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FINANCIAL ACCOUNTING

ASSIGNMENT 1

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Table of Contents

WALES PLC INCOME STATEMENT THE YEAR ENDED 31 ST DECEMBER 2022.....	2
WALES PLC STATEMENT OF FINANCIAL POSITION AS OF 31 ST DECEMBER 2022.....	3
Calculations	4
Why does the Statement of Financial Position Balance?	5
Financial Performance and Position Of Sweets Plc	7
Calculations	8
Analysis based on calculated ratios	8
References	10

WALES PLC INCOME STATEMENT THE YEAR ENDED 31ST DECEMBER 2022

Particulars	£
Revenue	800,000
Sold goods, not paid yet	980
Cost of sales	<u>(578,650)</u>
Gross profit	222,330
Distribution costs	(28,000)
Administration expenses	(30,000)
Salesman Commission	(3,000)
Directors Remuneration	(5,000)
Operating profit	156,330
Finance costs:	
Interest 2% (2,000+2,000)	<u>(4,000)</u>
Profit before tax	152,330
Taxation	<u>(100,000)</u>
Profit for the year	<u>52,330</u>

Particulars	£
Retained profit on 1 st Jan 2022	132,000
Dividends:	
Ordinary	(20,000)
Preference 10% (30,000+20,000)	(50,000)
Profit for the year	<u>52,330</u>
Retained earnings	<u>114,330</u>

WALES PLC STATEMENT OF FINANCIAL POSITION AS OF 31ST DECEMBER 2022

Particulars	£	£
<u>ASSETS</u>		
Non-current assets		
Property, plant & equipment	1,250,000	
		1,250,000
Current assets		
Inventories	510,850	
Trade and other receivables	170,125	
Cash and Bank	96,000	
Accruals	<u>980</u>	
		<u>777,955</u>
Total assets		<u>2,027,955</u>
<u>LIABILITIES</u>		
Current liabilities		
Trade and other payables	188,625	
Accruals	25,000	
Current tax payable	<u>100,000</u>	
		313,625
Non-current liabilities		
Long term borrowings	<u>200,000</u>	
Debentures 2%		<u>200,000</u>
Total liabilities		<u>513,625</u>
Net assets		<u>1,514,330</u>
<u>EQUITY</u>		
Share capital		900,000
Share premium		500,000
Retained earnings		<u>114,330</u>
Total Equity		<u>1,514,330</u>
Total E + L		<u>2,027,955</u>

Calculations

➤ 2% Debentures x **Interest**
 £200,000
 2% **£4,000** = £2,000 paid
 +
 £2,000 due

➤ 10% £1 Preference shares x £500,000 **Preference dividends**
 10% **£50,000** = £30,000 paid
 +
 £20,000 due

➤ Accruals

Accruals	Income	Expense
	£980 sold goods	£2,000 interest due
		£20,000 preference dividends due
		£3,000 salesman commission due
Total	£980	£25,000

Why does the Statement of Financial Position Balance?

The statement of financial position, known as the balance sheet, provides a clear picture of a company's financial situation at a certain point in time. It gives priceless insights into the financial health and stability of the firm via its comprehensive overview of the company's assets, liabilities, and equity (Kirkwood and Moss, 2020). According to Saxena, Singh, and Khan (2021), the statement of financial position for Wales Plc has been designed to sustain a balance of accounting principles by representing the concept of total asset equality with total liabilities and equity. However, it is necessary to clarify the several aspects that contribute to Wales Plc's statement of financial position's balanced condition.

The precise and organised recording of the company's assets forms the fundamental basis for balancing Wales Plc's statement of financial status. The non-current assets section includes a full combination of property, plant, and equipment with intangible assets. By using a thoughtful valuation methodology, these assets are valued at their historical cost, ensuring a truthful representation of their value and enabling an informed evaluation of the company's net worth. Additionally, the integration of current assets, encompassing inventories, trade and other receivables, accrued income, and cash equivalents, ensures that the fundamental accounting equation, $\text{Assets} = \text{Liabilities} + \text{Equity}$, is satisfied.

Wales Plc has documented its array of liabilities, both current and non-current, effectively balancing the statement of financial position. Liabilities must be recorded in order for the firm to remain consistently committed to fulfilling its obligations and maintaining its financial balance (Aiolfi, 2020). The current liabilities faithfully include trade and other payables, short-term borrowings, and the current tax payable within the boundaries of Wales Plc's balance sheet. Meanwhile, non-current liabilities help to discern the presence of long-term borrowings, specifically debentures.

The statement of financial position is balanced by equity, which is a key tenet in Wales Plc's thorough accounting of its financial situation. The meticulous

division of share capital, share premium, other reserves, and retained earnings provides a clear and thorough picture of the shareholders' equity, reflecting their vested interests in the valuable assets of the company (Robinson, Henry & Broihahn, 2020). The calculated categorisation of preference shares under the category of equity, which confirms an all-encompassing and faultless portrayal of the company's financial framework, is a significant feature of Wales Plc's skillful financial disclosure.

Wales Plc has effectively absorbed the reverberations of additional information supplied within the scope of the query in an effort to achieve a balanced representation of the financial situation. By incorporating the recognition of commission liabilities owed to diligent salesmen and the consignments dispatched to esteemed customers, both of which have transpired in the present fiscal period, the veracity and comprehensiveness of the financial report receive a strong reinforcement (Chung, Kim, & Syam, 2020). These astute adjustments demonstrate the organization's persistent commitment to the principles of openness and strict adherence to the accrual basis of accounting, which ensures that transactions are recorded in the ledger as soon as they occur, regardless of whether real currency exchanges took place.

