

BA Business Management

Module : Accounting Fundamentals

Module code LCBB4001

Assignment Title: ASSESSMENT 1

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Introduction

Accounting fundamentals are the basic principles and procedures underlying the recording and reporting of financial transactions. These fundamentals include such topics as the accounting equation, the double-entry system, the matching principle, and accrual accounting. Accounting fundamentals are the foundation for all accounting and financial reporting and are important for an individual to understand in order to make informed decisions. Accounting fundamentals refer to the basic principles and concepts underlying the practice of accounting (Jackson, 2020). These concepts provide a framework for the preparation of financial statements and are used in the analysis of financial transactions. Accounting fundamentals include the accounting equation, double-entry accounting, the different types of accounts, the different financial statements, and the different methods of accounting.

Q1

a. Financial statements preparation

In the books of Wales Plc

Income statement preparation

For the year ended 31st December 2021

Particulars	Details (£)	Amount (£)	Amount (£)
<i>Revenue Generated</i>			
Sales	800,000		
Add: Credit Sales	980		
Net Revenues		800,980	
<i>Expenses</i>			
Less: Cost of sales	578,650		
Corporation tax	100,000		
Directors remuneration	5,000	683,650	
Gross Profit		117,330	
Less: Non-operating costs			
<i>Distribution and selling costs</i>			
Distribution costs	28,000		
Administrative expenses	30,000		
<i>Finance Costs</i>			
Interest paid	2,000		
Net non-operating costs		60000	
<u>Net Operating Profit earned</u>			<u>57,330</u>

Balance Sheet of Wales Plc

For the year ended 31st December 2021

Particulars	Notes	Details (£)	Amount (£)	Amount (£)2
<u>Assets</u>				
<i><u>Non-current assets:</u></i>				
<i><u>Fixed Assets:</u></i>				
Plant and Equipment			1,250,000	
Gross Fixed Assets			1,250,000	

Current Assets				
Trade Receivable	1	171,105		
Stock		430,600		
Cash and Bank		176,250		
Gross Current Assets			777,955	
Suspense A/C			18000	
Total Assets				2,045,955
<u>Equity and Liabilities</u>				
<u>Equity:</u>				
<u>Shareholders Funds:</u>				
Retained Earnings on 1st January 2020	2	100000		
Corporation Tax		100,000		
10% £1 preference shares		400,000		
£1 ordinary shares		1,000,000		
Net Operating Profit		57,330		
Total Equity			1657330	
Liabilities				
Non-current liabilities				
4% Debentures		200,000		
Gross Non-Current Liabilities		200,000		
Current liabilities				
Trade creditors		188,625		
Gross Current Liabilities		188,625		
Total Liabilities			388,625	
Total equity and Liabilities				2,045,955

Workings

1. Trade Receivable	Amounts (£)
Trade Receivable for 2021	170,125
Add: Credit Sales	980
Total Debtors	171,105

2. Retained Earnings	Amounts (£)
Retained earnings for 1st Jan 2020	132,000
Less: Preference dividend paid	30,000

Less: Ordinary Dividend Payment	20000
Adjusted Retained Earnings	100000

b. Why does the statement of financial position balance?

The financial position, also identified as the “balance sheet”, provides a snap of the company's financial argument within time. It provides an overview of a company's liabilities, equalities and assets. Assets are capital owned by the company, while liabilities are obligations of the company. Equity represents the residual ownership interest in the company that remains after liabilities are detracted from assets. The statement of financial position provides an significant measure of a firm's monetarist wellbeing as it outlines the company's capacity to meet its financial obligations (Beaver, 2020). It is a financial statement that summarises corporation's liabilities, assets and equity at a detailed point in time. This statement is used to assessing company's financial strength. Assets include items such as cash, investments, accounts receivable and inventory. Liabilities include things like accounts payable, notes payable, and debt (Toms, 2021). The statement of financial position provides essential information about a company's financial position, excluding its ability to pay its arrears.

