



LEVEL/ LEFEL 4

MODULE CODE: LCBB4001

ACCOUNTING FUNDAMENTALS

ASSESSMENT TYPE: ASSIGNMENT 1

Programme: BA Business Management

Lecturer: Winifred Soribe

Submitted by:

Hristo Haralampiev Hristov

Studernt number: **2010799**

Solution on question 1

A) Income statement for the year ended 31st December 2018 for Eccles plc

	Amount (£)	Amount (£)
Sales	826 650	
Credit sales	980	
Revenue		827 630
Cost of sales		<u>578 650</u>
GROSS PROFIT		248 980
Distribution costs	28 000	
Administration expenses	30 000	
Director remuneration	5 000	
Salesman commission	3 000	
Other income	0	
Operating profit		182 980
Interest paid	2 000	
Other interest (debentures)	4 000	
Profit before tax		176 980
Taxation	<u>68 000</u>	
Profit for the period (Net Profit)		108 980

Statement of Financial Position as at 31st December 2018

(£)

(£)

Assets

Non current assets

Property, equipment, plants	632 730
-----------------------------	---------

Current assets

Inventories (stock)	330 600
----------------------	---------

Trade receivables	171 105
-------------------	---------

Cash and cash equivalents	<u>12 900</u>
---------------------------	---------------

514 605

Total assets	1 147 335
---------------------	------------------

LIABILITIES

Current liabilities

Trade and other payables	171 355
--------------------------	---------

Interest paid	2 000
---------------	-------

Commision due	3 000
---------------	-------

Current tax payable	<u>68 000</u>
---------------------	---------------

244 355

Long term liabilities	<u>100 000</u>
------------------------------	-----------------------

Net assets	<u>802 980</u>
-------------------	-----------------------

EQUITY

Ordinary share capital	310 000
Preference shares	300 000

Retained earnings

-Retained profits	132 000	
-Ordinary dividend paid	20 000	
-Preference dividend paid	<u>30 000</u>	
		<u>190 980</u>

<u>Total equity</u>	<u>802 980</u>
----------------------------	-----------------------

B) The balance sheet is structured in a manner that the total assets of an entity equal to the sum of liabilities and equity.

Assets may be financed from internal sources (that mean to be all the share capitals and profits) or credits like bank loan, creditors. Since the total assets of a business must be equal to the amount of capital invested by the owners and any borrowings, the total assets of a business must equal to the sum of equity and liabilities.

All that mean the $ASSETS = LIABILITIES + EQUITY$

So, on one side we see all the assets and on the other side how they are financed.

QUESTION 2

A) Accounting Ratios Schedule for Chocco plc 2019 and 2018

	YEAR 2019		YEAR 2018	
ROCE (return on capital employed)	$(805+19+22)/(3,088+4,137) \times 100$	11.70%	$(699+5+26)/(2912+4129) \times 100$	10.20%
ROE (return on equity)	$431/3,088 \times 100$	14.00%	$366/2912 \times 100$	12.60%
Earnings per share	431/600	72p	366/600	61p
Gross profit margin	3503/6738	52%	3,345/6,441	51.90%
Net profit margin	$805/6,738 \times 100$	11.90%	$699/6,441 \times 100$	10.90%
Asset turnover	$6,738 / (3,088+4,137)$	0.9	$6,441 / (2912+4,129)$	0.9
Stock holding days	$708/3,235 \times 365$	80 days	$659 / 3,096 \times 365$	78 days
Debtors collection period	$1,249/6,738 \times 365$	68 days	$1,287 / 6,441 \times 365$	73 days
Creditor payment days	$583/3,235 \times 365$	66 days	$655 / 3,096 \times 365$	78 days
Current ratio	2,303/2,511	0.9	2,355 / 3,046	0.8
Quick asset ratio	$(2,303-708)/2,511$	0.6	$(2,355 - 659) / 3,046$	0.6
Gearing ratio	$4137/(3,088+4,137) \times 100$	57%	$4,129 / (2,912 + 4,129) \times 100$	59%
Interest cover	$(805+19+22)/226$	3.7	$(699 + 5+26) / 181$	4

B) On the Accounting ratio schedule for year 2018 and 2019 we can see that all the numbers for both years are almost the same.

