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Module Title: Accounting Fundamentals

Assignment Title: Accounting Fundamentals Assessment 1

Your Module: BA(Hons)Business Management

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INTRODUCTION

Accounting can be described as a mechanism by which financial transactions are reported in a way that can lead to the preparing of financial reports (Kranacher and Riley, 2019). The study is based on two different activities in which details about the planning of the income statement and balance sheet is contained in the first task. Although task two is focused on interpretation of the findings of the given organisation by way of ratio analysis.

MAIN BODY

Question 1

(α) Income statement and balance sheet:

Income statement:

Income statement		
For the year ended on 31st December 2018		
Particulars		Amount(£)
Sales	826,650.00	
Add: Goods sold on 31st	980.00	827,630.00
Cost of goods sold		-578,650.00
Gross Profit		248,980.00
Less: Expenses		
Administrative expenses	30,000.00	

Directors Remuneration	5,000.00	
Distribution cost	28,000.00	
Add: commission not recorded	3,000.00	66,000.00
Operating Profit		182,980.00
Interest paid		2,000.00
Net income before tax		180,980.00
Less: Tax		68,000.00
Net income		112,980.00

Balance sheet

Statement of Financial Position		
as on 31st December, 2018		
Particulars		Amount(£)
Non-Current Assets		
Plant & Equipment		632,730.00
Current Assets		
Stock	330,600.00	
Debtors	170,125.00	
Add: goods sold at 31 st	980.00	

Cash and bank	12,900.00	514605.00
Total Assets		1,147,335.00
Current Liabilities		
Trade creditors	171,355.00	
Sales commission	3,000.00	
Tax	68,000.00	-242,355.00
Non current Liabilities		
4% Debentures	100,000.00	-100,000.00
Net Assets		804,980.00
Equity		
£1 Ordinary shares		310,000.00
10% Preference shares		300,000.00
Outstanding		980
Retained earnings	132,000.00	
Add: Net income	112,000.00	
Less: Ordinary	-20,000.00	

Dividend		
Preference dividend	-30,000.00	194,000.00
		804,980.00

(b) Explain why the statement of financial position balances.

The financial condition balance sheet since data about long and the short debt is included with the liability side, while details about existing & non-current assets is included on assets side (Karabarounis and Neiman, 2019). It is also important for firms to view their financial circumstances statement fairly so that customers can ensure their financial stability and be able to make choices strategically.

Question 2:

(α) Ratios

Profitability ratio			
		2019	2018
Gross margin	Gross profit/net sales*100		
Gross profit.		3503	3345
sales		6738	6441
Results		51.99 %	51.93 %
Net profit ratio	Net profit/net sales*100		
Net profit.		431	366

sales		6738	6441
Results		6.40 %	5.68 %
Efficiency ratio			
		2019	2018
Assets turnover	Turnover/assets employed		
Turnover		6738	6441
Assets employed		9736	10087
Results		0.69 times	0.64 times
Stock holding period	Stock/cost of goods sold*365		
Stock		708	659
Cost of goods sold		3235	3096
Results		80 days	78 days
Debtors collection period	Receivables/sales*365		
Receivables		1249	1287

sales		6738	6441
Results		68 days	73 days
Creditors payment period	Payable/credit purchase		
Payable		583	655
Credit purchase		6738	6441
Results		32 days	37 days
Liquidity ratio			
		2019	2018
Current ratio	current assets/current liabilities		
Current assets		2303	2355
Current liabilities		2511	3046
Results		0.92 times	0.77 times
Quick ratio	Quick assets/current liabilities		
Quick assets		1595	1696

Current liabilities		2511	3046
Results		0.64 times	0.56 times
Financing ratios			
		2019	2018
Gearing ratio	Debt/debt+equity		
Debt		6648	7175
Debt+equity		9736	10087
Results		0.68	0.71
Interest cover ratio	Profit before interest/interest charges		
Profit before interest		855	699
Interest charges		226	181
Results		3.78	3.86
Investment ratio			
		2019	2018

Return on capital employed	EBIT/Capital employed		
EBIT		805	699
Capital employed		7225	7041
Results		0.11	0.10
Return on equity	Earnings/ordinary share capital*100		
Earnings		431	366
Ordinary share capital		3088	2912
Results		13.96 %	12.57 %

(b) Comment on the financial performance and position of Chocco plc.

Profitability ratio: On the grounds of the profitability ratio, it can be claims that there are three forms of gross and net margin ratios. In view of net profit margin, it can be reported that the ratio was 5.68% in 2018, which rose in the next year and turned 6.40%. Likewise, in the year 2019, the gross margin percentage rose. Therefore, owing to higher sales and reduced costs, the results of the company can be seen to be stronger in 2019.

Liquidity ratio: Two types of ratios are calculated in liquidity, which are fast ratios and current ratios. For both 2018 and 2019, the company struggled to maintain the ideal liquidity ratio. In 2018, the current ratio was 0.77 times higher and 0.92 times higher than the current average. It means the company does not have ample liquid assets for current obligations to be compensated.

Efficiency ratio: The purpose of the efficiency ratio is to determine the success of the company and how well they handle their stocks, debtors, etc. This can be indicated in the factor of the creditor turnover ratio that the efficiency of the firm increased as the amount of days to pay

creditors reduced. In comparison, the debtors' turnover ratio has fell by 5 days in 2019. These ratios indicate that the organisation is more able to handle its performance in 2019 relative to 2018.

Investment ratio: Various categories of ratios are calculated under the expenditure ratio, namely return on working capital and return on earnings. The output in both ratios is less than average, since the return on the resources invested for both years is too poor. In 2019, the return on equity is rising, which indicates that the company is able to produce higher profits this year.

Financing ratio: In terms of the gearing ratio, it may be reported that it is under one and this indicates that the firm is unable to efficiently handle its debts and equity. In 2019, the interest coverage level is still smaller, which would be an indicator of the company's inadequate growth in the competitive year, which has to be changed by increasing equity volume.

CONCLUSION

On the basis of above project report this can be concluded that accounting plays a key role in order to record different kinds of transactions in an effective manner. This is so because by help of different kinds of accounting rules and regulations, it becomes easier for managers to prepare financial reports. The report concludes that given company's performance is better in year 2019 as compared to year 2018.

REFERENCES

- Kranacher, M.J. and Riley, R., 2019. *Forensic accounting and fraud examination*. John Wiley & Sons.
- Karabarbounis, L. and Neiman, B., 2019. Accounting for factorless income. *NBER Macroeconomics Annual*, 33(1), pp.167-228.