

Module name: Accounting Fundamentals (LCBB4001)

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Income statement for the year ended 31st December 2019

	GBP
Revenue (826650+980)	827630
Cost of sales	(578650)
Cross profit	248980
Distribution cost	(28000)
Administartion expenses (30000+3000 owed comission)	(33000)
Directors remuneration	(5000)
Operating profit	182980
Finance costs (100000x4%)	(4000)
Profit before tax	178980
Taxation	(68000)
Profit for the period	110980

Statement of financial position as at 31st December 2019

	GBP	GBP
Assets		
Non current assets		
Property, plant, equipment		632730
Current assets		
Inventories	330600	
Trade(170125+980)	171105	
Cash	12900	
		514605
Total Assets		1,147335
LIABILITIES		
Current Liabilities		
Trade	171355	
Accruals(3000+2000int.paid)	5000	
Current tax payable	68000	
		(244355)
Long term liabilities		100000
Total liabilities		344355
Equity		
Share capital		310000
Preference shares		300000
Retained earning		192980
Total equity		802980
Total liabilities and equity		1,147335
Retained profit 1 st January		132000
Profit for the year		110980
Preference dividend paid		(30000)
Ordinary dividend paid		(20000)
Retained earning total		192980

Statement of financial position is a formal record of the financial activities and position of the business person. This statement shows assets , liabilities and equity of the business and is very easy to be understood. This helps and shows users the value of a business on a particular date. Statement of financial position shows how a business company has been funded and what the company has done with that funding. This accounting system records all transactions and this will help assessing credit risk, financial risk and the business risk. The major reason that a financial statement balances are the accounting principle of double entry. If they are not balancing that only mean that something has been missed or has been made error.

Answer of question two

Ratio	Formula	2018	2019
Gross profit margin	$\text{Gross profit} \div \text{net sales} \times 100\%$		
	Gross profit	3345	3503
	net sales	6441	6738
result		51.19%	51.99%
Net profit	$\text{net income} / \text{sales} \times 100\%$		
	net income	366	431
	sales	6,441	6,738
result		5,68%	6,40%
Asset turnover	$\text{revenue} / \text{asset employed}$		
	sales revenue	6441	6678
	total asset	10087	9736
result		0.63	0,68
Stock holding period	$\text{inventory} / \text{cost of sales} \times 365$		
	inventory	659	708
	cost of sales	3096	3235
RESULT		77 DAYS	80 DAYS
Debtors collection period	$\text{trade rec} / \text{sales} \times 365$		
	trade rec	1287	1249
	sales	6441	6738
Result		72days	67days
Current ratio	$\text{cur asset} / \text{cur liab.}$		
	current asset	2355	2303
	current liabilities	3046	2511
result		0,77	0,91
Gearing ratio	$\text{long term liab} / \text{total equity}$		
	long tem liab	4.129	4.137
	total equity	2.912	3.008
result		1.42	1.34

Earning per share	net income/number of ordinary share		
	net income	366	431
	number of ordinary shares	600	600
result		0,61	0,72
Dividenr payout	dividend/income		
	dividend	242	255
	income	366	431
Result		0,56	0,59
ROCE	Operation profit/capital employed x100		
	Operation profit	699	805
	Capital employed(total asset-cur liabi)	7041	7225
result		9,92%	11.1%
P/EPS	Share price/EPS	6.56	7.11
	Share price	4.00	5.12
	EPS	0.61	0.72

Quick ratio

Quick ratio shows company`s capacity pay it liabilities without needing to sell its ineventory. The Chocco company has less than one that means the company is unable to fully pay off current liabilities in short term. Due to having less sales the company can not repay its loans. But the Quick ratio from 2019 is better than in 2018.

Current ratio

The current ratio that measures a company ability to pay short term obligation or those due within one year. This helps investors and analysts how a company can maximise the current assets on its balance sheet to satisfy its current debt and other payables. The current ratio of Chocco company is still too low. The perfect current ratio is 1.1 or 2.1.

ROCE

Return on capital employed is a financial ratio which can help to understand how well a company is generating profit from its capital. ROCE can help neutralize financial performance analysis for companies with significant debt. Roca it is ratio shows if a company is doing a good jobs. A high ROCE is a sign of a successful growth company .During 2019 the profit of Chocco Plc is much better that mean the Roca ratio is higherthan 2018

Assets Turnover Ratio

This ratio measures the efficiency of a companys use of its assets in sales revenue or sales income to company. Asset turnover ratio of 2.5 or more could be considered good , unfortunately of Chocco Plc is too low only 0.63 for 2018 and 0,69 for 2019 .A lower ratio of the company indicates bad inventory management ,it is not efficiently using assets to generate sales.

earning per share ratio

This ratio is one of the most useful metrics to show how much money a company makes for each share of its stock. When a company has high earnings per share it means it has more money available to reinvest in the business or distribute to stakeholders as dividends. When the ratio increases, the company is doing well. For 2019 the Earnings per share ratio is getting high than 2018 that means the investors will pay for a company's shares.

Financial performance will give a good picture of how the company operates its resources. It also shows if the company's management has a good idea how to run the business. Or how much money the company made. The financial position of Chocco Plc shows the performance of a company. For 2019 the company has little progress but still not good. Because of the ratio the company can see what has to change.