

Programme: BA Business Management

LCBB4001

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Accounting Fundamentals Assessment 1

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“In submitting this work, I affirm that my work adheres to the scholarly and intellectual standards of honesty and integrity. I affirm that this work is my work only and that in the preparation of this work I have not consulted any person. I affirm that I have not plagiarised or misrepresented the ideas or language of someone else as my own and that I have fully and accurately attributed any ideas or text of others to the sources and documented each source”.

Question 1

- a. Prepare an income statement for the year ended 31st December 2019 for Eccles plc and a statement of financial position as at that date.

Eccles Plc

Income statement as at 31st December 2019

Ledger	Account	Debit	Credit
Income	Sales		827,630
Cost of sales	Commissions payable	3,000	
	Other	28,000	
	Purchases	578,650	
Expenses	Administrative Expenses	30,000	
	Directors salaries	5,000	
	Interest – bank	2,000	
	Non-equity dividends	50,000	
Taxation	Corporation tax	68,000	
FA – plant and machinery	Cost- b/fwd	632,730	
Stocks	Finished goods	330,600	
Debtors	Trade debtors	171,105	
Bank	Current account	12,900	
Creditors	Accruals		3,000
	Corporation tax		68,000
	Debentures		100,000
	Trade creditors		171,355
Share capital	Ordinary shares		310,000
	Preference shares		300,000
Profit and loss account	Brought forward		132,000
Total		1,918,985	1,918,985
Net profit for the year			- 62,980

Eccles plc

Balance sheet as at 31st December 2019

		2019	2018
		£	£
FA – plant and machinery	Cost- b/fwd	632,730	632,730
Stocks	Finished goods	330,600	330,660
Debtors	Trade debtors	170,125	171,105
Bank	Current account	10,880	12,900
		511,605	514,605
Creditors	Accruals	0	-3,000
	Corporation tax	-68,000	-68,000
	Long term contracts	-100,000	-100,000
	Trade creditors	-171,355	-171,355
		-339,355	-342,355
Net Assets		804,980	804,980
		£	£
Share capital	Ordinary shares	310,000	310,000
	Preference shares	300,000	300,000
		610,000	610,000
Profit and loss account	Brought forward	194,980	132,000
	Net profit	0	62,980
		194,980	194,980
Total funds		804,980	804,980

b. Explain why the statement of financial position balances.

Statement of Financial Position, also known as the Balance Sheet, presents the financial position of an entity at a given date. It is comprised of three main components: **Assets, liabilities and equity**. The balance sheet is structured in a way that the total assets of an entity equal to the sum of liabilities and equity. All this been said, leads us to the formula **Accounting eq: Assets = Liabilities + Equity**. As we had been correctly recorded the year end journals we can see that the financial statement is balancing.

Question 2

- a. Prepare a schedule of ratios for Chocco plc for 2019 and 2018.

Liquidity Ratio	2019	2018
Current ratio	1	1
FORMULA : $\frac{\text{current assets}}{\text{current liabilities}}$		
Current asset	2303	2355
Current liabilities	2511	3046
quick ratio	0,635205	0,556796
FORMULA : $\frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$		
current assets	2303	2355
inventories	708	659
Current liabilities	2511	3046
cash ratio	0,088809	0,066645
FORMULA : $\frac{\text{cash} + \text{short term invest.}}{\text{current liabilities}}$		
cash and cash equivalent	201	177
short term investment	22	26
current liabilities	2511	3046

Profitability ratio	2019	2018
gross profit margin	108,28	108,04
FORMULA : $\frac{\text{gross profit}}{\text{sales}} \times 100\%$	$\frac{3503}{3235} \times 100\% = 108,28$	$\frac{3345}{3096} \times 100\% = 108,04$
gross profit	3503	3345
sales	3235	3096
net profit margin	24,88	22,58
FORMULA : $\frac{\text{operating profit}}{\text{sales}} \times 100\%$	$\frac{805}{3235} \times 100\% = 24,88$	$\frac{699}{3096} \times 100\% = 22,58$
operating profit	805	699
sales	3235	3096