A financial statement that provides is a financial statement that provides an instantaneous of company liability, assets and equity as of an economic position is one of the most important financial declarations, and it provides a portrait of the company's economic health. It provides a hasty of the company's commercial position, including a breakdown of its liabilities and assets, as well as the company's equity. The statement of financial standing and making informed decisions about the company. Assets are properties that a company holds and might utilise to generate income. Liabilities are obligations that a corporation must settle, such as accounts

payable and loans. Shareholder equity is the dissimilarity between overall assets and overall liabilities and represents the equity that shareholders have in the company (Walkshäusl, 2021).

Assets are items that a company owns or gearshifts, and are predictable to provide approaching economic benefits. Liabilities are requirements that a company has to reimburse or settle, such as debt, taxes, or leases. Shareholders' equity is the residual value of the company after all liabilities have been paid (Klein, 2020). In other words, it is the quantity of cash or other resources that has accessible to pay its shareholders. By joining these three groupings, the notice of financial point affords an overview of a company's economic grievance. The statement of financial position affords a snapshot of the company's “assets”, “liabilities” and “equalities”. It is used to assess the solvency of a business, and to compare the financial condition of different companies at reformed arguments in time. While “liabilities” and shareholders’ “equity” are recorded on the right side. Assets are resources owned by a business that can be used to generate future economic benefits. Liabilities are compulsions of a business, such as duties owed to creditors or taxes owed to the government. Shareholders' equity is the alteration between “assets” and “liabilities”, as well as any additional funds made by shareholders (Penman, 2021). By reviewing the statement of financial points, investors, creditors and other investors can gain a better consideration of a company's financial position.

Q2:

b. Ratio computation of Sweets Plc

1- ROCE: Return on capital employed (ROCE) is a financial relationship that procedures the proficiency of a company's use of its money. It is planned by dividing a corporation's net operating profit after taxes (NOPAT) by its total capital working (Sarmiento-Sabogal, 2021). The

more advanced the ratio, the more revenue the corporation is able to engender forms the investment it hires.

$$\text{Formula, } ROCE = \frac{\text{Earnings as before taxes and interests(EBIT)}}{\text{Capital employed(CE)}}$$

For 2021

Here, EBIT= £846

$$CE = \text{TOTAL assets} - \text{CURRENT liabilities}$$

$$\text{Assets} = \text{£9,736}$$

$$\text{Current Liabilities} = \text{£2,511}$$

$$CE = \text{£9,736} - \text{£2,511} = \text{£7,225}$$

Then here, ROCE, as needed, will be;

$$R.O.C.E. = \frac{\text{£846}}{\text{£7,225}}$$

$$= \text{£0.117 (or being £0.12)}$$

For 2020,

Here, EBIT=£720

$$CE = \text{TOTAL assets} - \text{CURRENT liabilities}$$

$$\text{Assets} = \text{£10,087}$$

$$\text{Current Liabilities} = \text{£3,046}$$

$$CE = \text{10,087} - \text{£3,046} = \text{£7,041}$$

Then here, *R.O.C.E.*, as needed, will be;

$$R.O.C.E. = \frac{£720}{£7,041}$$

=£0.102 (or being £0.10)

2- ROE: Return on equity (ROE) is a degree of a company's effectiveness that gauges how much turnover a company creates with the coinage shareholders have advanced. It is calculated by attracting the company's net salary, which is the profit a corporation makes after bookkeeping for all overheads, distributed by the total impartiality.

$$\text{Formula, } ROE = \frac{NET\ INCOME(NR)}{SHAREHOLDERS' EQUITY(SE)}$$

For 2021,

$$Net\ Revenue = £431$$

$$\text{Shareholders' equity (SE)} = Equity - Dividend\ Payments$$

$$Equity = £3,088$$

$$Dividend\ paid = £255$$

$$SE = £3,088 - £255 = £2,833$$

$$R.O.E. = \frac{£431}{£2,833}$$

=£0.152 (or being £0.15)

For 2021,

$$\text{Here, } Net\ Revenues = £366$$

$$\text{Shareholders' equity (SE)} = Equity - Dividend\ Payments$$

Equity=£2,912

Dividend paid=£242

SE= £2, 912 – £242=£2,670

$$R.O.E.=\frac{£366}{£2,670}$$

=£0.137 (or being £0.14)

