

Accounting Fundamentals

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Introduction

Accounting fundamental is basically applied for presenting relevant accounting details related to business performances, which are incurred during the present financial period. With preparation of business financial statements the accountant of the company is basically able to prepare general performing details of the business properly along with recognising the present financial capacity of the business in an efficient manner. During such preparation the accountant of the business is required to follow relevant IFRS guidelines as per business requisition. Such financial statements include the level of business income statement, balance sheet with efficient utilisation of which business incomes, expenditure, liabilities, assets including business equity performances can efficiently be recognised. Following the same context, the application of business financial ratios the managerial evaluators are also able to analyse the present financial performances positively so that business performances and financial growth volume can be efficiently recognised.

In accordance with the present assignment brief this report is briefing about the application of business financial performances presentation for the company named Eccles plc. Along with such this report is also a briefing about the application of business financial performances also for the company Chocco plc during the financial period of 2018 and 2019 respectively. Additionally, this study is also briefing about the application of general accounting concepts that are necessary for business performance development purposes.

Discussions

Answer for question 1

PART A

Computation of Business Income statement for the period ended December 2018

In the books of Eccles plc

Income statement

Particulars	Amount	Amount
Sales or Revenues	826650	
Add: Goods sent on sales on approval basis	980	
Total business Revenues		827630
Less: Cost of sales		578650

Gross profit		248980
Less: Business expenditure		
Administrative expenses	30000	
Directors remuneration	5000	
Distribution costs	28000	
Salesman Commissions payable	3000	
Total business expenditure		66000
Net profit before Interest and Tax		182980
Less: Financial Expenditure		
Interest paid		2000
Net profit before Tax		180980
Less: Corporation tax Payable		68000
Net profit after Tax		112980

Computation of business Retained earnings for the period ended December 2018

In the books of Eccles plc

Retained earnings Account

Particulars	Amount	Amount
Retained profits at 1st January 2018		132000
Add: Net profit as per Income statement		112980
Total profit of business at present		244980
Less: Ordinary dividend paid	20000	
Preference dividend paid	30000	
Total volume of Payment made out of profit		50000
Retained profits at 31st December 2018		194980

Computation of business Balance Sheet for the period ended December 2018

In the books of Eccles plc

Balance Sheet

Assets	Amount	Amount
Non-current assets		
Plant and equipment	632730	
Total non-current assets value		632730
Current Assets		
Stock	330600	
Debtors	171105	
Cash and Bank	12900	
Total current assets value		514605
Total assets		1147335
Liability		
Current Liabilities		
Trade creditors	171355	
Income tax Payable	68000	
Commission payable	3000	
Total current Liabilities		242355
Non-current liabilities		
4% Debenture	100000	
Total non-current liabilities		100000
Total Liabilities		342355
Net assets of business		804980
Business Equity		
Ordinary shares of business @ £1	310000	
10% preference shares @ £1	300000	
Retained profits at 31st December 2018	194980	

Total Business equity capital		804980
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PART B

Concept of balancing position related to business financial statement

In accordance with the fundamental concept of business accounting principles, application of business financial statements provide sufficient level of importances about the financial position of the business accordingly. While the income statement of the business presents the level of business incomes, expenditure, cost of goods sold, gross profit and net profit volume as well, application of balance sheet applied for presenting the details of business assets, business equity and also the liabilities volume accordingly. With an efficient application of business financial statements basic accounting details including business financial approaches can efficiently evaluated and presented with basic intentions of efficient completion of business objectives respectively.

In case of business balance sheet the one of the fundamental accounting principles, which is followed is related to the double entry system concepts and additionally the following equation will be; **ASSETS = LIABILITY + CAPITAL** accordingly. According to this equation the overall volume of business assets value will be equal to the proportionate value of business liability as well as business equity capital volume including reserve and surplus level. Due to such a concept the overall balancing position on both sides of the balance sheet is presenting the equal level in a convenient manner. This particular concept can also be recognised as per the accounting principles Balance sheet equation concept which is used to indicate that any significant volume of changes related to the business assets volume will positively impact over the business liability level and basically a balancing position will exist at the ending period of business financial time. This particular equation is also used to provide importance to the general concept of business double entry system as well due to changes in one transaction value being impacted over the other account as well in order to maintain the concept of business matching principles.

For example: During the current financial period, if the management of the company acquired machinery through the application of cash or bank payments, therefore the overall volume of business assets value will be affected through two different manners. At first the overall value of business assets will be increased and simultaneously the volume business cash or bank balance will be decreased in a convenient manner. With the application of such process the

exact application of business entity concept as well as the matching principle can positively be provided in the business balance sheet for providing an equal impact over the business financial position accordingly.

