

ACCOUNTING FUNDAMENTALS

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Introduction

The computation of profit, as well as a loss, will be estimated in the assignment for analyzing the profit and other expenses of the organization. The statement of both balance sheet, as well as profit and loss, has been prepared for identifying the valuation of the sales and the purchase to understand the ability of the company. In the second part of the alignment, the ratio has been stated of the company Chocco Plc, as the ratio helps to analyze the performance of the organization. Accounting generally deals with the effective principles regarding generally accepted prices which provides various procedures to record the transaction.

Question 1

A) Presentation of the statement of profit, loss, and balance sheet

Profit and loss statement

The concept of profit and loss is known as the account or rather the statement which helps to summarize the profit, costs, and expenses of the organization. The statement of profit and loss is generally prepared by the company to analyze the expenses and income during the year (Hertati *et al.* 2020, p.49). It summarizes the expenses, revenue, and various costs of a specific period and it is also known as the income statement of the organization. It leads to analyzing the ability of the organization for generating a profit by reducing cost and increasing revenue.

Profit and loss of Kedison Plc	
Particulrs	Amounts (£)
Revenue	826650
Cost of sales	578650
Gross profit	248000
Distribution cost	28000
Adminitrative expenes	30000
Other income	nil
Operating profit	190000
Income from invetment	nil
Finance cost/ interst	2000
Profit before tax	188000
Taxation	68000
Profit for the period	120000

Figure 1: Computation of Profit and loss

(Source: Self-created)

In the above figure the profit and loss of the year 2020 which is depicting the profit of the period as £120000. The company has presented the profit and loss statement of the year 2020 for analyzing the expenses which have occurred in the organization. The revenue which has been earned during the year is £826650 and the cost of sales amount to £578650. The gross profit has been achieved by deducting the cost of sales from the revenue to the amount of £248000. The expenses involve distribution cost, administrative cost, and other expenses which lead to deduction of the gross profit for the accounting period for analyzing the operating profit. The administrative expenses amount to £30000 and the distribution cost of the year amounts to £28000. The organization name Kedison Plc has been paid interest and it amounts to £2000. The profit after tax has been computed by deducting the tax from the amount of £188000 for getting the actual profit which amounts to £120000. The tax gets deducted from the profit before tax which provides the amount of profit which is £120000.

Balance sheet

The balance sheet is the financial statement which reports. It contains companies' liability, shareholders equity and companies' assets of a certain period. It provides a core financial statement for evaluating the performance of a business entity (Perechuda, 2020, p.46). It presents the state of finance of the company.

Balance sheet of Kedison Plc	
Assets	Amount £
Non-current assets	
Property, plant, equipment	632730
Intangible assets	nil
Current assets	
Inventories	330600
Trade recivables	170125
Cash	12900
Total assets	1146355
Liabilities	Amount £
Cuurent liability	171355
Non- current liability	nil
Total liabilities	
Equity	
Share capital	710000
Share premium	13000
Other reserves	
Retained earnings (profit at start + net pofit)	252000
Total Liabilities	1146355

Figure 2: Computation of balance sheet

(Source: Self-created)

In the above figure, the balance sheet has been presented which involves liability and assets in both debits as well as credit side. The assets of the organization lead to state the capability of the company. The liability helps to determine the financial position of the company. It involves property, plant, and equipment which amounts to £632730. The assets of the balance sheet help to identify inventory which amounts to £330600, trade receivable which amounts to £170125, and cash which amounts to £12900. The total assets it has been analyzed and it provides the value of £1146355. The liability involves current liability which amounts to £171355 and the amount of retained earnings amounts to £252000. The total liability also amounts to £1146355.

B) Explain the reasons for a statement of financial position balancing

The balance sheet needs to involve both the credit side and the debit side to get equal amount balances on each side. The debit side contains the liability of the organization and the credit side contains the assets of the organization (Michel, 2020, p.41). The financial position leads to an equal balance due to the policy of generally accepted accounting policy followed in the company. The accounts have been recorded according to the double-entry effect and this helps to provide balance on both sides of the balance sheet. The system of accounting leads to help for the recording of various transactions in different books and this reflects on both sides of the accounting.