3- Earnings per share: Earnings per share (EPS) is a pecuniary metric that portion the viability of a syndicate in terms of the volume of profit received per share of its communal stock. It is planned by isolating the corporation's total disposable income by its total quantity of unsettled segments.

$$\text{Formula, } EPS = \frac{NET\ INCOME(NI) - PREFERENCE\ DIVIDEND}{SHARES\ UNITS\ O/S}$$

For 2021,

Here, *Net Revenues* =£431

Preference Dividend=£NIL

Share units left Outstanding =206 shares

$$EPS = \frac{£431 - nil}{206\ Shares}$$

=£2.092 (or being £2.10)

For 2020,

Here, *Net Revenues* =£366

Preference Dividend=£NIL

Share units left Outstanding=268 shares

$$EPS = \frac{£366 - nil}{268 \text{ Shares}}$$

=£1.365 (or being £1.37)

4- Net profit margin:

Net profit margin is a financial ratio that actions the proportion of total auctions revenue that a company remembers after accounting for all its outlays. It is an important quantity of company effectiveness and proficiency, as it expresses how copious of each money of sales a concern keeps in the formula of profit.

$$\text{Formula, Net Profit margins} = \frac{\text{NET REVENUE or PROFIT (NI)}}{\text{TOTAL REVENUE}} * 100$$

For 2021,

Net incomes =£431

Gross profit or sales =£6,738

$$\text{Net Profit margins} = \frac{£431}{£6,738} * 100$$

=6.396% (or being 6.40%)

For 2020,

Net incomes =£366

Gross profit or sales =£6,441

$$\text{Net Profit margins} = \frac{£366}{£6,441} * 100$$

=5.682% (or being 6.70%)

5- Asset turnover: Asset business is a quantity of how proficiently a concern is using its assets to create sales. It is calculated by isolating a company's total sales salary from its typical total amounts of money (Bauman, 2021). A sophisticated asset and is more resourceful in utilising them.

$$\text{Formula, Asset Turnover Ratios} = \frac{\text{NET REVENUE or SALES}}{\text{AVERAGE GROSS ASSETS}}$$

For 2021,

Net Earnings or sales=£6,738

$$\text{Average of gross assets} = \frac{\text{OPENING GROSS assets} + \text{CLOSING GROSS assets}}{2}$$

Opening Assets=£10,087

Closing Assets=£9,736

$$\text{Therefore, Average of grossed Assets} = \frac{£10,087 + £9,736}{2}$$

$$= \frac{£19,823}{2} = £9,911.50$$

$$\text{Asset Turnover Ratios} = \frac{£6,738}{£9,911.50}$$

=£0.679 (or being £0.68)

For 2020,

Net Earnings or sales =£6,441

$$\text{Average of gross assets} = \frac{\text{OPENING GROSS assets} + \text{CLOSING GROSS assets}}{2}$$

Opening Assets =£NIL

Closing Assets =£10,087

Therefore, Average of grossed Assets = $\frac{£NIL + £10,087}{2}$

$$= \frac{£10,087}{2} = £5,043.50$$

$$\text{Asset Turnover Ratios} = \frac{£6,441}{£5,043.50}$$

=£1.277 (or being £1.30)

6- Stock holding days: Stock property days are a quantity of the typical number of days that a concern holds an individual item in the catalogue. It is deliberate by dividing the total digit of days a company clamps a certain item of register by the total figure of bonds it has sold through the period and before increasing by the middling number of hitches it embraces in routine.

$$\text{Formula, Stock Holding Days} = \frac{\text{AVERAGED STOCK or INVENTORY(A.I.)}}{(\text{COST OF TRADED ITEMS(C.O.G.S.)} / 365 \text{ days})}$$

For 2021,

Here, Net Earnings or sales=£6,738

$$\text{Average stocks or inventory} = \frac{\text{Beginning Stocks} + \text{Ending Stocks}}{2}$$

Beginning Stocks=£659

Ending Stocks=£708

$$\text{Therefore Average stocks} = \frac{£659 + £708}{2}$$

$$= \frac{£1,367}{2} = £683.50$$

Cost of traded items (COGS)=£3,235

$$\text{Stock Holding Days ratios} = \frac{£683.50}{£3,235/365 \text{ days}}$$

$$\text{Stock Holding Days ratios} = \frac{£683.50}{8.86}$$

=77.144 days (or being £77 days)

