

# [The composition of the companys equity](https://assignbuster.com/the-composition-of-the-companys-equity/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Metropole Plc Income ment/ ment of comprehensive income for the period ending 31 December 20xx £000s £000s £000s 2009 2008 Revenue (Notes 1)
1, 265. 34
1, 433. 80
1, 246. 80
Cost of sales
753. 46
889. 60
715. 30
Gross profit
511. 88
544. 20
531. 50
Operating expenses
258. 94
305. 80
295. 00
Operating profit
252. 94
238. 40
236. 50
Finance costs
25. 89
27. 80
33. 50
227. 04
210. 60
203. 00
Income tax
34. 06
34. 30
38. 00
Profit for the year
192. 99
176. 30
165. 00
Other comprehensive income
Revaluation
-
192. 80
-
Total comprehensive income for the year
192. 99
369. 10
165. 00
Metropole Plc
Statement of Financial Position
As of the year ending Dec 31, 20xx
£000s
£000s
£000s
2010
2009
2008
Non current Assets
Intangible
43. 00
48. 00
53. 00
Tangible (Note 2)
1, 561. 06
1, 688. 30
1, 579. 40
1, 604. 06
1, 736. 30
1, 632. 40
Current Assets
Inventories
207. 68
188. 80
175. 00
Trade Receivables
304. 74
169. 30
128. 50
Short term deposits
238. 44
198. 70
22. 20
Cash
204. 27
0. 50
9. 30
955. 13
557. 30
335. 00
Total Assets
2, 559. 19
2, 293. 60
1, 967. 40
Equity
Ordinary share capital
498. 70
498. 70
427. 50
Share premium account
273. 20
273. 20
225. 70
Revaluation reserve
306. 70
306. 70
113. 90
Retained profits
816. 79
623. 80
535. 00
1, 895. 39
1, 702. 40
1, 302. 10
Liabilities
Non current liabilities
149. 04
186. 30
368. 60
Current liabilities (Note 3)
514. 77
404. 90
296. 70
663. 81
591. 20
665. 30
Total Equity and Liabilities
2, 559. 19
2, 293. 60
1, 967. 40
Metropole Plc
Statement of Cash Flow
31 December 20xx
£000s
£000s
£000s
2010
2009
2008
Profit before tax
227. 04
210. 60
203. 00
Interest
25. 89
27. 80
33. 50
Depreciation
127. 24
159. 20
123. 00
Goodwill impairment
5. 00
5. 00
5. 00
Profit/Loss of disposal of non current asset
-
(20. 80)
12. 00
385. 18
381. 80
376. 50
Decrease/ increase in trade receivables
(135. 44)
(40. 80)
30. 50
Decrease/ Increase in inventories
(18. 88)
(13. 80)
35. 00
Increase/ decrease in trade payables
76. 57
76. 30
(21. 00)
Increase/ decrease in accruals
14. 89
14. 60
(11. 00)
Cash generated from operations
322. 32
418. 10
410. 00
Finance costs paid
(26. 15)
(24. 90)
(22. 00)
Income tax paid
(38. 06)
(35. 70)
(32. 00)
Net cash flow from operating activities
258. 10
357. 50
356. 00
Cash flow from investing activities
Purchase of property plant and equipment
-
(200. 30)
(360. 00)
Sale of property plant and equipment
-
145. 80
30. 00
-
(54. 50)
(330. 00)
258. 10
303. 00
26. 00
Cash flow from financing activities
Dividends paid
-
(87. 50)
(60. 00)
Proceeds from share issues
-
118. 70
-
Debt reductions/ increase
(37. 26)
(182. 30)
20. 00
(37. 26)
(151. 10)
(40. 00)
220. 84
151. 90
(14. 00)
Net increase in cash and cash equiv
220. 84
151. 90
(14. 00)
Cash and cash equiv at start of year (Note 4)
177. 10
25. 20
39. 20
Cash and cash equiv at end of year (Note 4)
397. 94
177. 10
25. 20
Metropole Plc
Statement of Changes in Equity
At 31 December 2010
Share
Share
Reval
Income
Capital
Premium
Reserve
Stat
Total
£000s
£000s
£000s
£000s
£000s
Balance at 31 December 2009
498. 70
273. 20
306. 70
623. 80
1, 702. 40
Share Issue
-
Revaluation
-
Profit for year
192. 99
192. 99
Dividends