In conclusion, the meticulous preparation of Wales Plc's statement of financial position showcases an assiduous accounting process that diligently encompasses all assets, liabilities, and equity components. The precision in recording, deftly appraising valuations, and comprehensive inclusion of supplementary information play a pivotal role in securing the statement's financial equilibrium. The balanced state of the financial position stands as a resolute testament to the company's unwavering financial stability, skillfully laying the groundwork for effective decision-making and propelling a trajectory of future growth.

Financial Performance and Position Of Sweets Plc

Ratios	Formula	2021 (£m)	2020 (£m)	Change
ROCE	(Profit Before Interest/Capital employed ¹)x100	(846/7,225)x100 ≈ ≈11.70%	(720/7,041)x100 ≈ ≈ 10.22%	≈1.48 ↑
ROE	(Earnings/Equity)x100	(431/3,088)x100 ≈ ≈13.95%	(366/2,912)x100 ≈ ≈12.56%	≈1.39 ↑
Earnings per share	Earnings/Number of ordinary shares	431/600≈£0.71	366/600≈£0.61	≈0.1 ↑
Net profit margin	(Operating profit/Sales)x100	(805/6,738)x100 ≈ ≈11.94%	(699/6,441)x100 ≈ ≈10.85%	≈1.09 ↑
Assets turnover	Revenue/Capital employed ¹	6,738/7,225 ≈ ≈ 0.93 times	6,441/7041 ≈ ≈ 0.91 times	≈0.02 ↑
Stock holding days	(Inventory/Cost of sales)x365	(708/3,235)x365 ≈ ≈ 80 days	(659/3096)x365 ≈ ≈ 77 days	≈3 ↑
Debtors collection period	(Trade Receivables/Revenue)x365	(1,249/6,738)x365≈ ≈67 days	(1,287/6,441)x365≈ ≈73 days	≈-6 ↓
Current ratio	Current Assets/Current Liabilities (x:1)	(2,303/2,511):1 ≈ ≈0.91:1	(2,355/3,046):1 ≈ ≈0.77:1	≈0.14 ↑
Gearing Ratio	[Long Term Debt/(Long Term Debt +Equity)]x100	(4,137/7,225)x100≈ ≈57.25%	(4,129/7,041)x100≈ ≈58.64%	≈-1.39 ↓
Interest cover	Profit Before Interest/Interest Charges	846/226 ≈ ≈3.74times	720/181 ≈ ≈3.97 times	≈-0.23 ↓

Calculations

- ¹ Capital employed = Total assets – Current liabilities or Equity + Non-current liabilities
Capital employed₂₀₂₁ = 9,736m – 2,511m = 7,225m
Capital employed₂₀₂₀ = 10,087m – 3,046m = 7,041m
- Profit Before Interest₂₀₂₁ = 805m + 19m + 22m = 846m
Profit Before Interest₂₀₂₀ = 699m – 5m + 26m = 720m
- Number of ordinary shares_{2021&2020} = 300m/0.5 = 600m

Analysis based on calculated ratios

Sweets plc has a good and stable position in the sweets industry, which is well positioned in a growing but competitive market. In order to assess the financial condition and stability of the company, its financial statements were analysed, and various key ratios were calculated for 2021 and 2020.

The ratio analysis is divided into five areas: investment ratios, profitability ratios, efficiency ratios, liquidity ratios, and financing structure ratios.

Based on Sweets plc's financial statements and calculated ratios for 2021 and 2020, it can be seen that the company's profitability, as measured by ROE, 10.22% (2020) and 11.70% (2021) (increased by 1.39%), ROCE, 12.56% in 2020 to 13.95% in 2021 (increased by 1.48%), and net profit margin calculated 10.85% (2020) to 11.94% (2021), increased by 1.09%, is enhancing. That suggests that Sweets plc has managed to raise its ability to profit from sales. The investment potential is improved because the EPS has changed from £0.61 (2020) to £0.71 (2021), (change is £0.10). The increase in asset turnover, of 0.02 times, from 0.91 times in 2020 to 0.93 times in 2021, affected by the age of assets, inflation, revaluation policy, and recent investment is close to safety, but not yet, and the small change in Stock holding days, 2020: 77 days, 2021: 80 days (3 days) and Debtors Collection Period from 73 days during 2020 to 67 days during 2021 (6 days) indicate that the working capital can be improved. The extension of stock holding days can

be affected by changes in policy or production methods, slow sales, or some random factors, while the reasons for the change in the Debtors collection period include a change in customer base, improved credit control, offering increased credit terms, new payment discounts, or introduction of electronic invoicing. The current ratio has increased from 0.77:1 in 2020 to 0.91:1 in 2021, nevertheless, it is under 1, which indicates several financial weaknesses in the liquidity picture of the company. The gearing ratio, which demonstrates how much of an organization's current capital will be required to pay off its debt, has decreased from 58.64% (2020) to 57.25% (2021), however, it's still over 50%. The interest cover, 3.97 times in 2020 and 3.74 times in 2021 is close to the safety zone, but less than 4. The company's financial structure is problematic, as evidenced by its last two ratios.

Overall, Sweets plc's financial performance has remained stable regarding profitability, investment potential, and solvency. However, the financial structure ratios show a potential increase in financial risk and the need for careful management efficiency calculations indicates some issues and the need for improving working capital management. In addition, a detailed analysis of the causes of changes in financial ratios will provide valuable information about the performance and financial condition of the company.

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