

ABC COMPANY LTD
FINANCIAL PERFORMANCE REVIEW
FOR THE YEAR ENDED 31ST MAY 2008

Your Practice Name
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SUMMARY

Compared to the previous 2 financial years, your business is now in a much better position with greatly improved cashflow and reduced debtor levels – so you're getting money owed to you much quicker. This has also meant that you've had to use your overdraft much less, which as you mentioned in our last meeting has resulted in a better relationship with your bank manager.

You have also won an increase to an existing contract, which should help you to better plan your business strategy over the remaining 2 years of the contract. As XYZ is now your biggest customer, you must bear in mind that if they pull out in 2 years that you will have a significantly reduced level of revenue, but the same overheads and operations to meet that high production level, so you should put in place contingencies should this happen.

The report that follows gives you a graphical overview of your business over the last 3 years and are based on the financial statements that I have prepared for you.

SALES

The last financial year has seen a 14% increase in sales over the previous, which is largely attributable to the XYZ contract being expanded. Given that this contract had further room for growth, this will enable you to put in place the plans you to produce more in-house.

PROFITABILITY

Despite the increase in your sales, there has been a drop in your gross profit, which means that the cost of your production has actually increased. The concern is that if your production costs continue to increase, your net profit margin will get even smaller and having a direct impact on your dividends. I would advise you to review the costs of your materials and manufacturing process to understand why this increase has come about and address these issues. We would be able to assist you in this review should you need it.

COSTS

Other than direct costs and wages your costs levels have remain relatively constant over the last 3 years. Since your wage costs have decreased, which was due to some staff leaving, could this be attributable to your increased production costs?

BANK & CASH

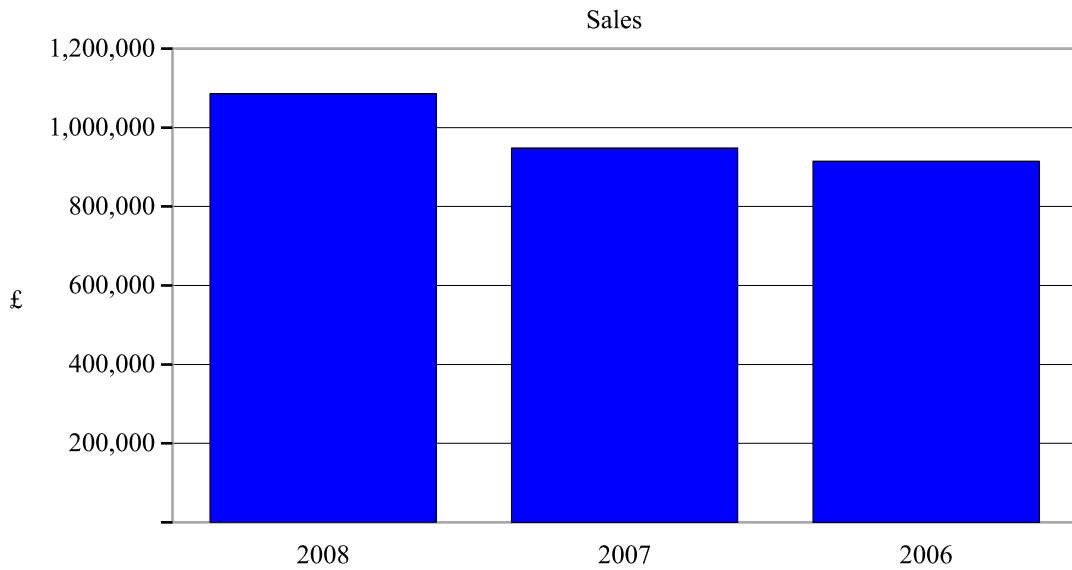
Your bank and cash situation has been completely transformed and this is because of the new credit control procedures that we helped you to put in place just over 18 months ago. Don't forget that your corporation tax bill (£11,081) due in February.

