

QUESTION 1

The following balances relate to Eccles plc for the year ended 31st December 2018

	£	£
£1 ordinary shares		310,000
10% £1 preference shares		300,000
4% Debentures		100,000
Plant and equipment	632,730	
Stock at 31 st December 2018	330,600	
Sales		826,650
Cost of sales	578,650	
Debtors	170,125	
Trade creditors		171,355
Cash and bank	12,900	
Retained profits at 1 st January 2018		132,000
Ordinary dividend paid	20,000	
Preference dividend paid	30,000	
Administrative expenses	30,000	
Interest paid	2,000	
Directors remuneration	5,000	
Distribution costs	<u>28,000</u>	
	<u>1,840,005</u>	<u>1,840,005</u>

The following information is relevant:

1. Corporation tax for the year is estimated at £68,000.
2. Salesmen are owed commission of £3,000 in respect of December sales. It will be paid on 31st January 2019 and has not been recorded in the ledger accounts yet.
3. Goods valued at £980 were sent to customers on 31st December 2018. Payment is due on 28 February 2019. This has not been recorded in the ledger accounts yet.
4. The preference shares should be included within equity.

Required:

- a) Prepare an income statement for the year ended 31st December 2019 for Eccles plc and a statement of financial position as at that date. **[40 marks]**
- b) Explain why the statement of financial position balances. **[10 marks]**

ANSWER FOR QUESTION 1

a) Income statement for ended year 31st December 2018

Sales	827,630
Cost of sales	(578,650)
Gross profit	248,980
Administrative expenses	(30,000)
Directors remuneration	(5,000)
Distribution costs	(28,000)
Selling commission	(3000)
Operating profit	182,980
Interest paid	(2,000)
Profit before tax	180,980
Corporation tax	(68,000)
Profit for the year	112,980

Comments of income statements for ended year 31st December 2018:

- I added the £980 to the sales because the goods was sent to the costumers and it was not include the balances relate.
- The £3000 was counted into The Gross profit.
- Gross profit came from the margin of the sales and the cost of good sold extra.
- I subtracted from the Gross profit the all administrative expenses, Directors remuneration, Distribution costs and selling commission so it generated the operating profit.
- Of the operating profit, interest paid are profit before tax.
- Finally profit before tax added to Corporation tax which was mentioned in the first information, so it turn out the profit for the year.

Balance sheet for the year ended 31st December 2018

	£	£
Assets		
Non- current assets		
Plant and equipment		632730
Current assets		
Cash and bank	12,900	
Inventory	330,600	
Debtors	<u>171,105</u>	
Total current assets		<u>514,605</u>
Total assets		1147,335
Current liabilities		
Trade creditors		(174,355)
Corporation tax		(68,000)
Non- current liabilites		
4% debentures		(100,000)
Net assets		<u>804,980</u>

Equity		
£1 ordinary shares		310,000
10% £1 preference shares		300,000
Retained profits		<u>194,980</u>
		<u>804,980</u>

Comment of the balance sheet for the year ended 31st December 2018:

- The total assets including all the Non- current assets and a current assets.
- The total liabilities including all the non current liabilities and current liabilities.
- From the total current asset was deduction of the Non- current liabilities and current liabilities (total)
- Retain profit came from the profit of the year (income statements result) and Retained profits at 1st January and ordinary dividend paid and preference dividend paid scot.

B) Statement of financial position balances (balance sheet)

The definition of the statement of financial position shows the position of the company real in-and outcome in a specific time. It has three main components which are assets, liabilities and equity.

Assets is include intangible and tangible such as properties, equipment; inventories for example raw materials; trade receivables like Credit sales as well as Cash and equivalents. These are the benefit of the company.

Liabilities include the trade and payables, short- and long term borrowings and current tax payable; all these include the outcomes of the company.

Equity is derived by deducting total liabilities from the total assets which was mentioned the previous paragraph.
(Ali, A. 2020)

QUESTION 2

Chocco plc is a long-established chocolate and confectionery manufacturer. All products are manufactured in the UK, but sales are made worldwide. It is a growing but competitive market. Given below are extracts from their financial statements,

Income statement for the year ended 31st December

	2019	2018
	£m	£m
Revenue	6,738	6,441
Cost of sales	<u>(3,235)</u>	<u>(3,096)</u>
Gross profit	3,503	3,345
Distribution costs	(437)	(422)
Marketing and selling costs	(1,324)	(1,274)
Administrative expenses	<u>(937)</u>	<u>(950)</u>
Operating profit	805	699
Profit/loss on sale of fixed assets	19	(5)
Investment income	22	26
Interest payable	<u>(226)</u>	<u>(181)</u>

Profit/(loss) before taxation	620	539
Taxation	<u>(189)</u>	<u>(173)</u>
Profit for the year	<u>431</u>	<u>366</u>

Statement of Financial Position as at 31st December

	2019	2018
	£m	£m
Non- Current assets		
Intangible assets	5,485	5,809
Property, plant and equipment	1,613	1,605
Investments	<u>335</u>	<u>318</u>
	<u>7,433</u>	<u>7,732</u>
Current assets		
Inventory	708	659
Trade receivables	1,249	1,287
Investments	145	232
Cash	<u>201</u>	<u>177</u>
	<u>2,303</u>	<u>2,355</u>
Total assets	<u>9,736</u>	<u>10,087</u>
Current liabilities		
Trade payables	(583)	(655)
Other creditors	<u>(1,928)</u>	<u>(2,391)</u>
	<u>(2,511)</u>	<u>(3,046)</u>
Non current liabilities		
Loans and other borrowings	<u>(4,137)</u>	<u>(4,129)</u>
Net assets	<u>3,088</u>	<u>2,912</u>

Equity

Ordinary share capital (50p shares)	300	300
Share premium	1,071	1,071
Retained profits	<u>1,717</u>	<u>1,541</u>
	<u>3,088</u>	<u>2,912</u>

Additional information:

- i. During 2019 a total dividend of £255m was paid (2018: £242m)
- ii. The average share price during 2019 was £5.12 (2018: £4.00).

