Introduction:-

Financial statements reflect the accounting principles. The assets are not reported at the current value they are reported at the book value. The income statement of the company reflects its operating profit and the expenses incurred to earn the profit. The income statement helps the shareholders to know the earning per share for a particular time period. The income statement is for a particular year, For example, Income statement for Alliance Pharmaceuticals Company is December 2015, and this means that the company's Income statement reflects the figure from January 2015 to December 2015.

On the other side Balance Sheet of the company reflects the company's assets and liabilities as on particular date. For example, For Alliance Pharmaceuticals Plc, as on 31st December 2015. The balance sheet gives the details of the company's current assets, non-current assets and goodwill. While on the liabilities sides, it gives the details of the company's shareholders and total liabilities.

a) Accounting Information is helpful for both internal and external users to take proper financial decisions.

Internal Users:-

Accounting Information to the internal users is in the form of management accounts, budgets and forecasts.

i. **Employees:-** Employees and its representatives use the information to know the profit levels which will help them know about the security of their job and also helps them to know about the negotiation terms with the company for their pay conditions.

ii. **Management:-**In huge companies like Alliance Pharma, the Management needs financial statements to compare the budget with the actual and to identify the difference between the budget and actual. They need to check whether the company has enough liquidity or not. The purchases for the next year, sales target and the other business decisions.

iii. **Promoters:-** Promoters uses the financial information to check the profitability of their investment and determining any future action be taken on their investment.

External Users:-

Accounting Information to the external users is in the form of financial statements. The financial statement is provided to the external users so that decision can be taken by the users on the basis of their need.

i. Investors use the financial statement to know the profitability and the growth of the company. Larger the profits and higher the past performance, the investor will have more security of their investment and an assurity to get a good return on its investment.

ii. Lenders use the financial statement to know the profit levels and also to know whether the firm is in comfortable condition to repay its debt if given any. It also helps to know the firms short, medium and long term debt and the overall liquidity position of the company.

iii. Customers use the financial statement to know the sales figure, the price and the after sales service of the company. Customers use the final accounts to know the financial capacity of the company and its future prospects and past performance.

iv. The general public uses the financial information to know the financial position of the company and it will also help them to know the company's sustainability in all forms in future.

v. Government or the governing bodies of the state like tax authorities need to know the financial statement of the company for tax and regulatory purposes. Taxes are computed on the basis of the operational income of the company.

b)

Alliance Pharmaceuticals, PLC (APH)

About the company:-

Alliance is a traded in London Stock Exchange as part of Alternative Investment Market (AIM). It is an International Pharmaceutical company. The company got listed in stock exchange in 1998 and has grown significantly to the annual turnover of over £48 million.

It was founded in 1996 by John Dawson and in 1998 it started its first trading by acquiring a contract with Novartis under which Alliance took over the marketing and distribution of Novartis specialty brands. After this, the company has significantly grown over the years, with the acquisition and merger and in 2003 it got first listed in Alternative Investment Market (AIM) of London Stock Exchange. The company has gain expertise in the acquisition and licensing of pharmaceutical and healthcare products and reaching these to patients. The company's main focus is on acquisition, licensing, registration and marketing of pharmaceuticals products.

The major benefit the company has is that the huge investment of pharmacy companies is basically in manufacturing, warehousing and logistics. The company has outsourced all those and has concentrated more on its expertise that is distribution and marketing of products through wholesalers, retail pharmacies, hospitals and a well-respected international network of distributors.

The main head offices are located in the market town of Chippenham, Wiltshir, and the UK. The offices are also located across the globe are in Paris, Milan, Shanghai, Düsseldorf and Dublin and are currently establishing a presence in Madrid and Singapore.

