

Programme: BA Business Management

Module: Accounting Fundamentals

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QUESTION 1

The following balances relate to Kedison PLC for the year ended 31st December 2020

	£	£
£1 ordinary shares		310,000
10% £1 preference shares		300,000
4% Debentures		100,000
Plant and equipment	632,730	
Stock at 31st December 2020	330,600	
Sales		826,650
Cost of sales	578,650	
Debtors	170,125	
Trade creditors		171,355
Cash and bank	12,900	
Retained profits at 1st January 2020		132,000
Ordinary dividend paid	20,000	
Preference dividend paid	30,000	
Administrative expenses	30,000	
Interest paid	2,000	
Directors remuneration	5,000	
Distribution costs	28,000	
	1,840,005	1,840,005

The following information is relevant:

1. Corporation tax for the year is estimated at £68,000.
2. Salesmen are owed commission of £3,000 in respect of December sales. It will be paid on 31st January 2021 and has not been recorded in the ledger accounts yet.
3. Goods valued at £980 were sent to customers on 31st December 2020. Payment is due on 28 February 2021. This has not been recorded in the ledger accounts yet.

4. The preference shares should be included within equity.

Required:

- a) Prepare a Profit and Loss statement for the year ended 31st December 2020 for Kedison PLC and a statement of financial position as at that date.

Profit and Loss account:

Particular	Amount
Sales	826.650
Less: Cost of sales	(578.650)
Gross profit	248 000
– Sales commission	3 000
– Distribution cost	28 000
– Director remuneration	5 000
– Administrative expense	30 000
EBIT	152 000
– Interest	4 000
EBT	148 000
– Tax	68 000
EBT	11 000
– Preference dividend	30 000
Earnings available to equity	80 000
– Ordinary dividend	20 000
Retained earning	60 000

Balance sheet:

Particulars	Assets	Liabilities
Plant & equipment	632 730	
Cash and Bank	129 000	
Stock	329 620	
Debtors	171 105	
4% Debentures		100 000
Creditors		171 355
Outstanding interest		2 000
Outstanding commission		3 000
Tax payable		68 000
Shareholders' equity		802 000
Total	1 262 455	1 146 355

- b) Why does the statement of financial position balance?

Balance sheet provide us an information for exact period. That helps the business to record all the transaction going through. The Statement of financial position is a method if double entry.

QUESTION 2

Chocco plc is a long-established chocolate and confectionery manufacturer. All products are manufactured in the UK, but sales are made worldwide. It is a growing but competitive market. Given below are extracts from their financial statements

Profit and Loss statement for the year ended 31st December

	2020	2019
Revenue	6 738	6 441
Cost of sale	3 235	3 096
Gross profit	3 503	3 345
Distribution costs	437	422
Marketing and selling costs	1 324	1 274
Administrative expenses	937	950
Operating profit	805	699
Investment income	22	5
Interest payable	226	26
Profit/loss on sale of fixed assets	19	181
Profit/(loss) before taxation	226	539
Taxation	189	173
Profit for the year	431	366

Statement of Financial Position as at 31st December

	2020	2019
Intangible assets	5,485	5,809
Property, plant and equipment	1,613	1,605
Investments	335	318
	7,433	7,732
Current assets		
Inventory	708	659
Trade receivables	1,249	1,287
Investments	145	232
Cash	201	177

	2,303	2,355
Total assets	9,736	10,087
Current liabilities		
Trade payables	(583)	(655)
Other creditors	(1,928)	(2,391)
	(2,511)	(3,046)
Non current liabilities		
Loans and other borrowings	(4,137)	(4,129)
Net assets	3,088	2,912
Equity Ordinary share capital (50p shares)	300	300
Share premium	1,071	1,071
Retained profits	1,717	1,541
	3,088	2,912

Additional information:

- i. During 2020 a total dividend of £255m was paid (2019: £242m)
- ii. The average share price during 2020 was £5.12 (2019: £4.00).

Required:

a. Calculate the following ratios for Chocco plc for 2020 and 2019, showing the formulas and workings:

1- ROCE in 2020 - $805/7225=0.11$ in 2019 - $699/7041=0.099$

2- ROE in 2020 - $431/3088*100=13.95\%$ in 2019 - $366/2912*100=12.56\%$

3- Earnings per share 2020 - $431/600=0.72$ 2019 - $366/600=0.61$

4- Net profit margin 2020 - $431/6738*100=6.39$ 2019 - $366/6441*100=5.68\%$

5- Asset turnover 2020 - $6738/9736=0.69$ 6441/10087=0.63

6- Stock holding days 2019 - $659/3096*365=77.69\text{days}$ 2020 - $708/3235*365 =79.88\text{day}$

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