On the contrary, instead of bank payments if the machinery was acquired through non cash payment and from the creditors, therefore the overall volume of business machinery value will be increased and simultaneously the volume of business creditors will be increased in a positive manner. Application of such a process can positively be applied to implement the concept of business double entry system as well as the matching principles and accounting in a convenient perspective. Due to those above reasons the overall volume of business financial statement balance is presenting an equal position related to business financial results and other approaches in a more convenient manner.

Answer for question 2

PART A

Calculation of different accounting ratios for Chocco plc in accordance with financial statements

Computation of Return on Equity

Formula: Profit after Tax / Net worth

Particulars	2019	2018
Profit after Tax	431	366
Net worth	3088	2912
Ratios	14%	13%

Computation of Return on Capital Employed

Formula: Net Operating Profit / Capital Employed × 100

Particulars	2019	2018
Net Operating Profit	805	699
Capital Employed	7225	7041
Ratios	11.1%	9.9%

Computation of Gross Profit

Formula: Gross Profit ÷ Sales × 100

Particulars	2019	2018
Gross Profit	3503	3345
Sales	6738	6441
Ratios	52%	52%

Computation of Net Profit

Formula: $\text{Net Profit} \div \text{Sales} \times 100$

Particulars	2019	2018
Net Profit	431	366
Sales	6738	6441
Ratios	6.4%	5.7%

Computation of Current Ratio

Formula: $\text{Current Assets} \div \text{Current Liability}$

Particulars	2019	2018
Current Assets	2303	2355
Current Liability	2511	3046
Ratios	0.92	0.77

Computation of Acid Test Ratio or Quick Ratio

Formula: $(\text{Current Assets} - \text{Inventory}) \div \text{Current Liability}$

Particulars	2019	2018
Current Assets – Inventory	1595	1696
Current Liability	2511	3046
Ratios	0.64	0.56

Computation of Debt to equity ratio

Formula: $\text{Total Debt} \div \text{Shareholders Fund}$

Particulars	2019	2018
Total Debt	4137	4129
Shareholders Fund	3088	2912
Ratios	1.34	1.42

Computation of interest coverage ratio

Formula: $\text{EBIT} \div \text{Interest}$

Particulars	2019	2018
EBIT	805	699
Interest	226	181
Ratios	3.56	3.86

Computation of Total Assets Turnover Ratio

Formula: $\text{Revenues} \div \text{Total Assets}$

Particulars	2019	2018
Revenues	6738	6441
Total Assets	9736	10087
Ratios	69.21%	63.85%

Computation of Accounting receivable period

Formula: $(\text{Accounting receivable} \times 365) \div \text{Revenues}$

Particulars	2019	2018
Accounting receivable X 365	455885	469755
Revenues	6738	6441
Ratios	68 days	73 days

Computation of Accounting payable period

Formula: (Accounting payable X 365) ÷ cost of goods sold

Particulars	2019	2018
Accounting payable X 365	212795	239075
cost of goods sold	3235	3096
Ratios	66 days	77 days

PART B

Analysis of present financial performances of Chocco plc through two different financial results

Application of business financial ratios are mainly used to evaluate the overall business financial positions positively during the current account improved compared with the previous year financial performance level. As per the provided information in the present year balance sheet as compared with the previous year level, basically a significant volume of changes is noticed which is indicating that while in the previous years volume of business results was downward in the current accounting period it was increased in a positive manner. It can positively be noticed related to the return on equity volume which is indicating a positive increase of business returning capacity in the current accounting period with 14% respectively.

Following the same principle in case of return on capital employed level of performances are also increased to 11.1%, Gross profit margin with 52%, net profit margin with 6.4% can positively be noticed in the current accounting period. Additionally a positive response can also be noticed related to the business current ratio and quick ratio level which is also present in the favourable position of business liquidity approach as well. Following the same prospect of positivity related to business accounting receivable period and payback period is also not is which is indicating that compared to previous year financial performances during present accounting level the overall business performances are positively increased and the level of business sustainability related to financial performances can positively maintained for future development positively.

Conclusions

Based on the above discussions can be approached that the application of business financial statement analysis is necessary for the primary purpose of maintaining the overall volume of business performances related to financial approaches in a convenient manner. Following the same prospect the application of business valuation performances related to ratios are also equivalent for recognising the business opportunity compared with the earlier position of the finance efficiently.

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