Required:

- a. Prepare a schedule of ratios for Chocco plc for 2019 and 2018. **[40 marks]**
- b. Using the information in the financial statements and the ratios you have calculated, comment on the financial performance and position of Chocco plc. **[10marks]**

QUESTION 2**a. Schedule of ratio**

RATIO	2019	2018
INVESTMENT RATIOS		
Return on capital employed (ROCE)	11,1%	9,9 %
Return on equity (ROCE)	13,9%	12,5%
Earnings per share (EPS)	71p	61p
Price earnings ratio	£ 7,2	£ 6,5
PROFITABILITY RATIOS		
Gross profit margin	51,9%	51,9%
Net profit margin	11,94%	10,8%
EFFICIENCY RATIOS		
Asset turnover	0,9%	0,9%
Stock holding period	80 days	78 days
Debtors collections period	68 days	73 days
Creditors payment period	66 days	78 days
LIQUIDITY RATIOS		
Current ratio	0,9	0,7

Quick asset ratio	0,6	0,5
FINANCING RATIOS		
Gearing ratio	55,2%	56,6%
Interest cover	3,5 times	3,8 times

Calculations

RATIOS		2019	2018
Return on capital employed (ROCE)	$\frac{\text{Operating profit}}{\text{Total assets} - \text{current liabilities}} \times 100\%$	$\frac{805}{7936 - 2511} \times 100\%$	$\frac{699}{10087 - 3046} \times 100\%$
Return on equity	$\frac{\text{Earning}}{\text{Equity}} \times 100\%$	$\frac{431}{3088} \times 100\%$	$\frac{366}{2912} \times 100\%$
Earnings per share	$\frac{\text{Earnings}}{\text{Number of ordinary shares}}$	$\frac{431}{600}$	$\frac{366}{600}$
Price earnings ratio	$\frac{\text{Market price}}{\text{Earnings per share}}$	$\frac{5,12}{0,71}$	$\frac{4,00}{0,61}$
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}} \times 100\%$	$\frac{3503}{6738} \times 100\%$	$\frac{3345}{6441} \times 100\%$
Net profit margin	$\frac{\text{Net profit}}{\text{Sales}} \times 100\%$	$\frac{805}{6738} \times 100\%$	$\frac{699}{6441} \times 100\%$
Asset turnover	$\frac{\text{Turnover}}{\text{Assets employed}}$	$\frac{6738}{7225}$	$\frac{6441}{7041}$
Stock holding period	$\frac{\text{Inventory}}{\text{Cost of sales}} \times 365$	$\frac{1249}{6738} \times 365$	$\frac{659}{3096} \times 365$
Debtors collection period	$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$	$\frac{1249}{6738} \times 365$	$\frac{1287}{6441} \times 365$
Creditors payment period	$\frac{\text{Trade payables}}{\text{Credit purchases}} \times 365$	$\frac{583}{3235} \times 365$	$\frac{655}{3096} \times 365$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{2303}{2511}$	$\frac{2355}{3046}$
Quick asset ratio	$\frac{\text{Current asset} - \text{inventory}}{\text{Current liabilities}}$	$\frac{2303 - 708}{2511}$	$\frac{2355 - 659}{3046}$
Gearing ratio	$\frac{\text{Debt}}{\text{Debt} + \text{equity}} \times 100\%$	$\frac{4137}{4137 + 3088 + 255} \times 100\%$	$\frac{4129}{4129 + 2912 + 242} \times 100\%$
Interest cover	$\frac{\text{Operating profit}}{\text{Interest payable}}$	$\frac{805}{226}$	$\frac{699}{181}$

B) -The result of calculations show the ROCE is higher in 2019 than 2018 this means it was more effective use of capital the company in 2019.

-EPS has improved with 10p in 2019, that signs the company made some Return from the new investment.

-Gross profit margina was same in both year with percentage of 51.9%.

-Net profit margin is a little bit higher in 2019 than 2018 so the company doing turning sales into profit.

-Because the assess turn over ratio is lower in both years (2018, 2019) than we can conclude that the company using the assets effectively to generate avenue.

-The Stock holding period is relatively high this is not beneficial for the company as cause unnecessarily money tied up.

-Based on the Debtors collection period and the creditor payment period show the company is doing well in management and covering debts way.

-Gearing ratio is reached the usually threshold with 57.2% and 58.6% as showing the firm activities from the company towards owner funded and external funded sources.

For conclusion between the two years the company does not improved or declined much as between the results have not much different.

REFERENCE:

Ali, A (2020) 'Statements of Financial Position [Balance Sheet]', accountingsimplified, Available at: <https://accounting-simplified.com/financial/statements/statement-of-financial-position/>, (Accessed: 10 November 2020)