For 2020,

Here, Net Earnings or sales = 6,441

$$\text{Average stocks or inventory} = \frac{\text{Beginning Stocks} + \text{Ending Stocks}}{2}$$

Beginning Stocks= £NIL

Ending Stocks= £659

$$\text{Therefore Average stocks} = \frac{£NIL + £659}{2}$$

$$= \frac{£659}{2} = \mathbf{£329.50}$$

Cost of traded items (COGS) =£3,096

$$\text{Stock Holding Days ratios} = \frac{£329.50}{£3,096/365 \text{ days}}$$

$$\text{Stock Holding Days ratios} = \frac{£329.50}{8.48}$$

=38.85 days (or being £39 days)

7- Debtors collection period: The debtors' assemblage period is the middling length of the stretch it revenues a company to collect outflows from consumers that need to be purchase

worthy or amenities on glory. It is premeditated by dividing the total extent of accounts receivable by the overall volume of glory sales for the matching period.

$$\text{Formula, Debtors Collection Periods} = \frac{\text{AVERAGED DEBTORS or RECEIVABLES(AD)}}{(\text{NET SALES} / 365 \text{ days})}$$

For 2021,

Here,

Net Earnings =£6,738

$$\text{Average debtors receivables} = \frac{\text{Beginning Debtors} + \text{Ending Debtors}}{2}$$

Beginning Debtors=£1,287

Ending Debtors=£1,249

$$\text{Therefore, Average debtors} = \frac{£1,287 + £1,249}{2}$$

$$= \frac{£2,536}{2} = £1,268$$

$$\text{Debtors Collection Periods ratios} = \frac{£1,268}{£6,738 / 365 \text{ days}}$$

$$\text{Debtors Collection Periods ratios} = \frac{£1,268}{18.46}$$

=68.689 days (or being 69 days)

For 2020,

Here,

Net Earnings =£6,441

$$\text{Average debtors receivables} = \frac{\text{Beginning Debtors} + \text{Ending Debtors}}{2}$$

Beginning Debtors = £NIL

Ending Debtors = £1,287

$$\text{Therefore, Average debtors} = \frac{\text{£NIL} + \text{£1,287}}{2}$$

$$= \frac{\text{£1,287}}{2} = \text{£643.50}$$

$$\text{Debtors Collection Periods ratios} = \frac{\text{£643.50}}{\text{£6,441}/365 \text{ days}}$$

$$\text{Debtors Collection Periods ratios} = \frac{\text{£643.50}}{17.646}$$

=36.467 days (or being 36.50 days)

8- Current ratio: The contemporary ratio is the runniness ratio that rations a company's capacity to compensate for short-term and long-term commitments. It is deliberate by allocating the firm current assets to its modern charges. The current ratio is an important helping of a business's economic health and the recent ratio is necessary, as it shows that a corporation can simply cover its short-term obligations.

$$\text{Formula, Current Ratios} = \frac{\text{CURRENT ASSETS(CA)}}{\text{CURRENT LIABILITIES(CL)}}$$

For 2021,

Current Assets = £2,303

Current Liabilities = £2,511

$$\text{Current Ratios} = \frac{\text{£2,303}}{\text{£2,511}} = \text{£0.917 (or being £0.92)}$$

For 2020,

Current Assets=£2,355

Current Liabilities=£3,046

$$\text{Current Ratios} = \frac{£2,355}{£3,046}$$

=£0.773 (or being £0.80)

9- Gearing ratio: The gearing share is a portion of a concern financial control, considered by sharing its long-term commitment by its shareholders' likeness. It shows the percentage of a company investment that is backed by stakeholder equity. It signposts the quantity of company capital that is sponsored by debt against that which is funded by shareholders' equity.

$$\text{Formula, Gearing ratios (G.Ratio)} = \frac{\text{LONG-standing debt} + \text{SHORT-standing debt} + \text{BANK o/d}}{\text{SHAREHOLDERS' EQUITY (S.E.)}}$$