No.	Ratio	Formula	2011	2012	2013	2014	2015
	Profitability Ratio:-						
1	Gross Profit Ratio	Gross Profit	53.28%	55.95%	60.29%	57.52%	59.43%
		Net Sales					
2	Net Profit Ratio	Net Profit	18.79%	19.36%	21.06%	19.26%	26.25%
		Sales					
3	Return on Assets	Net Income	10.50%	8.64%	8.96%	7.77%	4.34%
		Total Assets					
4	Return On Equity	Net Profit	19.57%	16.76%	14.82%	11.85%	7.81%
		Shareholder's Equity					
	Liquidity Ratio						
1	Quick Ratio	Current Assets - Inventory	0.7027	0.6704	0.7644	0.8547	0.4679
		Current Liabilities					
2	Current Ratio	Current Assets - Inventory	1.1105	0.915	1.1302	1.3728	0.8745
		Current Liabilities					
3	Times Interest Earned Ratio	Income Before Interest and Taxes (EBITDA)	8.4634	8.6937	11.085	12.738	10.805
		Interest Expense					
	Solvency Ratio						
1	Net Debt to Equity Ratio	Net Long term debt+ Net short term debt - Cash and cash equivalents	84.03%	85.14%	64.07%	50.37%	77.89%
		Shareholder’s Equity					
2	Equity Ratio	Total Equity	53.63%	51.53%	60.44%	65.62%	55.59%
		Total Assets					

3	Leverage Ratio	Total Debt	46.37 %	48.47 %	39.56 %	34.38 %	44.41 %
		Total Assets					
	Efficiency Ratio						
1	Asset Turnover Ratio	Net Sales	10.258	14.188	12.595	8.1937	10.206
		Total Assets					
2	Accounts Receivable Turnover Ratio	Net Credit Sales	5.6375	4.6851	4.9844	6.5517	5.5043
		Accounts Receivables					
3	Inventory Turnover Ratio	Cost of Goods Sold	3.7985	3.6675	3.305	3.127	1.5193
		Average Inventory					

Profitability Ratios:-

1. Gross Profit Ratio of the company has been increasing from 2011 to 2013 and then has decreased in 2014 and then a small rise in 2015. The gross profit ratio measures the company's profitability due to its main core operating business. The higher the ratio the more beneficial it is for the company. It is useful for the management and also the investors on how the company is performing its core business and how it should improve the core area to increase the profitability of the company. The ratio is beneficial for the investors as well as the management.

2. Net Profit Ratio of the company has been increasing continuously throughout the five years. As being a profitability ratio, the higher the ratio more beneficial to the company. The net income is arrived at after deducting the interest, taxes and other expenses of the company from the gross profit. This ratio is useful for the governing bodies like tax authorities to determine the tax rate and it is also useful for the investors and shareholders as the dividend will be decided on the basis of the net Income. The same is also useful to the management to take significant steps either to invest the Net income into the business or to distribute the same to the shareholders.

3. Return on Assets ratio determines how efficiently the company can earn return on its investments. As being a profitability ratio, higher the ratio more beneficial for the company. As the data shows that the ratio is decreasing continuously from 2011 to 2015. The reason is that the total assets are increasing and also the profit but the profit increases at a lesser pace then the total assets.

Liquidity Ratios:-

1. Quick Ratio and Current Ratio are the liquidity ratio. The ratios help in determining the efficiency of the company in managing the liquid assets. A higher current ratio is more favorable but the optimal ratio depends upon the industry as a whole. Current Ratio more than 1 is considered as safe for the company. The company's ratio is decreasing in five years which may result into liquidity crunch for a short period of time. The ratio less than 1 suggest that the company is investing in current assets through long term liabilities or vice versa which may result into liquidity crunch in the long run.

2. Times Interest Earned Ratio:- The ratio suggest that whether the company is able to fulfill its debt obligation. The higher the ratio, the less risky the company will be. The ratio of the company in all the five years is at comfortable position. The ratio is useful for banks to take decision for lending needs.

Solvency Ratios:-

Solvency ratio includes Net Debt to Equity ratio, Equity Ratio and the Leverage Ratio. Leverage Ratio is on an average 45% throughout five years, this means that company has not increased in debt during this year. This ratio is helpful for the Creditors, lenders and banks as they would like to know the capital structure of the firm. A favorable ratio makes the lenders and creditors more comfortable.

Efficiency Ratios:-

1. Accounts Receivable Turnover Ratio is an activity ratio that measures how many times a business can turn its receivables into cash during a period. The higher the ratio the more efficient the company is in collecting cash. The receivables turnover of the company is at a good position; it shows that the company is able to collect the cash 5 times in a year. As the accounts receivable is used as collateral of loan, quality of receivables is important. The company has a good receivable turnover. It is useful ratio for creditors, investors and lending institutions and also the management.

2. Inventory Turnover Ratio: - The ratio measures the quality of the inventory control. The higher the ratio the more beneficial for the company. The ratio is useful for the management. Creditors are interested in knowing the inventory ratio as the inventory is put up as collateral in banks for working capital loan. The ratio has decreased significantly in 2015 as compared to the previous years. This is an alarming signal for the management to check the efficiency of the inventory.

