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ASSESSMENT	Assessment 1
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Question 1

a.

Income statement of Eccles plc

Eccles plc	
Income statement for the year ended 31st December 2018	
Particulars	£
Sales	826650
cost of sales	578650
Gross profit	248000
Operating expenses	
Administrative expenses	30000
directors' remunerations	5000
selling commission	3000
Distribution cost	28000
Operating income	182000
Other income & expenses	
Interest revenue	
Interest expenses	2000
Income before tax	180000
Corporate Tax	68000
Net income	112000

Balance-sheet of Eccles plc

Eccles plc	
Balance sheet as on 31st December 2018	
All the figures are in	£
Assets	
Current assets	
Cash & bank	12900
Inventory	329620
Debtors	171105
Total current assets	513625
Non-current assets	
Plant and Machinery	632730
Total non-current assets	632730
Total assets	1146355
Liabilities and shareholder's fund	
Current liabilities	
Trade creditors	171355
Total current liabilities	171355
Non-current liabilities	
4% debentures	100000
Total non-current liabilities	100000
total liabilities	271355
Shareholders' equity	
610000 ordinary share @ £ 1	610000
Retained earnings	153000
Profit of the year	112000
total shareholders' equity	875000
Total liabilities and shareholders' equity	1146355

Notes

1. The preference shares are converted in the equity:

Total preference share in £ = £310000

1 preference share= £1

Number of preference share= £310000/£1= 310000

Total existing equity share of £1= £300000

When the preference shares are converted into the equity then the existing preference shares are added in the equity shares.

So total new ordinary shares= 300000+310000= 610000

- 2. As the sales commission is due so, payment for the same made in current year.**
- 3. Goods sold but payment does not record has their effect in two accounts one is that the debtors of the company increases and another one is that the inventory of the organization decreases by the same amount.**

b.

Reason for the statement of final position balances

- The statement of final position shows the company's performance in relation to the profitability of the company and further this statement also helps in analysing the financial, liquidity, investing risk (Moula, 2019).
- Thus, it is necessary to balance this statement as to get to know the actual performance of the company.
- As the statement of financial position only matches when all the figures written are correct and all the other ledgers accounts are prepared correctly.
- The trial balance prepared correctly
- When all the ledgers, trial balance prepared are prepared after proper adjustment then both the debit and credit side matches.
- The main reason behind balancing this account is that this statement is used by the outsiders of the organization as well as internal management of the company and after looking over on these statement, they took over the decisions whether to invest in the organization and the management of the organization do strategic planning for the forthcoming period (Kevindavis, 2020).

Question 2:

1. Current ratio:

i. Current ratio:

= current assets / current liabilities

2018 = 2303 / 2511

= 0.917

2019 = 2355 / 3046

= 0.77

ii. Quick ratio:

= Quick assets / current liabilities

Quick assets = CA – stock & prepaid expenses

= 2018 = 2303 – 708 = 1595

$$= 1595 / 2511$$

$$= 0.635$$

$$2019 = 2355 - 659 = 1696$$

$$= 1696 / 3046$$

$$= 0.56$$

2. Profitability ratio:

i. Gross profit ratio:

$$(\text{Gross profit} / \text{net sales}) * 100$$

$$2018 =$$

$$\text{Gross profit} = 3503$$

$$\text{Net sales} = 6738$$

$$= (3503 / 6738) * 100$$

$$= 51.99 \%$$

$$2019 =$$

$$\text{Gross profit} = 3345$$

$$\text{Net sales} = 6441$$

$$= (3345 / 6441) * 100$$

$$= 51.93\%$$

ii. Net profit ratio:

$$\text{Net profit} = (\text{net profit} / \text{net sales}) / 100$$

$$2018 =$$

$$\text{Net profit} = 431$$

$$\text{Net sales} = 6738$$

$$= (431 / 6738) * 100$$

$$= 6.40 \%$$

2019 =

Net profit = 366

Net sales = 6441

= (366 / 6441)*100

= 5.68%

iii. Operating profit ratio:

= (Operating profit / Net sales) * 100

2018 =

Operating profit = 805

Net sales = 6738

= (805 / 6738)* 100

= 11.95 %

2019 =

Operating profit = 699

Net sales = 6441

= (699 / 6441)*100

= 10.85%

iv. Return on capital employed:

EBIT (operating profit) / capital employed

2018 =

EBIT = 805

Capital employed = (9736 – 2511) = 7225

805/ 7225

= 0.11times

2019:

EBIT = 698

Capital employed = (10087 – 3046) = 7041

698/ 7041

= 0.029 times

Capital employed = Total assets – current liabilities

3. Solvency ratio:

i. Debt- equity ratio:

Total debt / shareholders fund

2018:

Total debt

2511 + 4137 = 6648

Shareholders fund = 3088

= 6648 / 3088

= 2.15 times

2019:

Total debt:

3046 + 4129 = 7175

Shareholders fund = 2912

= 7175 / 2912

= 2.46 times

Total debt: Current liabilities + long term liabilities

ii. Interest coverage ratio:

= EBIT / interest expenses

2018 = 805 / 226

= 3.56 times

2019 = 699 / 181

= 3.86 times

4. Turnover ratio:

i. Fixed assets turnover ratio:

Net sales / average fixed assets

2018 = 6738 / 7038

= 0.95 times

2019 = 6441 / 7414

= 0.87 times

Fixed assets = intangible assets + Tangible assets

ii. Inventory turnover ratio :

Cost of goods sold / average inventory

= 3235 / 708

= 4.57 times

2019

= 3096/ 659

= 4.69 times

b.

1. Current assets and quick assets ratio define the current position of the company. In 2018 CR is .91 and in 2019 it become 0.71. according to the analysis it is good condition. The quick ratio is more then 0.50 times which is indicates the better position of the company. year 2018 is good than year 2019 .

2. profitability ratio defines the profit % of the company. If this ratio gone high according which is good for the company. Gross profit is above 50% that is good

but net profit is less than 10% so that company should improve this. ROI is less than 1% which is not good so here should also company do work.

3. Solvency ratio defines the debt – equity ratio and interest coverage ratio. Debt – Equity is more than 2 times that has little bit problem because in that case interest expense will increase. Interest coverage ratio is equal as the debt – equity ratio.

4. Turnover ratio indicates the sales and inventory return. Net sales is not good on the fixed assets and it is also determined that the Cogs rate is so high so profit will reduce.

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Reference

- **Kevindavis.com.au. (2020). Available at: <http://www.kevindavis.com.au/secondpages/acadpubs/pre2002/CPS-Mar96.pdf> (Accessed: 10 November 2020).**
- **Moula, T. (2019) What Is an Income Statement?, Moula. Available at: <https://moula.com.au/finance/what-is-an-income-statement> (Accessed: 10 November 2020).**