

BA Business Management

Accounting Fundamentals

LCBB 4001

Assessment 1

Submitted To

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Submitted By

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QUESTION 1

a) Preparation of financial statement

Eccles plc	
Income Statement for the year ended 31st December 2019	
Particulars	Amount (in £)
Sales	827630
Less: Cost of sales	578650
Gross profit	248980
Less: Expenses	
Administrative expenses	30000
Directors remuneration	5000
Distribution costs	28000
Outstanding commission to salesmen	3000
Profit before interest and tax	182980
Interest paid	2000
Earnings after interest	180980
Tax	68000
Net profit	112980

Eccles plc	
Statement of financial position as at 31st December 2019	
Particulars	Amount (in £)
ASSETS	
Current assets	
Stock	330600
Debtors (170125+980)	171105
Cash and bank (12900-68000)	-55100
Total current assets	446605
Non-current assets	
Plant and equipment	632730
Total Non-current assets	632730
Total assets	1079335
LIABILITIES	
Current liabilities	
Accounts payable (Creditors)	171355
Outstanding commission	3000
Total current liabilities	174355

Non-current liabilities	
Share capital (310000+300000)	610000
4% Debentures	100000
Retained profits at 1st January 2018 (132000-50000)	82000
Net profit for the year ended 31 st December 2019	112980
Total Non-current liabilities	904980
Total liabilities	1079335

b) Determining why the statement of financial position balances

The main reason behind why the balance sheet always balances and must balance is that the assets of the organization is being financed from the various sources like share capital along with the profits and retained earnings (Jansson, 2018). These sources are known as the internal sources of finance while the other source is called external which includes the loan from the financial institutions, creditors etc. thus, the total assets of the company should be equivalent to the total liabilities which results into formation of the accounting equation which is: Total assets = Total equity + Total liabilities.

QUESTION 2

a) Schedule of ratios for Chocco plc for 2019 and 2018

Ratio analysis of Chocco plc			
		2019	2018
<u>Liquidity ratio</u>			
Current assets		2303	2355
Current liability		2511	3046
Inventory		708	659
Quick Assets		1595	1696
Current ratio	Current assets / current liabilities	0.92	0.77
Quick Ratio	(Current Assets - Inventory) / Current Liabilities	0.64	0.56
<u>Profitability ratio</u>			
Employed Capital		7225	7041
Net operating profit		805	699
Return on capital employed	Net operating profit/Employed Capital	11.14%	9.93%
Net Income		431	366

Shareholder's Equity		3088	2912
Return on Equity	Net Income / Shareholder's Equity	13.96%	12.57%
Cost of Sales		3235	3096
Sales		6738	6441
Gross Margin	Total Sales – COGS/Total Sales	51.99%	51.93%
Net profit		431	366
Sales		6738	6441
Net profit ratio	Operating Income/ Net Sales	6.40%	5.68%
<u>Efficiency Ratios</u>			
Inventory		708	659
Net Assets		3088	2912
Cost of Sales		3235	3096
Sales		6738	6441
Asset turnover ratio	Sales / Net assets	2.18	2.21
Inventory turnover ratio	Sales / Inventory	4.57	4.70
<u>Leverage ratios</u>			
Total assets		9736	10087
Total Equity		3088	2912
Total debt		4137	4129
Proprietary Ratio	Total Shareholders' Equity / Total Assets	31.72%	28.87%
Debt equity ratio	Total debt/total equity	1.34	1.42
<u>Market value ratios</u>			
Market price per share		5.12	4.00
Earnings per share	Number of shares = $300/0.5 = 600$ shares	0.72	0.61
Net book value		3088	2912
Market capitalization	600 shares*MPS	3072	2400
Price earnings ratio		7.1	6.6
Market to book value ratio	Market Capitalization / Net Book Value	0.99	0.82
Dividend paid		255	242
Net income		431	366
Dividend pay-out ratio	Dividend paid/Net income	59.16%	66.12%

b) Analysing and interpreting the financial performance and position of Chocco plc

Liquidity ratios

Current ratio

The current ratio of the company has increased in comparison to the previous year which the ratio is still low and the company requires to take actions for the purpose of increasing the current assets or reducing its current liabilities.

