

Accounting fundamental assessment 1

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QUESTIONS

1. Eccles plc for the year ended 31st December 2018Eccles plc for the year ended 31st December 2018

A). Income statement for the year ended 31st December 2019 for Eccles plc and a statement of financial position as at that date.

Income statement

Particulars	Amount
Revenue (amount of goods or service sold for period)	827630
Cost of sales	578650
Gross profit	248980
Distribution cost	31000
Administration cost	85000
Other income	0
Operating profit	135980
Income from investment	0
Finance cost	2000
Profit before tax	130980
Taxation	68000
Net profit	62980

Statement of financial position

ASSETS	1147335	Liabilities and stakeholders equity	1147335
Non current assets		Current liabilities	174355
Property, plant	632730	Non current liabilities	100000
Intangible assets	0		
Total non current assets	632730	Liabilities.	274355
Current assets		Share capital	310000
Stock	330600	Share premium	300000
Trade receivable	171105	Other reserves	0
Cash	12900	Retained earnings	132000
		Profit before tax	130980
Total of current assets	514605	EQUITY/CAPITAL	872980

Working notes:

- Ordinary Shares - £1 ES – 310,000
Add: 10% £1 PS – 300,000 = 610,000
- N/c Assets: Plant & Machinery – 632,730
- Retained Profit: Operating margin profit – 132,000
Add: Profit regulations – 18,000
Add: CY profit - 112,980 = 244,980

- £3000 is already identified as an unpaid commission that is not yet registered in ledger accounts, but should be expressed in annual reports to show a true picture. Business must then pass the corresponding journal entry:

Commission A/c Dr.	3000
To Outstanding Commission A/c.	3000

These transactions will therefore be represented throughout the report of income by applying the deferred revenue to just the budget of the compensation, whereas the remaining committee would be expressed throughout the existing liabilities including the financial statements performance.

It has even been stated that the items were shipped to consumers costing £ 980, transaction of which would be paid later and as such it not been registered in ledger accounts, thus to show an accurate representation, the corporation must pass the accompanying journal entry because it can be as seen within financial statement:

Accrued debtor sales a/c dr	980
To sales Debtor	980

Appropriately, by incorporating accumulated sales debt collectors to just the sales borrower account, such funds would now be expressed in the revenue statement, whereas accumulated sales debtors would be represented throughout the current assets of that same accounting records.

B. Why the statement of financial position balances.

The accounting theory of that double entries that states that certain expenses are reported in two distinct documents through this they have exactly equal consequences, is accompanied by the income statement as well as financial situation statement (Brown and Johnston, 2019). This theory also assists in testing not when the reports are appropriate and registered properly. This theory is however centred on the Balance Sheet but has the equation of

Assets = obligations (company) + Equity

In order to generate the overall output of the corporation under its own, 2 sections of such an equation actually amount. The asset side reflects the overview of the resources shown in the company, whereas the basis of financing is split down by the other aspect of assets and liabilities about how this quality was obtained. As each aspect reflects market capitalisation as well as the

other sides is the provider of that financing, they should be equivalent in order to make sure that certain cash products are accurately registered.

Question 2

A. Ratio Analysis

It is really a statistical approach that allows a business to learn from either the information stored in its annual reports regarding its profitability, productivity, sustainability, etc. (Samonas, 2015). Thus the, in many other words, it is indeed a statistical study of the economic stability of a corporation. Various types of proportions are listed below:

Liquidity Ratios

- Current Ratio

These proportion are being used to determine the capacity of a firm to paying everything off short-term obligations from company-submitted capital (Tsadira-Pocha, 2020). It encompasses: Current Ratio-The willingness of a business to make off all its near-term obligations including its liquid liability is calculated. The greater the percentage, the stronger their capacity to pay debts.

Formula = Current Assets/Current Liabilities

	2019	2018
Current Assets	2303	2355
Current Liabilities	2511	3046
Current Ratio	0.917	0.773

Chocco Plc's recent number is small for both 2018 and 2019, which isn't really a positive indication, as it means that the current assets of the firm will not be enough to compensate current liabilities if appropriate. Nevertheless, the positive sign for industry would be that the proportion has risen in 2019 over 2018.

- Acid Test Ratio: Formerly it is recognized as fast ratio, as it investigates the capacities of the most available business assets. It also removes from existing assets the warehouse and accrued instruments.

Formula: = (Current Assets – Inventory – Prepaid Instruments) / Current Liabilities

	2019	2018
Quick Assets	1595	1696
Current Liabilities	2511	3046

Quick Ratio	0.635	0.557
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Chocco Plc's acid test Ratio is lower than 1 that is not really a positive measure, since it suggests that in the event of uncertainties, the company's quick reserves are insufficient to compensate existing liabilities. In 2019, however, the proportion changed from 2018 onwards.

