 165, 210 Changes in equity for the year 2012 Issue of share capital 158, 000 - - - Income for the year - - - - - Revaluation gain - - - - - Dividends - - - - - Balance at 31 December 2012 158000 55, 210 - 323, 210 Smith Ltd. Company Statement of Cash Flows for the year ended 12/31/2012 Cash flows from operating activities Euro Net income 180, 000 Adjustments for: Depreciation and amortization 18100 Provision for losses on accounts receivable 10, 000 Increase in trade receivables (43500) Decrease in inventories 5, 000 Decrease in trade payables - Cash generated from operations 80000 Cash flows from investing activities Purchase of property, plant, and equipment (8, 000) Net cash used in investing activities 71, 600 Cash flows from financing activities Proceeds from issuance of long-term debt 158, 000 Net increase in cash and cash equivalents 229, 600 Cash and cash equivalents at beginning of period 15000 Cash and cash equivalents at end of period 244, 600 Net asset value = Market value of asset- Market value of liabilities Outstanding shares (Warren, Reeve, & Duchac, 2012) = 354, 575-140900/120, 000= 1. 78 Current ratios = current liabilities/current assets= 140, 900/84675= 1. 66 Quick ratio= current assets- inventories/ current liabilities 84675/140, 900= 0. 6 Leverage ratio Debt to Equity Ratio = Short Term Debt + Long Term Debt/ Total Shareholders' Equity 125, 000/158, 000= 0. 79 Profitability Ratio Return on assets= Net income/total average asset= 153, 428/(321, 350+354, 575)= = 153, 428/337, 962. 5= 0. 45 Return on equity= Net income/ average stockholders' equity= 153, 428/110, 000+158, 000/2= 153, 428/134, 000= 1. 145 Gross Profit margin = Gross income/ Sales = 153, 428/192, 000= 0. 8 Net Profit margin = Net income/ Sales = 153, 428/180, 000= 0. 85 More than often, liquidity ratio indicates the profitability measure effectiveness and efficiency of the firm's performance. As a result, the liquidity ratios are an area of main interest to creditors and investors as it determines the overall liquidity of a company in terms of business short-term solvency thus, its ability to pay back its debts as it runs its business operations. According to the annual financial reports of Smith Company the year 2012, the current ratio recorded was 1. 6 (Warren, Reeve, & Duchac, 2012).. This clearly indicates that the firm's ability to meet its short-term obligations with time has improved thus, the firm remains liquid and has the ability to meet its short-term financial obligations within a short duration of time. As a result, it is wise to invest in the company has an high current ratio points out a progress in asset management that allows movement of cash flow thus enhances growth and prosperity. In addition, quick ratio is used as an analytical tool that indicates the firm's ability to pay debts it shows the difference in liquidity between account receivables and inventory. This is because most of the companies provide services and goods to its customers on credit basis as they mostly allow favourable credit terms. Smith Company reports a quick ratio of 0. 66, this shows that the company has enough current assets apart from inventories to enable it pay for its short-term obligations as and when they fall due. Leverage ratios are used by companies to calculate the firm's ability to finance its obligation and its ability to generate income that can service the debts and interest rates accrued as the company meet its financial obligations over time. As a result, the use of debt/ equity ratio allows the management and investors to understand the company's means of financing its activity (Warren, Reeve, & Duchac, 2012). This is because if the debts fall below the equity level it possess, it would lead to the liquidation of the company as it becomes bankrupt. Smith Company debt/ equity ratio for the year 2012 indicates a ratio of 0. 79, which elaborates its use of debts to meet its obligation, nonetheless, its debt to equity ratio does not exceeds the recommended level of 1. 0 the company has avoided risks of losing shareholders investment. Profitability ratios are used to measure the level at, which returns arises from investment the ratios range from return on assets, profit margin, return on equity, and earnings per share ratios (Warren, Reeve, & Duchac, 2012). DuPont decomposition of return on equity is a close watch by the keen investors as the ratio determines how well the management of a company creates value for its shareholders. Smith Company, return on equity ratio in 2012 stands at 1. 145 shows an increase in profitability as it indicates that the rate of return on the shareholders equity has drastically increased. Return on assets is a measure of the effective and efficient utilization of assets in order to produce net profit as a result, the management can enhance the utilization of resources around the company. Smith Company return on assets in the year 2012 indicates a ratio of 0. 45 indicating that there was an increase in the returns on the net profit from the assets, as they were effectively utilized (Warren, Reeve, & Duchac, 2012). Profit margin ratio measures the sales volume of a company in its products market. In general, the results indicate that the company management has made an increase in its sales effort to achieve an increase in sales productivity levels. In conclusion, it is worthwhile to invest in the Company because it shows an increased growth and profitability levels from its ratios. WORKINGS Total Sales= Sales on credit + Cash sales. = 100, 000+ 80, 000= 180, 000 Opening Stock= 5, 000+95000= 100, 000-88000= 12000 Total cost of sales= 30, 000+58, 000= 88, 000 Total Electricity bill= 690+2090-467= 2780 Accrued Interest= 12, 500-5, 500= 7, 000 Accounts Receivables= 60, 000-10, 000= 50, 000-(50, 000*0. 03) = 50, 000-1, 500= 48, 500 Depreciation on Furniture= 5000*0. 1= 500 Depreciation on Vehicles I = 15, 000*0. 2= 3000 Depreciation on Freehold Land and Buildings= 220, 000*. 02= 4400 Prepaid Land Rates= 3/12*1500= 375 Land Rates= 1500-

375= 1125 Depreciation on Second Vehicle= 8, 000-2, 000/3= 2, 000 Wages= 5, 000 Accrued Wages= 400 Van running Expenses= 600 Impairement on Brand= 13, 000-10, 000= 3, 000 Depreciation on Goodwill= 30, 000/6= 5, 000 Corporation Tax = 10, 000-5, 000= 5, 000 Depreciation on Patent= 20, 000*. 05/5= 200 Total Expenses= 3247+3000+4400+500+1125+2000+5000+600+ 3000+5000+200= 28, 072 Additional ordinary share = 20, 000*1. 4= 28, 000+100000= 128, 000 Preference Shares= 20, 000*1= 20, 000+10, 000= 30, 000 Reference

Warren, C., Reeve, J. & Duchac, J, 2012, Financial and managerial accounting. Mason, Ohio: South-Western Cengage Learning.