

BA BUSINESS MANAGEMENT (BABM)
Accounting Fundamentals
Assignment- A1

Module code: LCBB4001

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Question 1**a)****Kedison PLC****INCOME STATEMENT FOR THE YEAR ENDED 31st
December 2020**

	£
Revenue	827,630
Cost of sales	<u>(579,630)</u>
Gross profit	248,000
Distribution costs	(28,000)
Administration expenses	(30,000)
Directors' remuneration	(5,000)
Commission	<u>(3,000)</u>
Operating profit	182,000
Finance costs	<u>(4,000)</u>
Profit before tax	178,000
Taxation	<u>(68,000)</u>
Profit for the period	<u>110,000</u>

W1)

$$\text{Revenue } 826,650 + 980 = 827,630$$

W2)

$$\text{Cost of sales } 578,650 + 980 = 579,630$$

W3)

$$\text{Finance costs } 100,000 * 4\% = 4,000$$

**STATEMENT OF FINANCIAL POSITION AS AT 31st
December 2020**

	£	£
<u>ASSETS</u>		
Non-current assets		
Property, plant & equipment	632,730	632,730
Current assets		
Inventories	330,600	
Trade and other receivables	170,125	
Cash & cash equivalents & bank	<u>12,900</u>	
		<u>513,625</u>
Total assets		<u>1,146,355</u>
<u>LIABILITIES</u>		
Current liabilities		
Trade and other payables	171,355	
Commission	3,000	
Accrued interest	2,000	
Current tax payable	<u>68,000</u>	
Total liabilities		<u>244,355</u>
Net assets		<u>902,000</u>
<u>EQUITY</u>		
Share capital		710,000
Retained earnings		<u>192,000</u>
Total equity		<u>902,000</u>

W1) Retained earnings (profits)	
Retained profits on 1st January 2020	132,000
Profit for year	110,000
Ordinary dividend paid	<u>(50,000)</u>
	<u>192,000</u>

1 (b) Why does the statement of financial position balance?

The statement of financial position shows the business's equity, assets and liabilities for a given one year period after the needed adjustments, prepared at the end of the financial year. Current assets are liquid assets that can be converted into cash within a short period of time while non-current assets are long term assets that are not highly liquid. Also, the balance sheet summarises the current and non-current liabilities a company must satisfy. Current liabilities are short term debts that are to be fulfilled within a given financial year while non-current assets are long term debts. Moreover, the balance sheet highlights the capital contributions of shareholders as equity. The balance sheet is considered balanced when total assets equal total liabilities and equity, ensuring all transactions are correct in the general ledger. Every transaction is recorded on the debit side and the credit side so the position is balanced, and this is called the double-entry accounting system. If there is anything incorrect in the statement this will show an error which will imbalance the statement.

Question 2**(a)** £m**ROCE**

Profit before interest x 100%
Assets employed

2020

$\frac{805}{7,225} \times 100\% = 11.14\%$
Assets employed = Total
assets less current liabilities
 $9,736 - 2,511 = 7,225$

2019

$\frac{699}{7,041} \times 100\% = 9.93\%$
 $10,087 - 3,046 = 7,041$

ROE

Earnings x 100%
Ordinary share capital + reserves

2020

$\frac{431}{3,088} \times 100\% = 13.96\%$

2019

$\frac{366}{2,912} \times 100\% = 12.57\%$

Earnings per share

Earnings
Number ordinary share ranking for dividend

2020

$\frac{431}{300} = 1.44$ per share

2019

$\frac{366}{300} = 1.22$ per share

Net profit margin

$$\frac{\text{Net profit}}{\text{Sales}} \times 100\%$$

2020

$$\frac{805}{6,738} \times 100\% = 11.95\%$$

2019

$$\frac{699}{6,441} \times 100\% = 10.85\%$$

Asset turnover

$$\frac{\text{Sales}}{\text{Assets employed}}$$

2020

$$\frac{6,738}{7,225} = 0.93$$

2019

$$\frac{6,441}{7,041} = 0.91$$

Stock holding days

$$\frac{\text{Inventory}}{\text{Cost of sales}} \times 365$$

2020

$$\frac{708}{3,235} \times 365 = 79.88 \text{ days}$$

2019

$$\frac{659}{3,096} \times 365 = 77.69 \text{ days}$$

Debtors collection period

$$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$$

2020

$$\frac{1,249}{6,738} \times 365 = 67.66 \text{ days}$$

2019

$$\frac{1,287}{6,441} \times 365 = 72.93 \text{ days}$$

Current ratio

Current assets
Current liabilities

2020

$$\frac{2,303}{2,511} = 0.92$$

2019

$$\frac{2,355}{3,046} = 0.77$$

Gearing ratio

Debt x 100%
Debt + equity

2020

$$\frac{4,137}{7,225} \times 100\% = 57.26\%$$

2019

$$\frac{4,129}{7,041} \times 100\% = 58.64\%$$

Interest cover

Profit before interest
Interest

2020

$$\frac{805}{226} = 3.56 \text{ times}$$

2019

$$\frac{699}{181} = 3.86 \text{ times}$$

2 (b) Using the information in the financial statements and the ratios you have calculated, comment on the financial performance and position of Chocco plc.

Ratio analysis technique is important in assisting the management to identify the key financial performance indicators and trends of a business overtime. The technique is mainly centralised at the calculation of the profitability, liquidity, efficiency, and solvency ratios of a business in reference to businesses' financial statements. Return on capital employed financial ratio is mainly used to determine the efficiency in which Chocco Plc utilised the initial capital employed to accrue profits. ROCE has increased from 2019 to 2020 which means that the capital is more efficient, and the company is more profitable. Investors prefer businesses with higher ROE since it signifies that the business will be able to maximise shareholders wealth. Return on equity is higher for 2020 than 2019 which means that Chocco Plc has higher values in return from new investments. Earnings per share are useful in assisting potential financial investors in determining the profitability of the company before purchasing shares. EPS has improved which means the company is trustworthy. Net profit margin is greater for 2020 than 2019 which means that Chocco Plc it is improving the net profit made from sales. Asset turnover has slightly increased from 0.91 to 0.93 indicating the accomplishment of the business to produce assets into revenue. Stock Holding period shows that the inventory is hold by the company longer in 2020 than 2019 showing there's money unavailable unnecessary in inventory. Debtors' collection period has decreased from 2020 to 2019 which is in favour for the business as this means collection of trade receivables in quicker this year. Current ratio is better this year but still lower than 1 which means that it needs to improve to avoid liquidity problems. Gearing ratio is lower this year than last year demonstrating lower level of activities sponsored. Interest cover has decreased from 2019 to 2020 implying the margin of safety is lower this year. Overall, Chocco Plc is improving its weaknesses so it can have higher profits for the future.

References

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