

PRODUCTION AND INTERPRETATION OF FINANCIAL STATEMENTS

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Table of Contents

Introduction	2
Profit and loss statement	2
Balance sheet	3
Ratio Analysis	3
Gross Profit	3
Net Profit	4
The net ratio for working capital	4
Cash Ratio	5
Current ratio	5
Evaluation of the profitability	6
Benefits of using accounting software	6
Recommendation for software	8
Conclusion and recommendation	8
References	Error! Bookmark not defined.

Introduction

The goal of this research is to use ratio analysis to evaluate the overall financial health of Jay Rhymes Ltd, a UK-based firm. The report starts with a summary of the company's financial statistics for 2019 and 2020, including the GPM, NPM, net operating capital proportion, cash ratio, and current asset ratio (Hosaka, 2019). The ratios are examined to offer information about the organization's financial condition, efficiency, and liquidity. The report's second section explores the advantages of modern accounting software for businesses, using Xero, QuickBooks, Zoho Books, and Sage Intacct as examples. The features, functionality, and cost of each program are analyzed to decide which one is the best fit for Jay Rhymes Ltd. The analysis concludes with a suggestion for the most suitable accounting program for Jay Rhymes Ltd according to the company's requirements and budget. The paper finishes by summarizing the important results and emphasizing the need of using modern accounting software to optimize efficiency and effectiveness in financial operations management.

2

Profit and loss statement

Jay Rhymes Ltd.		
Profit & Loss Statement		
For the year ended 31st December, 2020		
Particulars	Amount	Amount
Sales	£ 4,00,000	
Cost of goods sold	£ 1,85,000	
Gross profit		£ 2,15,000
Expenses		
Wages	£ 51,000	
Repairs and maintenance	£ 13,000	
Heating and lighting	£ 9,000	
General expenses	£ 12,000	
Depreciation on furniture & fittings @ 10	£ 10,000	
Total expenses		£ 95,000
Net profit (surplus)		£ 1,20,000

Figure 1: Profit and loss statement

(Source: MS Excel)

Balance sheet

Jay Rhymes Ltd.			
Balance Sheet			
For the year ended 31st December, 2020			
Liabilities	Amount	Assets	Amount
Current liabilities		Current assets	
Trade payables	£ 34,000	Cash at bank	£ 35,000
		Trade receivables	£ 41,000
		Prepaid exp	£ 8,000
Shareholder's equity		Non current assets	
Capital	£ 5,20,000	Premises	£ 3,00,000
(-) Drawings	£ 1,20,000	Fixture and fittings	£ 90,000
(+) Retained earnings (surplus)	£ 1,20,000	Motor vehicle	£ 80,000
Total liabilities and equity	£ 5,54,000	Total assets	£ 5,54,000

Figure 2: Balance sheet of Jay Rhymes

(Source: MS Excel)

Ratio Analysis

Ratio Analysis		
	2019	2020
Gross profit margin	27%	54%
Net profit margin	-33%	30%
Net working capital ratio	-3500	£ 50,000
Cash ratio	0.4	1.03
Current asset ratio	0.8	2.47

Figure 3: Ratio Analysis of Jay Rhymes

(Source: MS Excel)

Gross Profit

A company's GPM is a measure of its profitability that is computed as the difference between revenue and COGS, represented as overall percentage of sales. A greater gross profit margin shows that a firm generates more revenue compared to its cost of products sold, which is typically seen as a favorable indicator of financial health (Fridson and Alvarez, 2022). According to the statistics, Jay Rhymes Ltd's gross profit margin has improved dramatically from 27% in

2019 to 54% in 2020. This shows that the company's capacity to produce revenue has improved and/or its cost of goods sold has decreased. It might also imply that the firm has developed more efficient cost-cutting strategies, negotiated better supplier prices, or improved its product mix. A rise in gross profit margin is generally a good indication for Jay Rhymes Ltd since it implies that the firm has gotten more lucrative.

Net Profit

A firm's net profit margin is a measure of its profitability and can be determined as the difference between total revenue and all costs, including taxes and interest, represented as a percentage of revenue. A positive NPM demonstrates that a firm is sufficiently profitable, whereas a negative NPM mainly a indication that the business is losing money (Zutter and Smart, 2019). According to the statistics, Jay Rhymes Ltd's net profit margin has increased dramatically from -33% in 2019 to 30% in 2020, showing that the firm has transformed its losses into profits. This improvement might be the result of a variety of things, such as increased income, cost-cutting efforts, or enhanced operational efficiencies. A positive net profit margin suggests that Jay Rhymes Ltd has effectively managed its expenditures about its sales, which is a good demonstrator of the business financial health. Overall, Jay Rhymes Ltd's large increase in net profit margin from 2019 to 2020 is a favorable development, showing that the firm has made progress in enhancing its profitability.