Efficiency ratio	2019	2018
Asset Turnover ratio	2,083	2,080
FORMULA : $\frac{\text{turnover}}{\text{asset employed}}$	$\frac{6738}{3235} = 2,083$	$\frac{6441}{3096} = 2,080$
Stock holding period	80 days	78 days
FORMULA : $\frac{\text{inventory}}{\text{cost of sale}} \times 365$	$\frac{708}{3235} \times 365 = 80$	$\frac{659}{3096} \times 365 = 78$
Debtors collection period	68 days	73 days
FORMULA : $\frac{\text{trade receiv.}}{\text{credit sales}} \times 365$	$\frac{1249}{6738} \times 365 = 68$	$\frac{1287}{6441} \times 365 = 73$
Creditors payment period	66 days	77 days
FORMULA : $\frac{\text{trade payable}}{\text{credit purch.}} \times 365$	$\frac{583}{3235} \times 365 = 66$	$\frac{655}{3096} \times 365 = 77$

Financing ratio		
Gearing ratio	0,682826623	0,699113
FORMULA : $\frac{\text{debt}}{\text{debt} + \text{equity}} \times 100\%$		
total debt	6648	7175
total equity	3088	3088
Interest cover	3,561	3,861
FORMULA: $\frac{\text{Profit before interest}}{\text{Interest charges}}$		
Operating profit	805	699
Interest payable	226	181

Investment ratio		
ROCE	22,98%	20.9%
FORMULA: $\frac{\text{operating profit}}{\text{assets employed}} \times 100\%$	$\frac{805}{6738 - 3235} \times 100 = 22,98$	$\frac{699}{6441 - 3096} \times 100 = 20,9$
Return on equity	13,96	12,57
FORMULA: $\frac{\text{earnings}}{\text{ordinary share capital and rsv}} \times 100\%$	$\frac{431}{3088} \times 100\% = 12,96$	$\frac{366}{2912} \times 100\% = 12,57$
Earnings per share	1,44	1,22
FORMULA: $\frac{\text{earnings}}{\text{number of ordinary shares}}$	$\frac{431}{300} = 1,44$	$\frac{366}{300} \times 100\% = 12,96$
Price earnings ratio	919,44	1044,26
FORMULA: $\frac{\text{market price}}{\text{earnings per share}}$	$\frac{1324}{1,44} = 919,44$	$\frac{1274}{1,22} = 1044,26$

- b. Using the information in the financial statements and the ratios you have calculated, comment on the financial performance and position of Chocco plc.

According to **Liquidity current ratio** Chocco pls is doing well. A current ratio of 1 or more means that current assets are more than current liabilities and the company should not face any liquidity problem. Chocco plc current ratio position is strong as they have 1 available current assets to pay for 1 current liabilities. **Liquidity Quick ratio** in Chocco pls case rise to 0.635205 for the year 2019 from the 0.5567896 how was in 2018. The current position of Chocco plc Company has been improved in the year of 2019 from the previous year. Here we can see a small increase for 2019 regarding to 2018. The **Cash Ratio** has also seen to be improved in the year 2019 comparing to 2018. From 0.666645 in the year 2018 cash ratio raises to 0.888809 in 2019. The Chocco plc can rich a high position in the marketing sector.

Profitability ratios, **Gross profit margin** here It shows the gross profit Chocco plc makes after deducting the cost of sales. They are doing not bad as we can see an small increase from 108.0426 in the year 2018 to 108.2844 in the year 2019. **Net profit margin** with this ratio we determine how much net profit is made from sales revenue earned. We can see that in 2019 has increased that mean it's a good thing.

Efficiency ratio, **Asset turnover** this ratio is a good indicator of how good Chocco plc is at using your assets to produce revenue.

References

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- 3- Ward, D.M. and Calabrese, T., 2018. *Accounting fundamentals for health care management*. Jones & Bartlett Learning