

Assignment- A1

Module: Accounting Fundamentals

Module Code: LCBB4001

Student: 2030956

QUESTION 1 (a) – Company Accounts

KEDISON PLC

INCOME STATEMENT

YEAR ENDED 31st December 2020

	£
Revenue (W1)	827,630
Cost of sales	<u>(578,650)</u>
Gross profit	248,980
Other income	0
Distribution costs (W2)	(31,000)
Administration expenses (W3)	<u>(35,000)</u>
Operating profit	182,980
Finance costs (W4)	<u>(4,000)</u>
Profit before tax	178,980
Taxation (W5)	<u>(68,000)</u>
Profit for the period	<u><u>110,980</u></u>

KEDISON PLC
STATEMENT OF FINANCIAL POSITION
AS AT 31st December 2020

	£	£
<u>ASSETS</u>		
Non current assets		
Property, plant & equipment	632,730	
Intangible assets	<u>0</u>	
		632,730
Current assets		
Inventories	330,600	
Trade and other receivables(W6)	171,105	
Cash and cash equivalents	<u>12,900</u>	
		<u>514,605</u>
Total assets		<u>1,147,335</u>
<u>LIABILITIES</u>		
Current liabilities		
Trade and other payables (W7)	174,355	
Short term borrowings	0	
Interest (W8)	2,000	
Current tax payable	<u>68,000</u>	
		244,355
Non-current liabilities		
Long term borrowings	100,000	
Long term provisions	<u>0</u>	
		<u>100,000</u>
Total liabilities		<u>344,355</u>
Net assets		<u>802,980</u>

EQUITY

Share capital (W9)	610,000
Share premium	0
Other reserves	0
Retained earnings (W10)	<u>192,980</u>
Total equity	<u>802,980</u>

WORKINGS

W1 - Revenue

$$826,650 + 980 = 827,630$$

W2 - Distribution costs

$$\text{Distribution cost} = 28,000$$

$$\text{Salesman commission} = 3,000$$

$$(28,000 + 3,000 = 31,000)$$

W3 - Administration expenses

$$\text{Administrative expenses} = 30,000$$

$$\text{Directors remuneration} = 5,000$$

$$(30,000 + 5,000 = 35,000)$$

W4 - Finance costs

$$\text{Debentures } 4\%$$

$$100,000 \times 4\% = 4,000$$

W5 – Taxation

$$\text{Paid} = 0$$

$$\text{Unpaid} = 68,000 \text{ (CL –B/s)}$$

$$\text{Total} = 68,000 \text{ (P\&L)}$$

$$(0+68,000)=68,000$$

W6 – Trade receivables

$$\text{Debtors} = 170,125$$

$$\text{Sales due after 31st Dec 2020} = 980$$

$$170,125 + 980 = 171,105$$

W7 – Trade payables

$$\text{Salesman commission} = 3,000$$

$$\text{Trade creditors} = 171,355$$

$$3,000 + 171,355 = 174,355$$

W8 – Interest

Paid = 2,000

Unpaid = 0

Total = 2,000

$2,000 + 0 = 2,000$

W9 – Share capital

Ordinary shares = 310,000

Preference shares = 300,000

$310,000 + 300,000 = 610,000$

W10 - Retained earnings =

profit of the start of the year + net profit – dividend

Retained profit 1st Jan 2020 = 132,000

Net profit Dec 2020 = 110,980

Ordinary dividend paid = 20,000

Preference dividend paid = 30,000

$132,000 + 110,980 - (20,000 + 30,000) = 192,980$

QUESTION 1 (b) - Why does the statement of financial position balance?

“The balance sheet is a financial statement which represents a record of the organizations’ assets, liabilities, and net worth. The balance sheet can also be defined as the statement of financial position”
Bucci R.V. (2014)

The balance sheet is called balance because of the Accounting Equation which must be equal on both sides. The basic equation is:
$$\text{Assets} = \text{Liabilities} + \text{Net worth of shareholder's Equity}$$

The balance in that financial statement, always represent a company’s financial position in a certain point of time and shows the value of assets and all financial obligations. In this regard, any change in Assets and Liabilities will change the Owner Equity which is the difference between the assets value and money owed to creditors.

