

Accounting Fundamentals- LCBB4001

Assignment- A1 (Resit)

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INTRODUCTION

Every company needs to maintain a permanent data base for the evaluation of the economical resources .The winning and losses accounts offer information about financial performances, witch represents a fundamental factor for the good functionality of a company .

In the next pages you will be able to observe the financial performance of the companies Wales Plc and Sweets Plc. , through the studies of the financial informations .

Solutions for question 1:

Income statement of Wales Plc.

In the books of Wales Plc		
31/12/2022		
Income statement		
Particulars	£	£
Revenue	800000 £	
Sales return	980 £	
Net revenue		799020 £
Cost of goods sold		170125 £
Gross Profit		628895 £
Operating expenses		
Administrative expenses	30000 £	
Interest paid	2000 £	
Directors remuneration	5000 £	
Distribution costs	28000 £	
Commission	3000 £	
Total operating expenses		68000 £
Profit before tax		560895 £

Tax		100000 £
Profit after tax		460895 £

Table 1: Income statement of 2021 (Source: Self development, 2023)

In order to generate profit, you need to have growing incomes and reduced expenses in the most efficient way, so we use the method The income statement. Regarding Wales Plc, the income statement it is well done.

Calculations:

In the next table we have the financial statement of the company Wales Plc and because of that we were able to calculate the net profit, which is a positive one after we have taken out the total operating expenses and and tax from gross profit.

If Wales Plc applies all the accountaning rules and finds the errors , there is a big chance to have positive results for the ending of the financial statment .

Financial position statement of Wales Plc.

In the books of Wales Plc		
Statement of financial position		
31/12/2021		
Particulars	£	£
Total non-current assets		
		1250000 £
Current assets		
Debtors	170125 £	
Stock at31/12/21	430600 £	
Cash and bank	176250 £	
Total current assets		776975 £
Total Assets		2026975 £
£1 ordinary shares	1000000 £	
10% £1 preference shares	400000 £	
Net profit	460895 £	

Retained Earning	132000 £	1992895 £
4% Debentures		200000 £
Total owners equity		2192895 £
Non-current liabilities		
Ordinary dividend paid		20000 £
Preference dividend paid		30000 £
Current liabilities		
Accounts payable (Creditors)		188625 £
Total equity and liabilities		2431520 £

Table 2: Financial position statement of 2021 (Source: Self development, 2023)

In order to know the financial statement of a company , you need to maintain balance , so you can make good financial decisions , that will increase the company`s performance.

Balance sheet formula: Assets = Liabilities + Equity (Corporate Finance Institute, 2022).

You can observe in the next table the final financial statement .

The total assets are the sum of current assets, trade receivables, stocks, cash at the bank, plant. Total liabilities are the sum of Current liabilities, ordinary and preference shares. Shareholders` equity is derived from subtracting the total liabilities from the total assets.

In the table are presented as follows: non-current assets and current assets (1631520 £), amount of capital, net income, retained earnings and debentures (1392895 £) and liability (1631520 £). Having said that, the company has a correct attitude and maintains a balance.

The balance sheet is in balance - Any income generates an expense

With help from the balance sheet you can observe the financial position . every financial data affects both registers of accounts , so you can`t cause imbalance . Through balance of the balance sheet , we can understand every company`s financial statement, and this way you can attract investors , because risks are transparent .

Solutions for question 2

Computation of accounting ratios of Sweets Plc

1. Calculation of Return on capital employed

Calculation of Return on capital employed		
Particulars	Years	
	2021	2020
Earning before interest and tax (EBIT)	805 £	699 £
Capital employed	7225 £	7041 £
ROCE	11%	10%
Formula: EBIT/ Capital employed		

Table 3: Return on capital employed (Source: Self development, 2023)

To correctly evaluate the performance of the company sweet pls we calculate roce . the roce calculation is important for investors because it's a calculation instrument for the efficiency and profitability of capital and for growing performance .

It can be seen that the capital of the company Sweets Plc.increased in 2021 by one percent compared to 2020.

2. Calculation of Return on equity

Calculation of Return on equity		
Particulars	Years	
	2021	2020
Net income	431£	366£
Shareholders equity	3088£	2912£
ROE	14%	12.6%
Formula: Net income/Shareholders equity		

Table 4: Return on equity (Source: Self development, 2023)

Return on equity shows the maximum profit of a company in which you can invest . Conform the studies made on the company Sweets Plc., in 2020 roe was 12.6% , representing a feasible margin , but in 2021 roe went up to 14% , witch means that the financial performance has gone up and the company is rising.

3. Calculation of Earning per share

Calculation of Earning per share		
Particulars	Years	
	2021	2020
Net income	431 £	366 £
Average outstanding shares	300 £	300 £
EPS	1.44	1.22
Formula: Net income/ Average outstanding shares		

Table 5: Earning per share (Source: Self development, 2023)

Eps calculation for the company Sweets Plc. does not show a major growth of profitability in 2021 compared to 2020

4. Calculating Net profit margin

Calculating net profit margin		
Particulars	Years	
	2021	2020
Net profit	431 £	366 £
Annual sales	6738 £	6441 £
Net profit margin	6.40%	5.68%
Formula: (net profit /Annual sales)*100		

Table 6: Net profit margin (Source: Self development, 2023)

Through calculating the net profit we can observe if the company has obtained profit or if there were any losses . in 2021 , Sweets Plc.has grown profitability by 6.4%.