-
Balance at 31 December 2010
498. 70
273. 20
306. 70
816. 79
1, 895. 39
Notes on the financial statements:
1. The following sales are projected for the year ending Dec 31, 2010.
Gross sales
Cost of Sales
Gross Revenue
Less Operating Exp
£000s
£000s
£000s
£000s
Home Decorating
458. 80
321. 16
137. 64
96. 35
Household Goods
548. 42
329. 05
219. 37
131. 62
DIY stores
258. 12
103. 25
154. 87
30. 97
Total
1, 265. 34
753. 46
511. 88
258. 94
2. Analysis of movement of non-current assets
2010
Land and
Plant
Eqpt
Total
Property
Cost
Operating balance
1, 342. 80
300. 20
450. 00
2, 093. 00
additions
141. 60
58. 70
200. 30
disposals
(66. 70)
(200. 00)
(266. 70)
revaluation
-

-
1, 342. 80
375. 10
308. 70
2, 026. 60
Depreciation
Opening balance
115. 50
101. 00
121. 80
338. 30
disposals
Charge for the year
16. 35
54. 82
56. 07
127. 24
131. 85
155. 82
177. 87
465. 54
Net book value
1, 210. 95
219. 28
130. 83
1, 561. 06
3. Analysis of current liabilities
2010
2009
2008
trade payables
323. 57
247. 00
170. 70
accrued charges
95. 51
87. 60
73. 00
finance costs
12. 85
11. 60
8. 70
income tax
38. 06
36. 60
38. 00
bank overdraft
44. 77
22. 10
6. 30
514. 77
404. 90
296. 70
4. Cash and cash equivalents analysis
2010
2009
2008
Cash in bank
204. 27
0. 50
9. 30
Bank overdraft
(44. 77)
(22. 10)
(6. 30)
bank deposit
238. 44
198. 70
22. 10
397. 94
177. 10
25. 10
Operating Assumptions
Gross sales
Since there is a reported economic downturn for the year being projected, and economic prospects remain bleak for the rest of the year, it is anticipated that sales will be affected with the slowdown in the global economic activity. Presumably, consumers will be holding a bit on their purchases, especially luxury items, such as those being produced and sold by Metropole Plc. In this regard, the following assumptions have been made:
Home decorating division – 20% decrease in sales compared to the year it preceded
Household goods division – 15% decrease in sales since some items can be considered as necessary household appliances
DIY store division – 20% increase in sales, since this division has exhibited strong sales performance with a significant growth in the last four years. Moreover, the division has attracted a type of consumers that seem to be a niche market, thus creating stable demand for the products
Cost of sales
Cost of sales has been assumed to follow a pattern from its previous performance. For the home decorating division, cost of sales was pegged at 70 percent, for the household goods at 60 percent, and for the DIY goods at 40 percent.
Operating expenses
Cost of operations for 2010 also followed the historical pattern based on 2009 and 2008 statements, and assumed the same percentage against gross sales of previous years. Given these assumptions, the gross operating income and the income before tax was derived and computed for the year 2010.
Comprehensive income for the year 2010
Since it was assumed that there was no revaluation occurring in 2010, the net income after tax for Metropole was projected to be at £193, 000. This income, compared to that of 2009 and 2008, is quite better than expected, given the bleak global economic outlook.
Current assets
Since there is an expected economic slowdown, the forecast decreased in sales will leave a bigger inventory of merchandise. Thus compared to 2009, the inventory for 2010 will be higher by about 10 percent. Trade receivables, on the other hand, will suffer a bit since receivables may not be collected on time. As a matter of fact, to push sales and in an effort to curtail inventory from piling up, sales on account are projected to rise giving more trade receivables to account for 2010. Thus, trade receivables account for 2010 ended with 80 percent higher than the previous year 2009.
What will save the day for Metropole during the economic downturn in 2010 will be the highly profitable and stable DIY stores. This division is expected to deliver the cash for the company. Thus, it is also forecast that an increase in cash account is expected, and some of them will be treated as short term savings deposit.
Retained earnings
Given the volatile nature of the economy, investments are forecast to be put on hold, as the company observes the direction that the economy will take in the next few months. Thus, retained earnings for 2010 will be plowed back entirely to its operations. It is going to withhold any dividend declaration during the volatile economic condition, as it would be very frugal in dispensing any excess liquidity. Acquisitions, purchases, and other major investments will be put on hold to avoid any unnecessary risk on the company’s cash requirements.
Equity
No major change is expected in the composition of the company’s equity. For the year 2010, a profitable operations will lead to a hefty income being retained in the company’s balance sheet. No major source of income from other investments is being expected to provide a windfall.
Cash at the end of the year 2010
The company will be in a liquid position given a good amount of cash and other cash equivalents from operations by the end of the year.