What exactly is the accounting ratio schedule? - That is calculation used to measure and show the efficiency and profitability of the company. That's way of relation between accounting data and ratio analysis. Ratio analysis is management tool giving us a way to understand all the financial results during the time and show us the performance of the organization.

- Return on capital employed- is an accounting ratio used in finance and accounting to measure company's profitability and capital efficiency. In other words, the ratio can help to understand how well a company is generating profits from its capital. The best percentage for ROCE is around 10%. In our sheet we have for both years 10 and 11% which is good and show that is good company.
- Return on equity – it measures of managements available to generate the income. Good Roe percentage is between 15% -20%. How we can see we have calculated for year 2018- 12,6% and for 2019 – 14%. That we can accept for good.
- Earnings per share - that's important financial measure indicate the profitability of the company. More than 25% of EPS show that the company grow up its rates and has products or services with high demand.
- Gross profit margin – show the amount of profit before deducting administrative costs, selling. As we see the percentage for both years are over 50%, so that's mean the company is stable.
- Net profit margin - calculated how much net income of profit is generated in percentages of the revenue. How high is this percentage so the company is more efficient. As a rule, 10% net profit margin is considered average, 20% and over is like good and high and 5% and less is low level.
- Asset turnover – in both years is under 1. If the ratio is less than 1, then it's not good for the company as the total assets aren't able to produce enough revenue at the end of the year

- Stock holding days - also known as inventory outstanding, refers to the number of days it takes for inventory to turn into sales. In the different industry the average period is different, but over 40 days is not good.
- Debtors collection period - that's the amount of time what will cost to us to collect our trade debts. Long periods indicate problems. If the average time is more than 40-50 days so that mean the company need to make more aggressive collection policy to shorten that time frame.
- Creditor payment days – show the average time (days) take to the business to pay suppliers. On one side if we have more time to pay, so we can use all the money for other things. At the same time if we are not able to pay on time or as is good time the question is then is the company stable?
- Current ratio – a good current ratio is between 1.2 to 2. That's mean the business has twice more time to cover its debts. In our case for both years is less than 1 and it's not so good but it's not a problem and have to be fix.
- Quick asset ratio - A company that has a quick ratio of less than 1 may not be able to fully pay off its current liabilities in the short term.
- Gearing ratio - is a category of financial ratios that compare company debt relative to financial metrics such as total equity or assets. Investors, lenders, and analysts sometimes use these types of ratios to assess how a company structures itself and the amount of risk involved with its chosen capital structures.

A gearing ratio higher than 50% is typically considered highly levered or geared. As a result, the company would be at greater financial risk, because during times of lower profits and higher interest rates, the company would be more susceptible to loan default and bankruptcy, lower than 25% is typically considered low risk by both investors and lenders and between 25% and 50% is typically considered optimal or normal for well-established companies. In our calculation sheet we see for both years more than 50%.

- Interest cover – that measure how many times the company can cover its current interest payment with all available earnings. The minimum acceptable amount is 2. For year 2018 and 2019 the number are 4 and 3.7 so the company can cover the payments.

In conclusion all the result indicated that company have stable liquidity and liquid position. The organization has ratio under, which indicate that the company is weak in the marinating the liquidity balance. In year 2019 that number increased than 2018 giving us reason to think about positive changes in the future. Exactly that's not the ideal value of ratio, because is going up very slow and not with a high number and percentage. The asset turnover is less than 1 and need to be increased. The company need to keep in touch with the stock holding day, the debtor's collectors days and creditors days. The company needs to increase the numbers which are low and not showing the company in good position. Need to increase the sales and the profit to have more money to cover all the payments. Need to keep attention and reduce the period to collect all the money to use it and that will help to increase all the income of the company. Actually, the company is not is bad situation but need to increase and proof some number and grow it up.

Used literature and references:

- 1) McLaney and Atrik (2016) Financial accounting for decision makers, 10th edition m FT Prentice Hall
- 2) Wikipedia
- 3) Lectures in Moodle