Recommendations:-

Alliance Pharmaceuticals, PLC has grown significantly during the past years. The overall status of the company is positive. The operating income is growing continuously. Except a few ratios, the overall ratio is also satisfactory. As an investor, would like to invest in the company as it is at growing stage. Being a pharma company, the company invests less into research and more into marketing and distribution; hence the company's sunk cost is reduced. The inventory ratio and the efficiency ratio are at an alarming stage for 2015 but the overall the company is growing at a normal pace.

Appendix:-

Income Statement:-

ALLIANCE PHARMA PLC (APH) INCOME STATEMENT					
Particulars	**2011-12**	**2012-12**	**2013-12**	**2014-12**	**2015-12**
Revenue	£45,957,000	£44,897,000	£45,513,000	£43,536,000	£48,344,000
Cost of revenue	£21,469,000	£19,779,000	£18,072,000	£18,493,000	£19,614,000
Gross profit	**£24,488,000**	**£25,118,000**	**£27,441,000**	**£25,043,000**	**£28,730,000**
Operating expenses					
Sales, General and administrative	£0	£11,856,000	£13,027,000	£12,510,000	£17,480,000
Other operating expenses	£12,248,000	£942,000	£1,054,000	£1,362,000	£5,712,000
Total operating expenses	£12,248,000	£12,798,000	£14,081,000	£13,872,000	£11,768,000
Operating income	**£12,240,000**	**£12,320,000**	**£13,360,000**	**£11,171,000**	**£16,962,000**
Interest Expense	£1,569,000	£1,515,000	£1,259,000	£986,000	£1,593,000
Other income (expense)	£41,000	£4,000	£92,000	£28,000	£187,000
Income before taxes	£10,712,000	£10,809,000	£12,009,000	£10,157,000	£15,182,000
Provision for income taxes	£2,076,000	£2,119,000	£2,425,000	£1,772,000	£2,490,000
Net income from continuing operations	£8,636,000	£8,690,000	£9,584,000	£8,385,000	£12,692,000
Net income	**£8,636,000**	**£8,690,000**	**£9,584,000**	**£8,385,000**	**£12,692,000**
Net income available to common shareholders	**£8,636,000**	**£8,690,000**	**£9,584,000**	**£8,385,000**	**£12,692,000**
Earnings per share					
Basic	£0.04	£0.04	£0.04	£0.03	£0.05
Diluted	£0.03	£0.03	£0.04	£0.03	£0.05
Weighted average shares outstanding					
Basic	238602000	240881464	250836337	264148367	272729247
Diluted	262821000	262967905	265010854	265603353	279051797
EBITDA	£13,279,000	£13,171,000	£13,956,000	£12,560,000	£17,213,000