The net ratio for working capital

The NWC ratio measures a capacity of business to fulfill short-term obligations, such as paying down current liabilities, with current assets. It is determined as a ratio by subtracting current obligations from current assets. A positive net working capital ratio shows that a firm's current assets are sufficient to clear off its current liabilities, whilst a negative ratio generally demonstrates that the given business may face difficulties in fulfilling its short-term obligations. According to the statistics, Jay Rhymes Ltd's net working capital ratio has increased dramatically from -£3500 in 2019 to £50,000 in 2020. This implies that the company's current assets have risen about its current obligations, which is typically regarded as a favorable indicator of financial health. The rise in the net working capital ratio can be attributed to a variety of causes, including greater cash flow, better-working capital management, or enhanced operational

efficiency. Overall, Jay Rhymes Ltd's positive net working capital ratio in 2020 indicates that the firm is better positioned to satisfy its short-term financial obligations (Pattiruhu and Paais, 2020).

Cash Ratio

The cash ¹ratio measures a business ²ability to meet its short-term obligations using cash and cash equivalents. It is calculated by dividing a corporation's cash and cash equivalents by its current commitments. A higher cash ratio implies that a corporation has enough reserve of cash to satisfy its short-term financial obligations, whereas a smaller cash proportion suggests that a company may struggle to meet its short-term obligations. According to the statistics, Jay Rhymes Ltd's cash ratio grew from 0.4 in 2019 to 1.03 in 2020. This implies that the company's cash and cash equivalents have risen relative to its current liabilities, which is typically regarded as a good indicator of financial health (Sari and Sedana, 2020). The rise in the cash ratio can be attributed to a variety of variables, including better cash management, stronger cash flow, or lower current obligations. Overall, Jay Rhymes Ltd's cash ratio increased from 2019 to 2020, indicating that by using cash reserves, the firm has increased its ³ability to meet its short-term financial obligations.

Current ratio

The CAR assesses a firm's ability ⁴to fulfill its immediate obligations by utilizing its current resources. It is calculated by dividing a corporation's present assets by its present obligations. A higher current asset ratio suggests that a company has more ¹current assets available to cover its short-term obligations, whilst a smaller ratio suggests that a corporation may face difficulties to meet its immediate obligations. According to the statistics, Jay Rhymes Ltd's current asset ratio has improved dramatically from 0.8 in 2019 to 2.47 in 2020. This implies that the company's current assets have expanded considerably with its current obligations, which is typically regarded as a favorable indicator of financial health (Shim, 2022). The rise in the current asset ratio can be attributed to a variety of causes, including greater cash flow, better-working capital management, and enhanced operational efficiency. Overall, Jay Rhymes Ltd's current asset ratio increased from 2019 to 2020, indicating that the firm has enhanced its ⁵ability to satisfy its short-term obligations using current available resources.

Evaluation of the profitability

Jay Rhymes Ltd's financial performance improved significantly from 2019 to 2020, according to the data set supplied. The company's GPM has improved by 27%, suggesting that it has earned more revenue while decreasing its cost of goods sold. This demonstrates Jay Rhymes' ability to successfully control manufacturing costs while generating income. It's a good indication for the corporation since it means they're making more money for each ounce spent on production. The NPM has increased significantly from -33% in 2019 to 30% in 2020. This indicates that the company's costs have drastically decreased in the last year (Dewi, Azam and Yusoff, 2019). Jay Rhymes Ltd has increased its profitability, which might be due to effective cost-cutting methods. A larger net profit margin reflects the company's overall financial health. The NWC Ratio, which helps in determining a business capacity to pay off current creditors, has similarly risen from -3500 in 2019 to £50,000 in 2020. This demonstrates that the firm's liquidity situation has improved, and it now has more current assets to meet its current liabilities. Jay Rhymes has a good Net Working Capital Ratio, which indicates that it is better able to satisfy its short-term financial obligations. The CR demonstrates the capacity of any business to clear short-term creditors with cash reserves (Rebele and Pierre, 2019). The increase from 0.4 in 2019 to 1.03 in 2020 is a good indicator since it indicates that Jay Rhymes has higher financial reserves to cover its short-term responsibilities. This implies that the company's cash flow management has improved and that it has enough cash reserves to satisfy its short-term financial obligations. Subsequently, the Current Asset Ratio has risen from 0.8 in 2019 to 2.47 in 2020, suggesting that Jay Rhymes has greatly strengthened its liquidity situation. The current resources of any business exceed its present obligations, which is a good indication for any business. It demonstrates that the firm is financially solid and capable of meeting its short-term financial obligations.

Benefits of using accounting software

Accounting software now provides a variety of features that increase financial management, data quality and security, and accounting process efficiency. These advantages help firms to make educated decisions based on financial data, increase productivity, and meet financial objectives (Hirdinis, 2019). Accounting software alternatives abound, allowing businesses to select the program that best meets their goals and budget. Modern accounting software has transformed the

accounting business by providing new features and functions that speed the accounting process, increase data integrity and security, and boost overall financial management. Here are some examples of the advantages of modern accounting software:

Automated Bookkeeping:

Software for accounting automates bookkeeping tasks like accounts payable and receivable. It saves time and money for organizations, avoids human mistakes, and guarantees that financial data is correctly recorded. Accounting software with automated bookkeeping functionality includes Xero, QuickBooks, and Wave.