Question 2

A) Analyze and computation of ratios

1. ROCE

ROCE ratio		2019 (£m)	2020 (£m)
Profit before interest and tax		539	620
Capital employed		300	300
Ratio		1.80	2.07

Figure 3: Calculation of ratios

(Source: Self-created)

Analyze

In the above figure, the profit before interest and tax of the year 2019 amounts to £593 and the amount of profit in the year 2020 is 3620.

Compare

The ratio of the year 2020 has been incurred in the year 2020 to the amount of 2.07.

Ways to improve

The ratio can get improved by decreasing the expenses and it will lead to an increase the profit. The increase in the profit leads to increase the ratio.

2. ROE

ROE			
total equity		300	300
net profit		366	431
net income/total equity		1.22	1.44

Figure 4: Calculation of ratios

(Source: Self-created)

Analyze

The total equity of the company amounts to £300 in both the years 2020 and 2019. The ratio of return on equity amounts to 1.44 of 2020 and the ratio of 2019 amounts to 1.22.

Compare

The ratio of the year 2020 has been increased to 1.44 from the previous year.

Ways to improve

The equity can get improved by decreasing the share price of the company and providing regular dividends leads to an increase in the purchase of equity and the ratio will get improved.

3. Earnings per share

Earning per share		2019(£m)	2020 (£m)
Preference dividend		nil	nil
Net Income		366	431
Share Outstanding		1071	1071
EPS ratio [(Net income - Prefernce dividend)/ outstanding share]		34%	40%

Figure 5: Calculation of ratios

(Source: Self-created)

Analyze

The net income for the following year 2020 amounts to £431 and the net income of following year 2019 amounts to £366.

Compare

The ratio of the year 2020 amounts to 40%, as it leads to an increased from the previous year.

Ways to improve

The ratio can be effectively improved by increasing the net profit of the organization.

4. Net profit margin

net profit margin		2019(£m)	2020 (£m)
net profit		366	431
sales		6441	6738
net profit/sales		6%	6%

Figure 6: Calculation of ratios

(Source: Self-created)

Analyze

In the above figure, the net profit has been identified which amounts to £366 in following year 2019 and the amount of net profit following year 2020 amounts to £431.

Compare

The ratio of both the year 2020 and the year 2019 has the same ratio, as there is no change in the ratio due to an increase and decrease in the sale and net profit.

Ways to improve

The net profit ratio can be improved in the future by increasing the sales which will lead to more earning of revenue in Chocco Plc.

5. Asset turnover

Assets turnover ratio		2019(£m)	2020 (£m)
assets		10087	9736
net sales		6441	6738
Assets turnover ratio (net sales/ average total assets)		64%	69%

Figure 7: Calculation of ratios

(Source: Self-created)

Analyze

In the above figure, the current asset of following year 2019 amounts to £10087, and the asset of the year 2020 amounts to £9736. The ratio of following year 2020 states to 69%. The ratio of the year 2019 states 64%.

Compare

the ratio has decreased to 69% in the current year; therefore, the management has to get focused on the asset turnovers.

Ways to improve

The assets turnover can get improved by increasing the number of current assets. The ratio can also increase by increasing the revenue in the future.

6. Stock holding days

stock holding period	2019(£m)	2020 (£m)
inventories	659	708
COGS(PURCHASE)	3096	3235
(inventory/purchase)*365		
	77.69	79.88

Figure 8: Calculation of ratios

(Source: Self-created)

Analyze

The inventory of the year 2019 states to £659 and the ratio is 77.6 in the year 2019. The ratio of the year 2020 amount to 2020 is 79.88.

Compare

It has been stated that the ratio of 2020 is 79.88 which has been improved from the previous year 2019.

Ways to improve

The ratio can get better by improving the inventory and eliminating the expenditure. The reduction in the price of the product leads to an increase in the ratio.

7. Debtor's collection period

debtors collection period		2019(£m)	2020 (£m)
account receivable days		1287	1249
sales		6441	6738
(receivable/sales)*360		71.93293	66.73196794

Figure 9: Calculation of ratios

(Source: Self-created)

Analyze

The ratio of the year 2020 has been stated by multiplying with 365 days for calculating the ratio in the number of days. The ratio of 2020 is 66.73 days. The ratio of the year 2019 is 71.93 days.

Compare

The ratio of the year 2020 has been detected and it leads to the information that the company has been paying its creditors in less time.

Ways to improve

The ratio leads to improv by providing the discount which leads to encouraging early payments.

