

Accounting Fundamentals

LCBB4001

Student: Andreea Tabacaru,1914595

Lecturer: Widin Bongasu Sha'ven

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Introduction

Financial data analysis is one of the most effective ways to understand how the business is performing. The aim of this report is to prepare an income statement and statement of financial position for Eccles plc. This will also calculate the different financial ratio to understand and compare the performance of Chocco plc.

Question 1

a. Income statement and statement of financial position

Eccles Plc Income Statement For the Year Ended 31 December 2019		
	Amount	Amount
Sales	826650	
Add: Due sales	980	827630
Less: Cost of sales		(578650)
Gross Profit		248980
Expenses		
Administrative Expenses	30000	
Ordinary Dividend	20000	
Preference dividend	30000	
Directors remuneration	5000	
Distribution Cost	28000	
Sales Commission	3000	(116000)
Income before interest and tax		132980
Less: Corporation Tax	68000	
Interest	2000	(70000)
Net Income		<u>62980</u>

Eccles Plc Statement of Financial Position 31 December 2019			
Assets			
Non-current assets	Amount	Amount	Amount
Plant and equipment		632730	
Stock		330600	963330
Current assets			
Cash at bank		12900	
Debtors	170125		
Add: Credit sales	980	171105	184005
Total Assets			<u>1147335</u>
Equity and Liabilities			
Equity			
Ordinary share		310000	
Preference share		300000	
Debentures		100000	
Retained profit	132000		
Add: Net income	62980	194980	904980
Non-current liability			0
Current Liabilities			
Trade creditors		171355	
Due corporation tax		68000	
Unpaid commission		3000	242355

Total liability and equity			<u>1147335</u>
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b. Why the statement of financial position balances?

The main reason for this is that the use of the double entry system. In this process, all the accounts all the transaction has been recorded in at least two different accounts. This makes sure that there will be balanced between the accounts (Amiram, Bozanic and Rouen, 2014). For example, if a business borrowed money then the asset of the business increases and in the same the liability as well using the same amount so ultimately both the side becomes equal. Without using the double-entry system, these characteristics of financial statement might not exist. Because of this, all the accounts have been balanced and if not then there must be an error with the recording of the transaction.

Question 2

a. Ratio analysis

Ratios	Formulas	2019		2018	
		Calculation	Results	Calculation	Results
Current ratio	“Current assets / Current liabilities”	2303/2511	0.92	2355/3046	0.77
Gross profit ratio	“Gross profit / net sales” x 100	3503/6738	52%	3345/6441	52%
Operating profit ratio	“Operating Profit / net sales” x 100	805/6738	12%	699/6441	10.8%
Net profit ratio	“Net profit after tax / Net sales” x 100	431/6738	6.4%	366/6441	5.7%
ROCE	“Net profit after tax / Gross capital employed” x 100	431/7192	6%	366/7041	5.2%
EPS	“Net profit after tax / No of equity shares” x 100	431/6000	7.2%	366/6000	6.1%

Inventory ratio	“Net sales / Inventory”	6738/684	9.9	6441/659	9.8
Debtors turnover ratio	“Total sales / accounts receivable”	6738/1268	5.3	6441/1287	5.0
Debt to equity ratio	“Total long term debts / shareholders fund”	4137/3088	1.3	4129/2912	1.4
Capital Turnover Ratio	“Cost of Sales / Capital Employed”	3235/7192	0.45	3096/7041	.44
Working Capital Turnover Ratio	Net Sales / Working Capital	6738/ -208	-32.4	6441/ -691	-9.3

Capital employed (2019) = Total assets – current liabilities

$$= 9736 - 2511$$

$$= 7192$$

Capital employed (2018) = Total assets – current liabilities

$$= 10087 - 3046$$

$$= 7041$$

Number of shares = 300000000 / .5

$$= 600000000$$

Average inventory (2019) = (708 + 659) / 2 = 684

Accounts receivable (2019) = (1249 + 1287) / 2 = 1268

Working capital (2019) = Current assets – Current liability

$$= 2303 - 2511$$

$$= - 208$$

Working capital (2018) = Current assets – Current liability

$$= 2355 - 3046$$

$$= - 691$$

b. Financial performance of Chocco plc

From the income statement and financial statement, it can be seen that the financial performance of the company improved in 2019 than in 2018. But there are few factors which need to be considered like the decrease in current liability and increase in equity is showing that the business is doing well. Several ratios have been calculated to understand the performance of the business.

The current ratio of the business is not good because the business does not have enough money to meet with the current obligation. A current ratio between 1.2 -2 is considered good but in 2019 it was only 0.92 which is better than 2018 (Sanzo, 2015). In term of gross profit, the performance of the business is consistent. The business was able to achieve 52% of this ratio in both the year which is good. Operating profit ratio of the business is also showing that the business is not in a good position (Stoutenburg, 2015). 15% is considered as standard in term of this ratio but the company operating profit ratio was 12% and 10.8% which is average. A net profit of around 10% to 20% is considered as good. The performance of the business remains average in this regard as well (Joshi, 2015). In term, if EPS, Chocco plc improves its performance in 2019. In every aspect and the ratio which are been calculated it can be seen that the business is going well in 2019 compared to 2018.

Debt to equity ratio of the business is good as it was 1.3 and 1.4 and 1 to 2 is considered as good (Wong, 2018). The ability of the business improved in this aspect. A capital turnover ratio of the business is not good. The performance of the business in term of working capital is very bad.

Conclusion

Because of using the double-entry system, statement of financial position balances. Chocco plc improves its performance in 2019 than in 2018. But the financial ratio analysis of the business is showing that the company is not doing well. It does not have the capability to pay current obligation and most of the ratio is below average. But the company is showing a sign of improving.

References

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