For 2021,

Bank Overdrafts (Bank o/d)=£Nil

Long- Term debts=£4,137

Short- Term debts=£2,511

Shareholders' equity (SE) = *Equity – Dividend Payments*

Equity=£3,088

Dividend paid =£255

Therefore, SE= £3, 088 – £255=**£2,833**

$$\text{Gearing ratios (G.Ratios)} = \frac{£4,137 + £2,511 + \text{ENIL}}{£2,833}$$

$$\text{Gearing ratios (G.Ratios)} = \frac{£6,648}{£2,833} = \underline{\underline{£2.346 \text{ (or being £2.35)}}}$$

For 2020,

Bank Overdrafts (Bank o/d)=£Nil

Long- Term debts=£4,129

Short- Term debts=£3,046

Shareholders' equity (SE) = *Equity – Dividend Payments*

Equity= £2,912

Dividend paid=£242

Therefore, SE= £2, 912 – £242=£2,670

$$\text{Gearing ratios (G.Ratios)} = \frac{£4,129 + £3,046 + £NIL}{£2670}$$

$$\text{Gearing ratios (G.Ratios)} = \frac{£7,175}{£2,670}$$

=£2.687 (or being £2.70)

10- Interest cover: Interest cover is a portion of a company's competence to pay its debt commitments. It is premeditated by distributing a company's paychecks before awareness and tax (EBIT) by its interest disbursement for a positive period (Nichols, 2020). A higher curiosity cover ratio shows that a business has more ability to pay its awareness obligations, while a lower awareness cover ratio infers that the corporation may not be intelligent to cover its attention payments.

$$\text{Formula, Interest Coverage Ratios} = \frac{\text{Earnings before taxes and interests (E.B.I.T.)}}{\text{Interests Spending (I.E.)}}$$

For 2021,

Here, EBIT=£846

Interests Spending (IE) =£226

Therefore, *Interest Coverage Ratios* = $\frac{£846}{£226}$

=£3.743 (or being £4)

For 2020,

Here, E.B.I.T.=£720

Interests Spending (I.E.)=£181

Therefore, *Interest Coverage Ratios* = $\frac{£720}{£181}$

=£3.977 (or being £4)

b. Comments for Sweet's plc, management in context to the financial performance

With this consideration, the accountancy thought that it would make wise financial decisions and keep a disciplined approach to your budget. Your efforts have led to a strong financial position. It has increased efficiency and reduced costs. This is commendable it will continue to find a way to enhance its financial performance. It will stay on top of financial performance and conduct. It will regularly review and evaluate financial results and make adjustments as needed. This will help ensure that you stay on track and meet your financial goals. It has been a period of great success, as evidenced by the impressive increase in profits and revenues. It has also pleased to note that Sweet's plc. Having maintained a commitment to ethical and responsible conduct is an important part of a company's long-term success and sustainability (Ogneva, 2020). It will

continue to be a successful and responsible business partner. Accounting fundamental is an important part of a company. It is the building blocks upon which more sophisticated accounting principles, concepts and standards are based. Accounting fundamentals include double-entry bookkeeping, the accounting equation, the matching principle, and the time period assumption. This equation forms the basis for accounting because all transactions must be recorded in such a way that the equation remains in balance. The identical principle is the perception that income and outlays should be recognised in an identical period. This attitude is used to confirm that income from a given old-fashioned is corresponding with the costs incurred to cause that revenue. A double-entry appointment is the practice of cassette a business matter in two accounts, with a charge in one reason and an acknowledgement in the other. This preparation is used to certify that the bookkeeping equation vestiges instability.

Conclusion

Accounting fundamentals provide the foundation for understanding the financial statements of any business. By learning and understanding the principle of accounting, one can make informed decisions regarding the financial health of a business. Understanding the basic principle of accounting helps to ensure that financial decisions are based on accurate and reliable information. Accounting fundamentals are the core concepts that form the basis of a company's financial operations. A good understanding of accounting fundamentals is essential for any business that wants to develop a reliable system to record, report and analysis its financial information. By learning the basics of accounting, companies can make informed decisions that will help them succeed and grow.

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