8. Current ratio

current ratio			
current assets		2355	2303
current liability		3046	2511
current assets/current liability		0.7731451	0.917164476

Figure 10: Calculation of ratios

(Source: Self-created)

Analyze

In the above figure, the ratio of the following year 2020 amounts to 0.917 and the ratio of the following year 2019 amounts to 0.77.

Compare

The ratio of the following year 2020 has been increased to 0.914 from the previous year of 2019.

Ways to improve

The management should focus on improving the current ratio by swapping the bank accounts and by decreasing the current assets.

9. Gearing ratio

Gearing ratio		2019(£m)	2020 (£m)
debt		242	255
equity		300	300
ratio (debt/equity)		81%	85%

Figure 11: Calculation of ratios

(Source: Self-created)

Analyze

The ratio of the following year 2020 amounts to 85% and the debt of the company amounts to 242 in the following year 2019 and the debt of the year 2020 amounts to 255. The equity of the following year 2019 amounts to 300 and it remains the same in the present year.

Compare

The ratio has been incurred in the year 2020 to 85% and the debt of the year 2020 has also been increased to £255.

B) Analyzing the financial position of business

The ratio helps to estimate the effective position of the organization and it also helps to evaluate the performance of the company named Chocco Plc. The ratio leads to providing information regarding the liquidity situation of the company (Haralayya, 2021, p.180). The organization has enough cash for paying its short-term obligations. The investor will invest in th organization as the company has increasing ration regarding the return of capital. The company has to focus on increasing the net profit which will help to gather more profit in the future and a better position for the company in the market for its establishment.

Conclusion

The statement of the balance sheet helps to identify the assets and the liabilities of the company. The accounts have various guidelines for the preparation of the financial statement and these guidelines have to be maintained by the companies so that the accounting can be transparent and effective. The concept of general accounting and the principal's name generally accepted accounting principle has to be followed as it has elaborated the concept and it leads to state various procedures for the recording of transactions. The balance sheet, as well as profit and loss, help analyze the position of the business and it leads to estimate the profit during the year.

References

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Ratio of CHOCCO PLC			
liquidity ratio		2019 (£m)	2020 (£m)
current assets		2355	2303
current liability		3046	2511
inventory		659	708
sales		6441	6738
		2019£	2020 £
current ratio			
current assets		2355	2303
current liability		3046	2511
current assets/current liability		0,7731451	0,917164476
quick ratio			
(current assets-inventory)/current liability		0,5567958	0,635205098
Assets turnover ratio		2019 (£m)	2020 (£m)
assets		10087	9736
net sales		6441	6738
Assets turnover ratio (net sales/ average total assets)		64%	69%

PROFITABILITY RATIO			
		2019	2020
sales		6441	6738
total equity		300	300
total assets		10087	9736
net profit margin		2019(£m)	2020 (£m)
net profit		366	431
sales		6441	6738
net profit/sales		6%	6%
ROE			
total equity		300	300
net profit		366	431
net income/total equity		1,22	1,44
ROA			
net income/total assets		0,0362843	0,044268694

			0
Gearing ratio		2019(£m)	2020 (£m)
debt		242	255
equity		300	300
ratio (debt/equity)		81%	85%
efficiency ratios			
		2019(£m)	2020(£m)
inventories		659	708
COGS(PURCHASE)		3096	3235
sales		6441	6738
receivable		1287	1249

stock holding period	2019(€m)	2020 (€m)
inventories	659	708
COGS(PURCHASE)	3096	3235
(Inventory/purchase)*365		
	77.69	79.88

debtors collection period		2019(£m)	2020 (£m)
account receivable days		1287	1249
sales		6441	6738
(receivable/sales)*365		72,931998	67,65880083
Earning per share		2019(£m)	2020 (£m)
Preference dividend		nil	nil
Net Income		366	431
Share Outstanding		1071	1071
EPS ratio [(Net income - Prefernce dividend)/ outstanding share]		34%	40%
invetor cover		2019(£m)	2020 (£m)
inventories		659	708
COGS(PURCHASE)		3096	3235
(inventory/purchase)*365			
		77,69	79,88
ROCE ratio		2019(£m)	2020 (£m)
Profit before interest and tax		720	846
Capital employed		7225	7041
Ratio		10%	12%