ASSETS & LIABILITIES

The proportion of your assets to liabilities has improved, so you now have 1.5 times more assets than debts, which will help you when you look for financing early next year for the new machinery. You are now holding more high-value finished goods and raw materials, which although you're confident that this is a temporary rise, you do need to regularly review your stock levels. Due to the fast changing nature of your industry, these finished goods can soon become obsolete, so you do run the risk of having a lot of stock which you'll have to sell at a reduced price and potentially make a loss on.

SALES

The graph below shows your sales over the last 3 years.



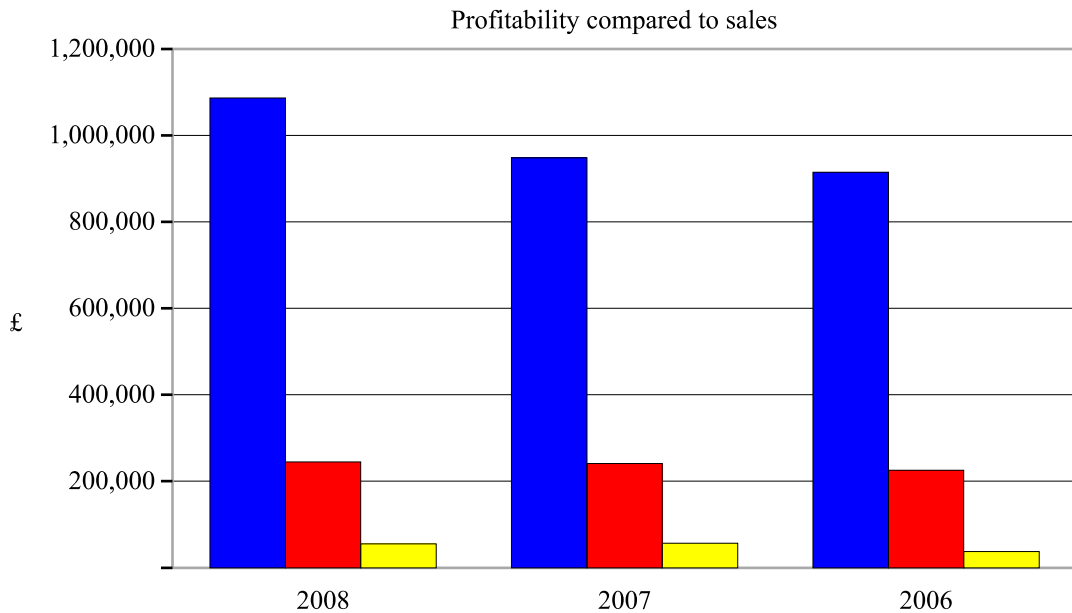
	2008	2007	2006
Sales	£1,086,193	£947,774	£914,886

PROFITABILITY

The graph shows your profitability over the last 3 years (both gross profit and net profit, where applicable) against the level of sales you made.

Gross profit is simply sales less direct costs of sales. Your gross profit is what you have available to cover your running costs.

Net profit is then what remains after deducting all the expenses incurred in running your business.



	2008	2007	2006
Sales	£1,086,193	£947,774	£914,886
Gross profit	£244,403	£241,312	£225,534
Net profit before tax	£55,409	£56,417	£37,642
Gross profit margin	23%	25%	25%
Net profit margin	5%	6%	4%

COST ANALYSIS

The charts below shows the split of your costs over the last 3 years.

Direct costs are those costs that vary directly with sales, often referred to as cost of sales.

Wages are for all employees and directors, along with other costs such as pensions and National Insurance contributions.