Appendix 2:-

ALLIANCE PHARMA PLC (APH) BALANCE SHEET					
Particulars	**2011-12**	**2012-12**	**2013-12**	**2014-12**	**2015-12**
Assets					
Current assets					
Cash and cash equivalents	£1,079,000	£4,634,000	£888,000	£1,434,000	£3,229,000
Total cash	**£1,079,000**	**£4,634,000**	**£888,000**	**£1,434,000**	**£3,229,000**
Receivables	£8,152,000	£9,583,000	£9,131,000	£6,645,000	£8,783,000
Inventories	£5,652,000	£5,393,000	£5,468,000	£5,914,000	£12,910,000
Prepaid expenses	£331,000	£350,000	£804,000	£453,000	£525,000
Other current assets	£177,000	£212,000	£604,000	£1,224,000	£2,322,000
Total current assets	**£15,391,000**	**£20,172,000**	**£16,895,000**	**£15,670,000**	**£27,769,000**
Non-current assets					
Property, plant and equipment					
Gross property, plant and equipment	£1,173,000	£1,174,000	£1,468,000	£1,579,000	£2,435,000
Accumulated Depreciation	£408,000	£610,000	£876,000	£1,183,000	£1,422,000
Net property, plant and equipment	**£765,000**	**£564,000**	**£592,000**	**£396,000**	**£1,013,000**
Goodwill	£1,744,000	£3,593,000	£3,593,000	£3,593,000	£26,035,000
Intangible assets	£64,386,000	£76,297,000	£85,468,000	£85,282,000	£233,910,000
Deferred income taxes	£1,079,000	£0	£0	£0	£0
Other long-term assets	£1,079,000	£0	£443,000	£2,927,000	£3,467,000
Total non-current assets	**£66,895,000**	**£80,454,000**	**£90,096,000**	**£92,198,000**	**£264,425,000**
Total assets	**£82,286,000**	**£100,626,000**	**£106,991,000**	**£107,868,000**	**£292,194,000**
Liabilities and stockholders' equity					
Liabilities					
Current liabilities					
Short-term debt	£4,250,000	£10,439,000	£2,895,000	£3,309,000	£15,807,000
Accounts payable	£1,194,000	£902,000	£1,118,000	£1,693,000	£1,153,000
Taxes payable	£1,046,000	£2,547,000	£2,277,000	£1,928,000	£2,980,000
Other current liabilities	£7,369,000	£8,157,000	£8,659,000	£4,485,000	£11,815,000
Total current liabilities	**£13,859,000**	**£22,045,000**	**£14,949,000**	**£11,415,000**	**£31,755,000**
Non-current liabilities					
Long-term debt	£19,685,000	£20,225,000	£20,881,000	£19,235,000	£58,968,000
Deferred taxes liabilities	£4,064,000	£6,124,000	£6,294,000	£6,309,000	£37,413,000
Deferred revenues	£0	£0	£0	£0	£1,383,000
Other long-term liabilities	£550,000	£384,000	£199,000	£129,000	£233,000
Total non-current liabilities	**£24,299,000**	**£26,733,000**	**£27,374,000**	**£25,673,000**	**£97,997,000**

Total liabilities	**£38,158,000**	**£48,778,000**	**£42,323,000**	**£37,088,000**	**£129,752,000**
Stockholders' equity					
Additional paid-in capital	£24,866,000	£25,297,000	£29,380,000	£29,388,000	£108,308,000
Retained earnings	£16,771,000	£23,658,000	£31,202,000	£37,188,000	£47,237,000
Accumulated other comprehensive income	£2,491,000	£2,893,000	£4,086,000	£4,204,000	£6,897,000
Total stockholders' equity	**£44,128,000**	**£51,848,000**	**£64,668,000**	**£70,780,000**	**£162,442,000**
Total liabilities and stockholders' equity	**£82,286,000**	**£100,626,000**	**£106,991,000**	**£107,868,000**	**£292,194,000**

References

1. Accountingverse.com. (2016). *Users of Financial Statements - AccountingVerse*. [online] Available at: http://www.accountingverse.com/accounting-basics/users-of-financial-statements.html [Accessed 25 Oct. 2016].

2. Alliancepharmaceuticals.com. (2016). *Our History | Alliance Pharma*. [online] Available at: http://alliancepharmaceuticals.com/en-GB//about/our-history[Accessed 25 Oct. 2016].

3. Chartered Education. (2015). *7 Users of Financial Statements & their Information Needs under IFRS | Chartered Education*. [online] Available at: http://www.chartereducation.com/ifrs/7-users-of-financial-statements-their-information-needs-for-acca-f7/http://www.chartereducation.com/ifrs/7-users-of-financial-statements-their-information-needs-for-acca-f7/[Accessed 25 Oct. 2016].

4. Financials.morningstar.com. (2016). *Balance Sheet for Alliance Pharma PLC (APH) from Morningstar.com*. [online] Available at: http://financials.morningstar.com/balance-sheet/bs.html?t=APH&region=gbr&culture=en-US[Accessed 25 Oct. 2016].

5. My Accounting Course. (2016). *Efficiency Ratios | Example | My Accounting Course*. [online] Available at: http://www.myaccountingcourse.com/financial-ratios/efficiency-ratios [Accessed 25 Oct. 2016].

6. My Accounting Course. (2016). *Liquidity Ratios | Example | My Accounting Course*. [online] Available at: http://www.myaccountingcourse.com/financial-ratios/liquidity-ratios [Accessed 25 Oct. 2016].

7. My Accounting Course. (2016). *Profitability Ratios | Example | My Accounting Course*. [online] Available at: http://www.myaccountingcourse.com/financial-ratios/profitability-ratios [Accessed 25 Oct. 2016].

8. My Accounting Course. (2016). *Solvency Ratios | Example | My Accounting Course*. [online] Available at: http://www.myaccountingcourse.com/financial-ratios/solvency-ratios [Accessed 25 Oct. 2016].