5. Assets turnover ratio

Assets turnover ratio		
Particulars	Years	
	2021	2020
Total revenue	6738 £	6441 £

Total Asset	9736 £	10087 £
Average total asset	9911 £	5043 £
Asset turnover	0.68	1.28
Formula: Revenue/average total asset		

Table 7: Assets turnover ratio (Source: Self development, 2023)

Asset turnover ratio determines the differences between the value of revenue and value of goods and it identifies the efficiency of Sweets Plc.

6. Stock holding days

Stock holding days		
Particulars	Years	
	2021	2020
Average inventory - Closing stock	708	659
COGS- Cost of goods sold	3235 £	3096 £
Stock holding days	79.88	77.69
Formula: (Closing stock/COGS)x365		

Table 8: Stock holding days (Source: Self development, 2023)

It's important to analyze stock holding days . in 2021 stock holding days has gone up to 80 days , compared to 2020 , when it was approximately 78 days . in 2021 Sweets Plc. has grown cost of goods sold. A good solution for the company is reducing the cost of goods sold.

7. Calculation of Debtors collection period

Calculation of Debtors collection period		
Particulars	Years	
	2021	2020
Accounts receivable	1249 £	1287 £
Credit sales	6738 £	6441 £
Debtors collection period	67.66	72.93
Formula: (Accounts receivable/Credit sales)x365		

Table 9: Debtors collection period (Source: Self development, 2023)

In 2021 Sweet plc has taken down debtors collection period compared to 2020 , which shows a positive result for the financial statement of the company

8. Calculation of current ratio

Calculation of current ratio		
Particulars	Years	
	2021	2020
Current asset	9736 £	10087 £
Current liabilities	2511 £	3046 £
Current ratio	3.88	3.31
Formula: current asset/ current liabilities		

Table 10: Current ratio (Source: Self development, 2023)

Through this analysis we know that the company sweet plc will have debt on short term or it will not have debt. according to the calculations made by the company it can hold its debts, the difference between the two years is not so big .

9. Calculation of Gearing ratio

Calculation of Gearing ratio		
Particulars	Years	
	2021	2020
Loans and borrowings	4137 £	4129 £
Shareholder equity	3088 £	2912 £
Gearing ratio	1.34	1.42
Formula: loans and borrowings/shareholder equity		

Table 11: Gearing ratio (Source: Self development, 2023)

Sweet plc. maintains consistency throughout the year 2021 . there are no remarkable differences compared to 2020. Gearing ratio maintained positive.

10. Calculation of interest coverage ratio

Calculation of interest coverage ratio		
Particulars	Years	
	2021	2020
Earning before interest and taxes	805 £	699 £
Interest expenses	226 £	181 £
Interest cover	3.56	3.86
Formula: EBIT/Interest expense		

Table 12: Interest coverage ratio (Source: Self development, 2023)

In the company sweet plc interest coverage ratio has gone down in 2021, compared to 2020.

If the company focuses on reducing the cost of expenses with interests they can obtain a positive result , witch takes the company to a continuous performance .

Financial position and performance review of Sweets Plc.

The study has a few limitations , because this study is based on secondary data , collected throughout the past 2 years . the period of the study is a financial exercise from 2020 to 31.12.2021. the financial analysis shows that Sweets Plc. has handled wisely it's resources on short term .

Sales have gone up , including capital employed , so we also see a growth in the net profit to 6,4% in 2021 . return on equity has gone up to 14% from 12.6% in 2021 , witch shows that throughout the past 2 yers , the company has grown and bettered it's efficiency , offering the security that the capital was well harnessed and investments can be made.

Even though return of capital employed was big in 2021 (11% compared to 10% in 2020), asset turnover has gone down , witch is not the best sign that Sweets Plc. can offer . Another impasse of the company is reflected in interest cover .

However sales have gone up , including capital employed , so the profit has also gone up to 6.4 in the year 2021 . return on equity has gone up from 12,6% in 2020 to 14% in 2021 , resulting that throughout the years the company has improved it's efficiency , offering security that capital value is good and you can make investments . in 2021 sweet plc has grown the cost of goods sold , generating the growth of stock holding days .

If we look at the results obtained at point a , we can observe that sweet plc had good results and the best have gone sales and profits . all studied factors have an important impact on the company and show high financial performance.

Given the up mentioned study and having analyzed all the information , I advice investors to invest in sweet plc , because we can observe that it has potential to generate profit .

Conclusions

The study presented compared different statements such as : ROCE, ROE, Net profit margin, Earnings per share and other. After the evaluation we can observe that both Wales Plc and Sweets Plc. have made performance in 2021 compared to 2020

Reference

AccountingCoach.com. 2022. What Is an Income Statement | AccountingCoach? [online] Available at: <<https://www.accountingcoach.com/income-statement/explanation>> [Accessed 10 September 2022].

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