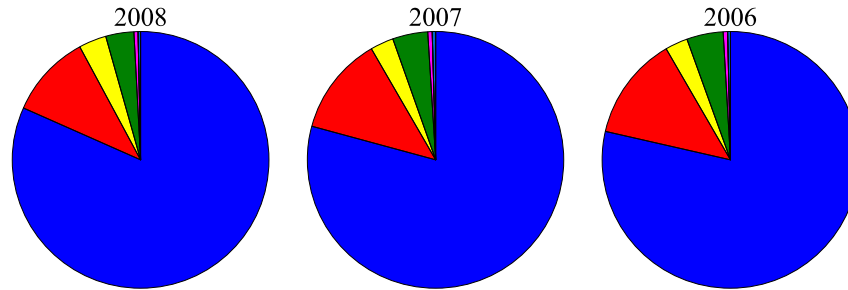
Overheads are costs that remain constant in the short term irrespective of the level of sales, such as rent, rates, heat, light and power.

Admin expenses are your other everyday expenditure, which vary with the level of activity, for example telephone costs, printing and stationery, advertising, motor expenses and bad debt.

Finance costs may include bank charges, bank interest, credit card interest and loan interest.

Distribution costs, where applicable, are costs incurred in getting your products to your customers.

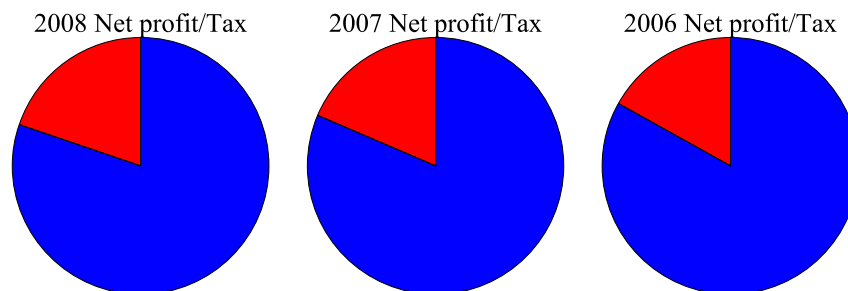
Other costs may include depreciation, the sale of any assets and any exceptional costs.



	2008	2007	2006
Direct costs	82%	79%	79%
Wages	10%	12%	13%
Overheads	3%	3%	3%
Admin expenses	4%	4%	5%
Finance costs	1%	1%	1%
Distribution costs	-	-	-
Other costs	-	-	-

CORPORATION TAX VS PROFITS

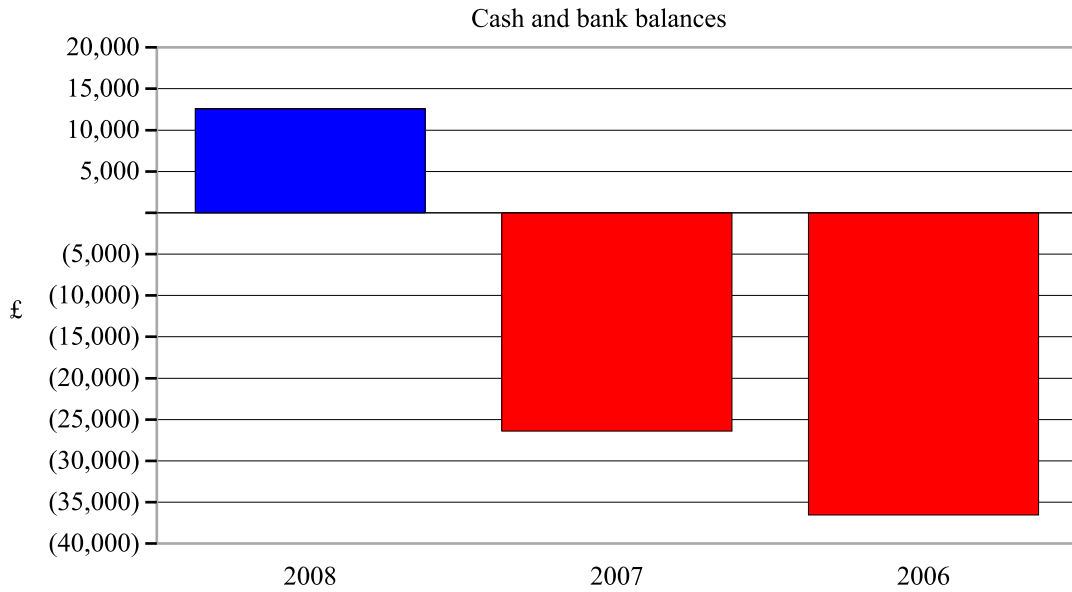
The charts below compare your corporation tax to your net profit over the last 3 years.



