



ACCOUNTING FUNDAMENTALS

LCBB4001



Assignment- A1

Lecturer: Dr. Rita Ukachi-Lois

MOSTAPHA BOULKHEIR

2114677

Date: 01/04/2022

QUESTION 1

Answer (a)

Wales plc	
Income statement for the year ended 30th December 2021	
	£'000
Revenue (8000000+980)	800.980
Cost of sales	<u>(578.650)</u>
GROSS PROFIT	222.330
Distribution cost	(28.000)
administrative expense	(30.000)
sales commission	(3.000)
directors remuneration	(5.000)
preference dividend paid	(30.000)
ordinary dividend paid	<u>(20.000)</u>
OPERATING PROFIT	106.330
Interested paid	<u>(2.000)</u>
PROFIT BEFORE TAX	104.330
Prov for corporate tax	<u>(100.000)</u>
NET PROFIT	4.330

Wales plc		
Statement of Financial Position as on 30st December 2021		
	£'000	£'000
Property, plant and equipment		632.730
(Non corrent Assets)		
Current assets		
Stock	330.600	
Cash and Bank	76.250	
Debitors(£170125+980)	<u>171.105</u>	
	<u>577.955</u>	
Current liabilities		
Trade payables	171.355	
Sales commision	3.000	
Prov. For Corporate Tax	<u>100.000</u>	
	<u>274.355</u>	
Net current assets		<u>303.600</u>
Total assets less current		936.330
liabilities		
Long term liabilities		<u>(100.000)</u>

	836.330
Capital	
Share Capital(£1 ordinary)	400.000
10% £1 preference Shares	300.000
retained profits at 1st January 2020	132.000
Net profit	4.330
	836.330

Answer (b)

“The statement of financial position is a statement of the assets, liabilities, and capital of an enterprise at a particular date.

The statement of financial position is based on a formula called the accounting equation, which states that:

$$\text{Assets} = \text{capital} + \text{liabilities}$$

This equation must always balance so assets must always equal capital and liabilities.”

(Sangster, 2018)

Now let's see our case.

We start by selecting and dividing the various parts:

Wales plc
Statement of Financial Position as on 30st
December 2021

	£'000	£'000
Property, plant and equipment		632.730
(Non current Assets)		
Current assets		
Stock	330.600	
Cash and Bank	76.250	
Debitors(£170125+980)	171.105	
	<u>577.955</u>	
Current liabilities		
Trade payables	171.355	
Sales commision	3.000	
Prov. For Corporate Tax	100.000	
	<u>274.355</u>	
Net current assets		<u>303.600</u>
Total assets less current		<u>936.330</u>
Liabilities		
Long term liabilities		<u>100.000</u>
		<u>836.330</u>
Capital		
Share Capital(£1 ordinary)		400.000

10% £1 preference Shares	300.000
retained profits at 1st January 2020	132.000
Net profit	4.330
	<u>836.330</u>

Analyzing our factors, we will demonstrate the accounting equation:

$$\text{Assets} = \text{capital} + \text{liabilities}$$

Assets:

- Non-current Assets: £632.730
(plant and equipment)
- Current Assets: £577.955

Total ASSETS: £1.210.685

Capital and liabilities:

- Current liabilities: £274.355
- Liabilities: £100.000
(long term)
- Capital: £836.330

Total

Capital and liabilities £1.210.685

Now here we see that our data satisfies the equation.

This tells us why our situation is on the balance sheet.

Question 2

Answer (a)

1- Return on Capital Employed (ROCE) = $\frac{\text{profit before interest}}{\text{Assets employed}} \times 100\%$

Profit before Interest:

	2021	2020
Profit before Taxation	620	539
Add: Interest Payable	226	181
Profit before Interest	846	720

Capital Employed: Total Assets – Current Liabilities

Particulars	2021	2020
Total Assets	9,736	10,087
Current liabilities	(2,511)	(3,046)
Capital Employed	7,225	7,041

Return on Capital Employed (ROCE) :

	2021	2020
A) Profit before interest	846	720
B) Capital Employed	7,225	7,041
Return on Capital Employed (A/B)*100	11.709%	10.226%