The Assets generally represent the value owned by the company including owed items to the business and categorized according to their liquidity and easily converted to cash. However, the assets in the balance sheet are presented as Current and Non-current assets. The Current assets mainly contain money in cash, inventory, amount in debt and other which can be converted in cash easily without any loss in value in short term. On the other hand, the Non-current assets are usually not for sale and they are not readily converted to cash without loss in value. They are also called long-term assets and can be divided to tangible and intangible assets. The assets which physically exist and used for production process more than one time are normally referred as tangible (inventories, machinery, buildings). Intangible assets not physically exist and can be recognised as intellectual property and goodwill. Some non-current assets are depreciable, which means they lose their value in terms of time and use. The land is one of the difficult to convert asset and is a non-depreciable.

Liabilities are claims against the company assets made by others regarding a certain period of time. They are also classified as current and non-current liabilities. Current liabilities basically due in a current period of time, normally a year and they are opposite to non-current liabilities which are due in longer-term. Unlike the Assets, the Liabilities usually can convert from non-current to current liabilities. Some examples of liabilities are loans, accounts payable, bonds, warranties, mortgages.

Equity in the balance formula normally means the shareholders’ equity and correspond to the value that will be returned to the

shareholders in case all the assets were liquidated and all debt were paid off. One of the method which can be used to fund company assets is to issue equity through common or preferred shares – share capital. Other method is to create liabilities, like issue debt or borrow money. Share capital is a main item in an equity section.

Another main line in the equity section is Retained earnings and represents the amount which the company choose to hold instead of paying dividends.

REFERENCES:

Bucci R.V. (2014) Balance Sheet. In: Medicine and Business. Springer, Cham.

QUESTION 2 (a) – Ratios

Chocco Plc calculation of ratios, based on Profit and Loss statement for the years ended 31st December, and Statement of Financial Position as at 31st December.

	ratio	formula	working (2020)	working (2019)	2020	2019
1	ROCE	Profit before interest / Assets employed x 100%	$805 / (9'736 - 2'511) \times 100$	$699 / (10'087 - 3'046) \times 100$	11.14%	9.93%
2	ROE	Earnings / Ordinary share capital and reserves x 100%	$431 / 3'088 \times 100$	$366 / 2'912 \times 100$	13.96%	12.57%
3	Earnings per share	Earnings / Number of ordinary shares	$431 / 300$	$366 / 300$	£1.44	£1.22
4	Net profit margin	Net profit / sales x 100%	$805 / 6'738 \times 100$	$699 / 6'441 \times 100$	11.95%	10.85%
5	Asset turnover	Turnover / Asset employed (Total asset - Current liabilities)	$6'738 / (9'736 - 2'511)$	$6'441 / (10'087 - 3'046)$	£0.93	£0.91
6	Stock holding days	Inventory / Cost of sales x 365	$708 / 3'225 \times 365$	$659 / 3'096 \times 365$	79.9 (80 days)	77.7 (78 days)
7	Debtors collection period	Trade receivables / Credit sales x 365	$1249 / 6'738 \times 365$	$1287 / 6'441 \times 365$	67.7 (68 days)	72.9 (73 days)
8	Current ratio	Current assets / Current liabilities	$2'303 / 2511$	$2'355 / 3'046$	0.92	0.77
9	Gearing ratio	Debt / (Debt + Equity) x 100% *(Debt = Long term or non-current liabilities)	$4'137 / (4'137 + 3'088) \times 100$	$4'129 / (4'129 + 2'912) \times 100$	57.26%	58.64%
10	Investor cover	Profit before interest / Interest charges	$805 / 226$	$699 / 181$	3.56	3.86

QUESTION 2 (b) – Comment on the financial performance and position of Chocco Plc.

Based on the short analysis period of two years, the company shows growth and higher profits at the end of year 2020, which is a good achievement in a highly competitive industry and despite the global pandemic.

The company is efficient in generating return to his investors/shareholders and use of capital compared to the previous year. Return on capital increased with £1.43 for every £100 invested, and £1.39 return to the shareholders for every £100 invested. Earnings also increase with £0.22 per share and at the end of 2020 Chocco Plc paid £255m dividend.

During 2020 the company is more profitable from the previous year and for every £100 sales, earn £11.95 or £1.10 more than 2019. The company slightly increased the amount of inventory and stock holding period but the debtor's collection period is reduced with 5 days. Chocco Plc. improves significantly the company's abilities to pay short term obligations as the ratio is close but still under 1 (from 0.77 to 0.92 for year 2020) which means some liquidity problem will be possible.