



ACCOUNTING FUNDAMENTALS

Assignment A1

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Question 1

1. A)

Income statement for 31.12.2021 for Wales plc

Particulars	Amount (£)
Revenue	800 980
Less: Cost of goods sold	(578 650)
Gross Profit	222 330
Other income	0
Total other income	0
Administrative expenses	(30 000)
Director's remuneration	(5 000)
Distribution cost	(28 000)
Dividend Paid (preference and ordinary)	(50 000)
sales commission	(3 000)
Operating cost	106 330
Interest paid	(2 000)
Profit before tax	104 330
corporate taxation	(100 000)
Profit for the year	4 330

Statement of financial position for 31st Dec 2021 for Wales plc

Particulars	Amount (£)	Amount (£)
Assets		
Non-Current Assets		
Plant and Equipment	632 730	
Stock	330600	
Total Non-Current Assets	963 330	
Current Assets:		
Cash and bank	76 250	
Closing Inventory		
Trade Receivables	171 105	
Total Current Assets	247 355	
Total Assets	1 210 685	1 210 685
Liabilities		
Current Liabilities:		
Trade payables	171355	
Accrual Commission	3000	
Accrual Corporate tax	100000	
Long term liability:		
Total Current Liabilities	274 355	
Non-Current Liabilities		
Total Liabilities	274355	
Net Assets		
Shareholders' Equity:		
£1 ordinary shares	400 000	
10% £1 preference shares	300 000	
Retained Profit	136 330	
4% Debentures	100 000	
Total Share capital	936 330	
Total Liabilities and Equity	1 210 685	1 210 685

1 B) Why does the statement of financial position balance?

The statement of financial position, also known as the balance sheet, shows the financial position of a company at a particular date. Its structure is represented by three main sections: assets, liabilities, and equity. (Horner, 2013)

The statement of financial position is structured in such a way that the sum of the enterprise's assets is equal to the sum of liabilities and equity.

The reason for this balance is that the company's assets can be financed either from internal sources (eg through equity or profits) or from external sources (eg bank loans or credit purchases). Therefore, the value of the company's assets must be equal to the sum of the capital invested by the owners (in the form of share capital and retained earnings) and liabilities. (Horner, 2013)

The statement of financial position helps users of financial statements to assess the financial condition of the company. In addition, comparing data for a consistent number of reporting periods allows you to identify trends in the company's financial condition. This is especially useful when assessing liquidity risk, credit risk and business risk. When used in conjunction with other company financial statements and competitors' financial statements, the balance sheet helps to find links and guidance that indicate current issues or areas for further improvement. Therefore, the analysis of the statement of financial position helps the company's management to predict the amount, timing of receipt and variability of future income. (Horner, 2013)

Question 2

Sweets plc

Ratio	Formula	2021	2020
1.Return on capital employed	<i>Profit before interest/Assets employed*100%</i>	11,14%	9,93%
ROCE	<i>Operating profit</i>	805	699
	<i>total assets less than total current liabilities</i>	7 225	7 041

Return on capital employed is a financial ratio that can be used to measure a company's profitability and capital efficiency.

In other words, ROCE can provide insight into how well a company utilizes its capital to generate profits.

ROCE of Sweets plc for 2021 is 11.14% with 1.21% more comparing to the previous year. The incising of ROCE for the last period helps the management of Sweet Plc has increased its ability to choose the right project and options for investment. (HAYES, 2021)

Ratio	Formula	2021	2020
2.Return on equity	<i>Earnings/Ordinary share capital and reserves*100%</i>	14%	13%
ROE	<i>Net Profit</i>	431	366
	<i>Equity</i>	3 088	2 912

ROE of the company is 14% for 2021 and 13% for 2020. ROE is taken into consideration a gauge of an enterprise's profitability and how green it is in

generating earnings. As a result, the return on equity of the firm in 2021 has increased, which indicates growth in the firm's net income and the efficiency of its investments. (Horner, 2013)

Ratio	Formula	2021	2020
3.Earnings Per share	<i>Income/ Outstanding shareholders</i>	0,72	0,61
	<i>Net Profit (earnings)</i>	431	366
	<i>Ordinary share capital (50p per shares)</i>	600	600

Earnings Per share - A company's earnings per share (EPS) are calculated by dividing its profit by the outstanding shares of its common stock. The resulting number serves as a measure of profitability. Accordingly, Sweet Plc's EPS was 0.61 in 2020, and went up to 0.72 in 2021, indicating a greater return on investment for the company's employees. (HAYES, 2021)

Ratio	Formula	2021	2020
4.Net profit Margin	<i>Net Income / Sales*100</i>	6,40%	5,68%
	<i>Net Income</i>	431	366
	<i>Sales</i>	6 738	6 441

The net profit margin indicates how much a company makes out of each pound of revenue collected. It is typically expressed as a percentage but can also be expressed as a decimal. The company has lowered its operating costs and expenses in 2021 as well as increased sales revenue, which has led to an improvement in the company's profit margin. (HAYES, 2021)

Ratio	Formula	2021	2020
5.Asset turnover	<i>Turnover/ Assets employed*100</i>	93%	91%
	<i>Revenue</i>	6 738	6 441
	<i>Total Assets</i>	7 225	7 041

As an indicator of a company's efficiency in using assets to generate revenue, the asset turnover ratio serves as a measure of that efficiency. The higher the asset turnover ratio, the more efficient a company is at generating revenue from its assets. (Horner, 2013)

Ratio	Formula	2021	2020
6. Stock holding days	<i>Inventory / Cost of sales *365</i>	80 days	78 days
	<i>Inventory</i>	708	659
	<i>Cost of Goods Sold</i>	3 235	3 096

An indicator of an organization's liquidity is its inventory holding period, which is used to measure how well they are able to manage their assets and how long it takes for them to turn into cash or income. (Horner, 2013)

Ratio	Formula	2021	2020
7. Debtors' collection period	<i>Trade receivable / Sales *365</i>	68 days	73 days
	<i>Trade receivable</i>	1 249	1 287
	<i>Credit of Sales</i>	6 738	6 441

A reduction in the Debtor Collection Period is indicative of increasing efficiency in accounting. In other words, a decreasing period of time indicates a reduction in the amount of time necessary to collect trade debts. (HAYES, 2021)

Ratio	Formula	2021	2020
8. Current ratio	<i>Current assets/Current liabilities</i>	0,92:1	0,77:1
	<i>Current Assets</i>	2 303	2 355
	<i>Current Liabilities</i>	2 511	3 046

Investors and analysts use the current ratio to calculate how well a company can utilize its current assets to pay its current debt and other

obligations within a year. It is a liquidity ratio that indicates a company's ability to meet its short-term obligations. (HAYES, 2021)

Ratio	Formula	2021	2020
9.Gearing ratio	<i>(Debt/Debt+ Equity)*100</i>	57%	59%
	<i>Debt(non current liabilities)</i>	4 137	4 129
	<i>Debt(non current liabilities)+equity</i>	7 225	7 041

By comparing a company's borrowed funds with its equity, the gearing ratio can be used to determine how much risk a company faces. Excessive debt can be a source of financial difficulty. (CMC, 2022)

Ratio	Formula	2021	2020
10.Interest cover	<i>Profit befor interest/Interest charges</i>	3,56	3,86
	<i>Profit before interest</i>	805	699
	<i>Interest</i>	226	181

The interest coverage ratio is a useful measure of how well a company is able to meet its debt obligations. When the interest coverage ratio falls below 1, the company doesn't generate enough earnings to cover its debt obligations. (CMC, 2022)

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