Accurate Financial Reporting:

Accounting software creates accurate financial reports, such as accounting records, and statements of cash flows, and assists organizations in making sound financial decisions. Financial reports offer an overview of a company's financial performance, detect financial trends, and track spending (Karamoy and Tulung, 2020). Accounting software such as Zoho Books, FreshBooks, and KashFlow provide reliable financial reporting.

Integration with Other Systems:

Accounting software connects with other systems like payroll, POS, and CRM. Integration assists firms in streamlining their accounting operations, reducing data input mistakes, and ensuring accurate and up-to-date financial data. Sage Intacct, Xero, and QuickBooks are examples of accounting software that integrate with other systems.

Enhanced Data Security:

Accounting software improves data security by enabling encrypted data transfer, password protection, and user permissions. It assists organizations in safeguarding their financial data from illegal access, data theft, and data loss. Zoho Books, QuickBooks, and Xero are examples of accounting software with increased data security measures.

Cloud-Based Access:

Accounting software offers cloud-based access, allowing businesses to view their financial data at any time, from any location, and any gadget with a web connection. Cloud access enables organizations to handle their money with greater effectiveness and efficiency, as well as boost cooperation and productivity (Muneerali, 2020). Accounting software such as Zoho Books, QuickBooks, and Xero provides cloud-based access.

Recommendation for software

Based on the information supplied for Jay Rhymes Ltd, it is evident that the business financial health has improved significantly. It is advised that the firm invests in modern accounting software that suits its demands and budget to improve its accounting procedures and increase productivity. Here are some accounting software recommendations for Jay Rhymes:

QuickBooks

QuickBooks is a well-known accounting program that offers a variety of automatic bookkeeping and accounting capabilities to small and medium-sized enterprises. Intuit, an acknowledged manufacturer of financial management solutions, created and maintains the program. QuickBooks is intended to simplify accounting, reduce mistakes, and deliver accurate financial reporting. It is an excellent choice for companies that need effective financial management solutions to optimize their operations. QuickBooks' user-friendly design, which is straightforward to browse, is one of its main features (Raewf and Jasim, 2020). This makes it a good choice for companies who lack a professional accounting team or are unfamiliar with complicated accounting software. QuickBooks has several capabilities, including invoicing, payroll administration, and inventory management. It provides a consolidated platform via which organizations may access actual time financial data and make educated decisions. QuickBooks, in addition to its fundamental capabilities, has a variety of connectors with other systems that might expand its functionality. Payment gateways, financial systems, and third-party apps such as Salesforce and Shopify are among those that have been integrated. This makes it a fantastic alternative for enterprises that need an adaptable solution that can be tailored to their specific requirements. Jay Rhymes Ltd should choose QuickBooks since it may help the firm manage its finances more effectively and efficiently. Its user-friendly design, extensive feature set, and interfaces with other systems make it an excellent alternative for organizations in need of flexible accounting software.

Conclusion and recommendation

Jay Rhymes Ltd's financial data analysis shows that the firm has made considerable gains in its financial results. The rise in GPM, NPM, net operating capital proportion, cash ratio, and current asset ratio suggests that the firm has improved its financial performance, efficiency, and liquidity

over the previous year. The paper also emphasized the advantages of modern accounting software for organizations, citing various instances that may assist firms in managing their money more efficiently and effectively. The software is reasonably priced, with many packages available based on the demands of the organization. As a result, it is a cost-effective choice for small to medium-sized firms that may not have the funding for pricey accounting software.

Jay Rhymes Ltd may enhance its financial results and the effectiveness of its accounting operations by adopting the aforementioned recommendations. By investing in modern accounting software, improving cash flow management, growing revenue, improving inventory management, and teaching employees about financial management and accounting procedures, the firm may achieve its objectives. The following recommendations are provided for improving the business overall financial capability and boosting the efficiency of its accounting processes based on a review of Jay Rhymes Ltd's financial data and the benefits of modern accounting software:

Invest in contemporary accounting software:

It is advised that the firm invests in modern accounting software that fulfills its requirements and budget. Software such as Xero, QuickBooks, Zoho Books, or Sage Intacct is advised to assist the firm handle its finances more efficiently and effectively.

Increase revenue:

To increase the profitability of its operations, the organization should prioritize sales growth. This can be accomplished by developing new customer-attracting marketing methods, raising the prices of its products or services, and exploring new markets.

Improve inventory management:

Jay Rhymes Ltd's inventory management may be improved by establishing an inventory management system that tracks inventory levels and orders items as needed. This can assist the firm in lowering inventory holding costs and avoiding stockouts.

Train staff:

The corporation should spend on financial management and accounting training for its employees. This can assist the company's accounting operations to become more efficient and assure accurate financial reporting.

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