



Programme: BA Business Management (Accounting
fundamentals)

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Table of Content

Question 1	3
a)	3
b)	4
Question 2	5
a)	5
b)	6
References:	8

Question 1

a)

income statement for the Year Ended 31st December 2022:

Income statement	Amount (£)	
Sales	(800,000)	
Cost of Sales	(578,650)	
Gross Profit		221,350
Administrative Expenses	(30,000)	
Distribution Cost	(28,000)	
Directors Remuneration	(5,000)	
Operating Profit		158,350
Interest Paid	(2,000)	
Profit Before Tax		156,350
Corporation Tax	(100,000)	
Profit After Tax		56,350
Preference Dividend Paid	(30,000)	
Ordinary Dividend Paid	(20,000)	
Retained Earnings (start)		132,000
Add: Profit After Tax	56,350	
Less: Dividends Paid	(50,000)	
Retained Earnings (End)		138,350

Statement of Financial Position as at 31st December 2022:

Assets:	
Stock	510,850
Trade Receivable	170,125
Cash and Bank	96,000
Salesmen Commission (Receivable)	3,000
Prepayments	980
Plant and Equipment	1,250,000
Total Assets	2,031,955
Non-Current liabilities:	
2% Debentures	200,000
Current Liabilities:	

Trade Payable	(188,625)
Corporation Tax Payable	(100,000)
Total Current Liabilities	288,625
Equity and Non-Current Liabilities:	
Ordinary Shares	900,000
Preference shares	500,000
Retained Earnings	132,000
Net income	71,350
Total Equity and Liabilities	1,603,350
Total Equity and Liabilities	2,031,955

b) Assets = Liabilities + Equity

Assets:

- Plant and Equipment: £1,250,000
- Stock: £510,850
- Trade Receivable: £170,125
- Cash and Bank: £96,000
- Prepaid Expenses (Commission): £3,000
- Goods Sent but not Recorded: £980

Total Assets: £2,031,955

Liabilities + Equity:

- Shareholder's Equity (Ordinary Shares + Preference Shares + Retained Profits + Net Income After Dividends): £1,603,350
- Non-Current Liabilities (2% Debentures): £200,000
- Current Liabilities (Trade Payable + Corporation Tax): £288,625

Total Liabilities + Equity: £2,031,955

As you can see, the assets of the equation are equal to the sum of liabilities and equity of the equation, ensuring that the statement of financial position is in balance.

Question 2

a)

1) ROCE (Return on Capital Employed) = (Profit before interest / Capital employed) * 100%

Capital Employed = Total Assets – Current Liabilities

Capital Employed = £9,736 million - £2,511 million = £7,225 million

ROCE for 2021 = (£805 million / £7,225 million) * 100% = 11.14%

ROCE For 2020: -

Capital Employed = £10,087 million - £3,046 million = £7,041 million

ROCE for 2020 = (£699 million / £7,041 million) * 100% = 9.92%

2) ROE (Return on Equity) = (Earnings / Equity) * 100%

ROE for 2021 = (£431 / £3,088) * 100 = 13.96%

ROE for 2020 = (£366 / £2,912) * 100 = 12.57%

3) EPS (Earnings per Share) = (Earnings / Number of Ordinary Shares)

EPS for 2021 = Profit of the year = £431 million

Number of Ordinary Shares = £300million / £0.50/share = 600 million shares

EPS = 431 / 600 = £0.71 share

EPS for 2020 = Profit of the year = £366 million

EPS = 366 / 600 = £0.61 share

4) Net Profit Margin = (Operating Profit / Sales) * 100

Net Profit Margin for 2021 = (£431 million / £6,738 million) * 100 = 6.39%

Net Profit Margin for 2020 = (£366 million / £6,441 million) * 100 = 5.68%

5) Asset Turnover = (Revenue / Capital employed) times

Asset Turnover for 2021 = (£9,736 million + £10,087 million) / 2 = £9,912.5 million

Asset Turnover = £6,738 million / £9,912.5 = 0.67

Asset Turnover for 2020 = (£10,087 million + £10,087 million) / 2 = £10,087 million

Asset Turnover = £6,441 / £10,087 = 0.63

6) Stock Holding Days = (Inventory / Cost of Sales) *365 days

Inventory for 2021 is (£708 million + £659 million) / 2 = £683.5 million

Stock Holding Days for 2021 = (£683.5 million / £3,235 million) *365 = 77.15 days

Inventory for 2020 is (£659 million + £708 million) / 2 = £683.5 million

Stock Holding Days for 2020 = (£683.5 million / £3,096 million) *365 = 80.64 days

7) Debtors Collection Period = (Trade Receivables / Credit sales (or Revenue) *365 days

Debtors Collection Period for 2021 = (£1,249 million / £6,738 million) *365 = 67.66 days

Debtors Collection Period for 2020 = (£1,287 million / £6,441 million) *365 = 72.70 days

8) Current Ratio = (Current Assets / Current Liabilities)

Current Ratio for 2021 = (£2,303 million / £2,511 million) = 0.917

Current Ratio for 2020 = (£2,355 million / £3,046 million) = 0.774

9) Gearing Ratio = (Long Term Debt / Long Term Debt + Equity) *100%

Gearing Ratio for 2021 = (£4,137 million / £3,088 million) *100 = 133.97%

Gearing Ratio for 2020 = (£4,129 million / £2,912 million) *100 = 141.79%

10) Interest Cover = (Profit Before Interest / Interest Charges) times

Interest cover for 2021 = (£805 million / £226 million) = 3.56

Interest cover for 2020 = (£699 million / £181 million) = 3.86

b)

- ROCE: The company's Return on Capital Employed has improved from 9.92% in 2020 to 11.14% in 2021. Indicating better utilization of capital.
- ROE: Return on Equity has also improved from 12.57% in 2020 to 13.96% in 2021, showing better returns to shareholders.
- Earnings per share (EPS): The EPS has increased from 0.61 share in 2020 to 0.71 share in 2021, indicating improved profitability for shareholders.
- Net Profit Margin: The net profit margin slightly increased from 5.68% in 2020 to 6.39% in 2021, suggesting better control over costs.

- Asset Turnover: The asset turnover ratio has increased slightly from 0.63 in 2020 to 0.67 in 2021, indicating improved sales efficiency.
- Stock Holding Days: Stock holding days have decreased slightly from 80.64 days in 2020 to 77.15 days in 2021, indicating better inventory management.
- Debtors Collection Period: The debtors collection period has improved from 72.70 days in 2020 to 67.66 days in 2021, implying better collection of receivables.
- Current Ratio: The current ratio has improved from 0.774 in 2020 to 0.917 in 2021, indicating a better ability to cover short-term liabilities.
- Gearing Ratio: The gearing ratio has decreased slightly from 141.79% in 2020 to 133.97% in 2021, suggesting a slight reduction in financial leverage.
- Interest Cover: The interest cover has decreased from 3.86 times in 2020 to 3.56 times in 2021, indicating a relatively lower ability to cover interest expenses from operating profits.

References

Atrill, P., 2016. The effect of financial ratios to evaluate the company's profit. *Accounting and Finance for Non-Specialists*, pp. 75–110.

Manurung, E.,2019. Effect of financial performance and corporate size on corporate value. *International Journal of Economics and Financial Issues*, p.100.