2. Return on Equity (ROE) = $\frac{\text{Earnings}}{\text{Ordinary share capital and reserves}} \times 100$

	2021	2020
<u>Earnings(profit for years)</u>	431	366

	2021	2020
Ordinary share capital(Net assets)	3,088	2,912

ROE

	2021	2020
A) <u>Earnings</u> (profit for years)	431	366
B) Ordinary share capital(Net assets)	3,088	2,912
ROE (A/B)*100%	13.957%	12.569%

3. Earnings per share = $\frac{\text{Earnings}}{\text{Number of ordinary shares}}$

	2021	2020
<u>Earnings</u> (profit for years)	431	366

Number of ordinary shares

	2021	2020
Ordinary Share Capital	300	300
Price per share	50p	50p
No. of Shares	$(300/.50) = 600$	$(300/.50) = 600$

Earning per Share

	2021	2020
A) <u>Earnings</u> (profit for years)	431	366
B) Number of ordinary shares	600	600
Earning per share (A/B)	0.7183	0.61

4. Net Profit Margin = $\frac{\text{Net Profit}}{\text{Net Profit}} * 100$

Sales(revenue)

	2021	2020
Net Profit	431	366

	2021	2020
Revenue	6,738	6,441

Net Profit Margin

	2021	2020
A) Net Profit	431	366
B) Revenue	6,738	6,441
Net Profit Margin (A/B)*100	6.40%	5.682%

5. Asset Turnover = $\frac{\text{Turnover(revenue)}}{\text{Asset employed}}$

	2021	2020
Revenue	6,738	6,441

	2021	2020
Assets employed (total assets)	9,736	10,087

Asset Turnover

	2021	2020
A) Turnover(revenue)	6,738	6,441
B) Assets employed (total assets)	9,736	10,087
Asset Turnover (A/B)	0.692	0.639

6. Stock Holding Days = $\frac{\text{Inventory} * 365}{\text{Cost of Sales}}$

	2021	2020
Inventory	708	659

	2021	2020
Cost of Sales	3,235	3,096

Stock Holding Days

	2021	2020
A) Inventory	708	659
B) Cost of Sales	3,235	3,096
Stock Holding Days (A/B) *365	79.88 days	77.69 days

7. Debtors Collection Period = $\frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$

	2021	2020
Trade Receivables	1,249	1,287

	2021	2020
Credit sales(assuming all the revenue are on the credit)	6,738	6,441

Debtor Collection Period

	2021	2020
A) Trade Receivables	1,249	1,287
B) Sales	6,738	6,441
Debtor Collection Period (A/B)*365	67.66 days	72.93 days

8. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

	2021	2020
Current Assets	2,303	2,355

	2021	2020
Current Liabilities	2,511	3,046

Current Ratio

Particulars	2021	2020
A) Current Assets	2,303	2,355
B) Current Liabilities	2,511	3,046
Current Ratio (A/B)	0.917	0.773

9. Gearing Ratio = $\frac{\text{Debt}}{\text{Debt} + \text{Equity}} \times 100$

	2021	2020
Debt(non-current liabilities)	4,137	4,129

	2021	2020
Equity	3,088	2,912

Gearing Ratio

	2021	2020
A)Debt	4,137	4,129
B)Equity	3,088	2,912

Gearing Ratio (A/(A+B))*100	57.26 %	58.64%
------------------------------------	---------	--------

10. Invertor Cover= $\frac{\text{profit before interest}}{\text{Interest Expense}}$

Profit before Interest

	2021	2020
Profit before Taxation	620	539
Add:- Interest Payable	226	181
Profit before Interest	846	720

	2021	2020
Interest Payable	226	181

Invertor Cover:

	2021	2020
Earning before interest & Tax (A)	846	720
Interest Payable (B)	226	181
Invertor Cover (A/B)	3.74 times	3.98 times

Answer (b)

Based on the data obtained, we can say that Sweets plc has performed better than the previous year. Moreover, it is a growing entity as its market price has increased.

The Return on Capital Employed and Return on Equity ratio have been improved compared to last year.

Net profit of the company increased from 366 in 2020 to 431 in 2021. With a ratio of approximately 0.72%.

Another point, the company used to be able to cover its creditors in about 73 days in 2020, now it can do it in 68 days. This is a good figure for the company but it needs to contract more to improve this figure.

The current ratio also needs to improve more. Since it has improved from the year 2020, the entity needs more improved steps in that direction.

We can conclude that the financial performance of the company has improved from the previous year.