Solvency Ratios

These are also recognized as leverage proportion as well. These are being used to assess the company's chances of long-term adequacy and willingness to fund itself (Brown and et.al., 2016). It encompasses:

Debt-to-equity ratio: This ratio calculates the equity-funded amount of debt. The smaller the proportion it is consider to be more effective

Formula: Total debt/total equity

	2019	2018
Total liabilities	6828	7175
Total equity	3088	2912
Debt-to-equity Ratio	2.21	2.46

Greater leverage to equity ratios are not deemed well for the firm, as reported earlier. Chocco Plc's debt equity ratio reveals the leverage is much more than double the corporation's capital, which raises the risk of failure when the capital is insufficient to fund obligations if appropriate.

Debt-to-asset Ratio

This proportion is used to analyses the debt of the business by calculating the amount of loans funded by the company's assets (Rachlin, 2019).

Formula: Total debt/Total assets

	2019	2018
Total liabilities	6828	7175
Total assets	9736	10087
Debt-to-asset Ratio	0.701	0.711

The amount of debt to assets greater than 1 is not deemed to be safe. Chocco plc's debt-to - asset proportion is much less than, that means the borrowing is also not substantially financed and against firm net income. In comparison, in 2019, the ratio increased from 2018.

Profitability Ratios

Such ratio is used to determine a corporation's potential to earn earnings in comparison to its sales as well as other company activities (Ehrhardt and Brigham, 2016). It encompasses:

ROA- Both internally and externally creditors are using this calculation to assess a company's performance in managing working capital.

Formula: Net income / Total Assets

	2019	2018
Net Income	431	366
Total assets	9736	10087
Return on Asset	4.43%	3.63%

The greater the ROA the more effective the capital are perceived to be. Chocco Plc's return on assets has increased over the last year, which would be a good thing also for firm. The proportion is indeed not large enough, however, as well as the organisation has to continue to make attempts to increase its profitability so that it would have higher asset returns.

Efficiency Ratios

These measures are often referred to as operation measures that are used to measure a company's ability to leverage its financial assets to increase its earnings (Chandra, 2017). It encompasses:

Asset turnover ratio: This is used to assess the frequency with which a firm can use its properties to increase its profits or income.

Formula: Total sales / Average Assets

	2019	2018
Total sales	6378	6441
Average Assets = (Opening asset + closing asset)/2	(10087+9736) / 2 = 9911.5	No amount of opening asset provided
Asset turnover ratio	.643	

The greater the percentage, the more powerful the organisation is. Chocco Plc's inventory turnover proportion for 2019 is 0.643, whereas the 2018 ratio cannot be calculated because the opening valuation of resources for 2018 was also not given. Consequently, comparison study cannot be calculated for the 2 year measure.

Coverage Ratios

These ratios assess the willingness of a corporation to fund its debt costs and other financial commitments, such as payments of interest and dividends (Howard, 2019). This covers ratios including the ratio of total liabilities, debt coverage ratio, ratio of asset reporting, etc.

Interest coverage ratio: It can be used to measure the ability of the firm to fund interest costs over its external obligations.

Formula: EBIT / Interest Expense

	2019	2018
Earnings before interest and tax (EBIT)	846	720
Interest expense	226	181
Interest coverage ratio	3.74	3.98

The higher the percentage, the greater. Chocco Plc's net profit margin is sufficient which demonstrates that the earnings of the firm are adequate to offset its interest expenses because there are no questions about the earnings of the firm. However, it is important to remember that the percentage has declined relative to the last year.

Market Prospect Ratios

Before making an investment choice, these formulas have been used mainly by analysts to estimate the company's profitability and projected results (Vogel, 2020). Ratios such as dividend yield, P / E ratio, net income, dividend policy-out ratio, etc. are used.

Dividend return-It is used to evaluate how often a business pays back in comparison to the stock market itself on dividends each year.

Formula: Annual dividends per share / price per share

	2019	2018
Annual dividend per share	0.85	0.81
Average Price per share	5.12	4.00
Dividend Yield	16.6%	20.1%

It should be remembered that the firm has paid out distributions across both years , which shows that Chocco Plc pays out dividends on a consistent basis, but shareholders should not forget that the firms ' dividend return is not favourable as than both years as the business has not raised the dividend pay-out rate in response to a rise in stock values.

B. Comment on financial performance and position of Chocco Plc.

Financial performance analysis as well as financial ratios evaluation are the most powerful methods for assessing a firm's earnings wellbeing (Warren and Farmer, 2020). Then to allow correlation from both different stakeholders are percentages calculated from financial reports. This can be calculated by the financial reports which the net revenue have grown through 2018 to 2019, such that costs have risen, but the financial profits have decreased. However, there has also been a drastic decrease in relatively existing liabilities, but just not liabilities of the company. This can be observed from the above-mentioned ratio review that the business has never had adequate profitability ratio, debt-to - equity proportions, asset-to-asset ratios, etc., whereas its debt-to - asset percentages or interest-to-asset ratios are somewhat sufficient. However, the company's average success is not sufficient and shareholders are strongly recommended to take risks in financial investment strategy and to think very carefully when participating in it, since both of these assessments can only be the consequence of side to side that exists when working in a lively market setting. Chocco Plc's liquidity accounts often need to be contrasted with the business average, and rivals need to understand enough about its current value, that are helpful for assessing the performance of a business for shareholders.