Quick Ratio

Through this ratio, it can be interpreted that the company has made an investment into its stocks which has resulted into blocking of the cash (Mas' ud and Srengga, 2017). Thus, it becomes a point of concern for the company as this might result into insufficient amount of funds for carrying out the daily business activities.

Profitability ratios

Return on capital employed

This ratio of the company rose to 11.14% in the year 2019 which is positive sign of growth. It depicts that the Chocco plc has effectively made use of its capital employed in creating desired income. Therefore, more such efforts should be made for ensuring that in future the percentage increases.

Return on Equity

The ROE has shown an increase in trend and from the investors point of view, this is very sound and it highlights the efficiency and the effectiveness of the organization in terms of effectively utilizing the funds provided by the investors along with providing attractive and higher return on it.

Gross Profit Margin

This ratio has remained consistent and there is no such change which is mainly of no variation in the sales and the cost of sales. It is important to improve it further through the way of increasing the sales revenue and reducing the cost of sales associated with it.

Net Profit ratio

The net profit margin of Chocco plc has increased to 6.40% which shows that the entity has been working sound in respect to further increasing its profits. The company has effectively exercised control over its expenditure which has resulted into increase in net profit.

Efficiency ratios

Asset turnover ratio

This ratio of the company has reduced which means that the company is not able to optimum utilize its assets in generating higher revenue. Thus, it is crucial for the entity to implement strategy for ensuring effective use of its assets which will result into positive outcome.

Inventory turnover ratio

The ITR of the organization has declined which implies that the organization is confronting issue in regard to selling its products (Valaskova and et.al., 2018). It is attractive to have higher proportion and if there should arise an occurrence of lower proportion it portrays that the organization overspend through the method of buying an excessive amount of load of merchandise and is squandering its assets by warehousing the non-saleable inventory things. This features that organization isn't effective in rapidly selling its inventory.

Leverage ratios

Proprietary Ratio

This proportion has indicated an upward pattern which is ideal for the organization as it features that the company is utilizing the equity assets rather than obligation in the business. The rate has expanded and is in this manner having extra space for the taking the obligation if there is any requirement of it (Kristanti and Herwany, 2017). Alongside that, there is a decrease in the total assets of the organization and an expansion in the equity funds which has come about into high ratio.

Debt equity ratio

This ratio helps in deciding the creation of the obligation and equity in the capital structure of an organization. It is attractive to have the proportion of 1 however in the event of Chocco plc the proportion is 1.34 which has diminished in contrast with the earlier year yet isn't extremely low. This portrays that the substance is having more obligation when contrasted with its value which cause risk for the business entity consequently, measures are needed to be embraced which will help in accomplishing the ideal proportion.

Market value ratios

Price earnings ratio

The PER of Chocco plc has indicated an expansion in pattern which features the developing stocks of the organization. Alongside it, the proportion is high which portrays the more grounded and positive future presentation of the element and alongside it, the desires of the investors with respect to the future income will likewise increment and will pay more (Rashid, 2018). Be that as it may, then again, it is critical to investigate the opposite side too, which is, growing stocks are higher unpredictable which applies tremendous tension on the entity to invest in more amounts of energy to legitimize with the higher valuation.

Market to book value ratio

This proportion is the budgetary measurements which is used to assess the current estimation of the current share worth of an organization as opposed to its book esteem. The proportion has ascended to 0.99 from 0.82 in 2018. The proportion lower than 1 show that the share of the organization is underestimated which is considered as the awful speculation which could imply that there is something missing with the organization and furthermore portrays that the organization will be paying considerably more than what will be left after bankrupt (Doorasamy, 2016). The proportion greater than 1 alludes to the overvaluation of the stock passing on that the association is performing admirably. The 0.99 is roughly 1, in this manner, Chocco plc should execute the techniques which will help in accomplishing the proportion of more than 1. Thusly, the stock estimation of the organization is acceptable.

Dividend pay-out ratio

The DPR of the organization has declined in regard to its earlier year which features that the organization is reinvesting its acquiring into the activities which results into additional extension of the business (Zarei, Yazdifar and Ghaleno, 2020). Through this, organization will have the option to achieve high development goals which will thus result into acquiring significant level of capital additions for the speculators. In this way, Chocco plc is in the situation to draw in more speculators who are more enthusiastic about procuring higher expected benefits from a critical rise in the share price of the organization and least interest in the pay produced through profit.

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