

Financial papers for companies



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All companies keep financial papers to help run the organisation and to gather the terms with legal needs. Of particular significance are the balance sheet, the profit and loss account and the cash flow statements. These illustrate the financial strengths and weaknesses of the business in a current situation. Wolinski and Coates (2005, p. 64) This essay will assess the financial health of the I-Events Company.

It will look at the profit and loss account and its purposes, it will scrutinise the balance sheet, and focusing on its main components it will discuss the benefits of the break-even analysis and an evaluation of the two business proposals. The information from last year's account from I-Events has not been given however, the margin figures from above provide us reference of where the business is and how prosperous the I-Events finance is. From their analysis in addition to the accounts, I-Events is financially strong. The reasons for this judgement are as follow.

First figure to look at and a major objective is the Net Profit, in this case positive, so the company it is not making a loss. Although, it will be ideal to achieve an increase in sales revenue and decrease the costs that could be done by having the minimum closing stock at the end of the year. Moreover, predominantly elevated are the wages and salaries, which they have to be reduced as the amount (almost a 40% of the business sales), is excessively high. It will help to get a workforce planning done, which is about matching the numbers of the employees and their skills to a company's needs.

Another bill that could diminish is the telephone, as the use of other sources like the internet could probably give us the same communication across

although more economical. The fixed assets of the business are reasonable although the figure is not high; the nature of the business allows it to operate fluently. Observing the figures of the current assets, stands out the debtors, although not being a high number it can turn to a critical situation depending how quickly it can be turned into cash. As the money in the bank is very low it has to be concerned that could become overdraft very soon.

This situation will be aggravated even more if payment to creditors are due shortly. Operating the current assets and liabilities give us a pleasant positive working capital and if our debtor figure is turned into cash, cash flows even more healthier. Break even point is the point where the total costs of making the items equals the total revenue received from selling them. In other words, the break-even point (BEP) is the figure where a business makes zero profit. Changing the selling price in the formula will give us different figures in the BEP.

This will help the company plan for price changes, changes in costs, for instance a rise in electricity rates. This formula has its benefits and its limitations. The benefits are that the graphs are easy to produce and to interpret. They represent straight lines in the BEP graph. The graph provides guidelines in relation to the quantity of product levels within profit and loss and margin of safety. It can help a company spot if their charges or fixed costs are too high. I-Events business will start making profit when it has been sold to 201 customers.

Other advantages are that can be establishing parallelisms through other comparative situations, and the formula gives us a precise result of the

break-even point. For example increasing the contribution per customer to 10 more, the business has to have 195 customers before making any profit instead of the 201. Anything higher than the BEP figure starts being a profit, anything below 201 items is a loss. Regardless of the number of items of output, fixed cost remains the same. Some of the problems are that it is very unrealistic to assume that increases in costs are always constant since not all the cost change in proportional way.

Not all the cost can be so easily classified as fixed and variable. It is assumed that all the items are sold when it is not always probable. The total items or customers are expected to meet the maximum point in sales in the graph. It is unlikely that the fixed costs will remain constant at a different levels of production, given that different necessities of the business. Interpreting the Margin Of Safety (MOS), a business can afford to lose 20 percent of customers before it starts to make a loss.