	2008	2007	2006
Net profit before tax	80%	81%	83%
Tax as a % of net profit	20%	19%	17%

CASH AND BANK BALANCES

The graph below shows your cash and bank balances over the last 3 years. When your bank balance is overdrawn, it will be shown in brackets.



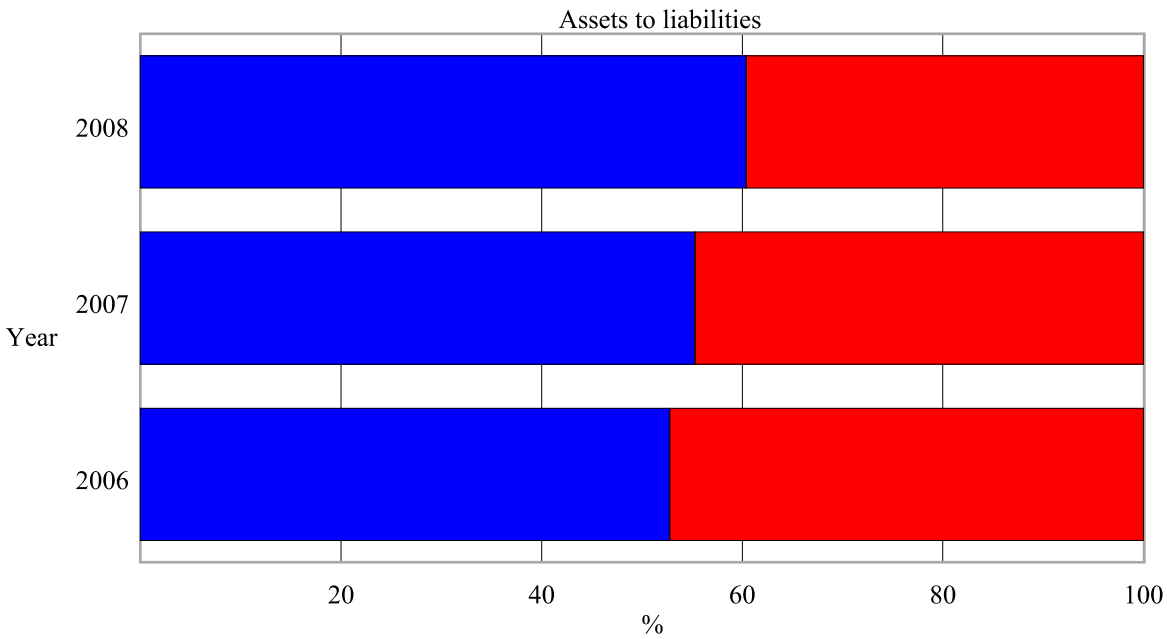
	2008	2007	2006
In Credit Balance	£12,592	-	-
Overdrawn Balance	-	(£26,408)	(£36,524)

ASSETS TO LIABILITIES

The chart below compares your total assets to total liabilities.

Assets are made up of tangible fixed assets (eg equipment), intangible fixed assets (eg goodwill), investments, stock, trade debtors, other debtors and cash and bank balances.

Liabilities are made up of bank loans and overdrafts, other loans (eg hire purchase agreements, loans from directors), trade creditors, tax and social security, provisions and equity.



	2008	2007	2006
Total assets	60%	55%	53%
Total liabilities	40%	45%	47%