



ASSIGNMENT - 1

ACCOUNTING FUNDAMENTALS

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MODULE	ACCOUNTING FUNDAMENTALS
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1. INTRODUCTION-

A financial statement is a compilation of two or more important business filings. The design will consist of the company's funding declaration, earnings report, and equilibrium sheet. The three variables combined generate a complete overview of the organization's sustainability. Such statement's readers including current and future financiers, workers, creditors, distributors along with additional commercial unsecured creditors, customers, officials and their regulatory bodies, and members of the public.

Accounting programs will most certainly confront several obstacles such as budgeting insecurity, developing accurate forecasts in a volatile atmosphere, and implementing new financial reports and accounting requirements to meet with employment volatility in the markets.

2. MAIN BODY-

A) Financial position statement as of December 31, 2022

ASSETS:		
Plant and equipment	£1,250,000	
Stock at 31 December 2021	£510,850	
Trade receivable	£170,125	
Cash and bank	£96,000	
Commission claim	£3,000	
Prepaid expenses	£980	
Total assets		£2,031,955
LIABILITIES		
Trade due	£188,625	
Preference shares	£500,000	
Bonds	£200,000	
Total liabilities		£888,625

EQUITY		
Ordinary shares	£900,000	
Retained earnings	£132,000	
Net profit	£53,350	
Total equity		£1,085,350
Total liability and equity		£2,031,955

$$\text{ASSET} = \text{LIABILITIES} + \text{EQUITY}$$

B) Lets take look at each element of Wales plc's statements of financial condition to discover how it balances:

WORKING NOTES:-

They obtain £1,974,975 after we sum the liabilities (£888,625) with equities (£1,085,350), which happens to be little below the total amount of resources (£2,031,955). The distinction is caused by the two variables that follow.

- Expected tax on corporations of £100,000: This refers to a liability that fails to appear on the balance sheet.
- On December 31, 2022, £980 in products were delivered to clients: It pertains to an asset item is not currently registered in the financial situation statement.

As soon as we add both of these two things to liabilities and assets, the statement of affairs will balance:

Total liabilities: £888,625 + £100,000 = £988,625

Total assets: £2,031,955 + £980 = £2,032,935

NOW,

Assets (£2,032,935) = Liabilities (£988,625) + Equity (£1,085,350)

As a result, the statement of assets and liabilities is equal.

ANSWER 2-

A) Calculation of Sweets plc's ratios using financial information and formulas:-

1. Return on Capital Employed (ROCE) = PROFIT BEFORE INTEREST/CAPITAL EMPLOYED x 100%

Capital employed = total assets – current liabilities

For 2021 Capital employed=(7,433 – 2,511) = 4,922 million ROCE: (805 / 4,922) x 100 ≈ 16.36%	For 2021 Capital employed=(7,732 – 3,046) = £4,686million ROCE: (699 / 4,686) x 100 = 14.92%
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2. Return on Equity (ROE) = EARNINGS/EQUITY x 100%

For 2021 ROE=(431 / 3,088) x 100 = 13.96%	For 2020 ROE = (366 / 2,912) x 100 = 12.57%
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3. Net profit margin = OPERATING PROFIT/SALES x 100 %

For 2021:

Net Profit Margin = (431 / 6,738) x 100 ≈ 6.40%

For 2020:

Net Profit Margin = (366 / 6,441) x 100 ≈ 5.68%

4. Earnings per share (EPS) = EARNING/NUMBER OF ORDINARY SHARES £

WORKING NOTE-

For 2021:

Dividend paid = £255m

Retained earnings = 1,717 – 255 = £1,462 million

Number of ordinary shares:

Average share price during 2021 = £5.12

Dividend per share = dividend paid / weighted average number of common shares

Dividend per share = £255m / (£5.12 x £100m) = £0.0498

For 2020:

Dividend paid = £242m

Retained earnings = 1,541 – 242 = £1,299 million

Weighted average number of ordinary shares:

Average share price during 2020 = £4.00

Dividend per share = £242m / (£4.00 x 100m) = £0.0605

FOR 2021 EPS = (431-255) / 100m ≈ £1.76	FOR 2020 EPS = (366-242) / 100m ≈ £1.24
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5. Assets turnover = revenue/capital employed (times)

Average Total Assets = (2021 Total Assets + 2020 Total Assets) / 2

For 2021:

Average total assets = (9,736 + 10,087) / 2 = 9,912.5 million (£m)

Asset turnover = 6,738 / 9,912.5 ≈ 0.679

For 2020:

Average total assets = (10,087 + 10,087) / 2 = 10,087 million (£m)

Asset turnover = 6,441 / 10,087 ≈ 0.638

6. Stock holding days = inventory / cost of sales * 365 (days)

Average inventory = (2021 inventory + 2020 inventory) / 2

For 2021:

Average inventory = (708 + 659) / 2 = 683.5 million (£m)

Days held in inventory = (683.5 / 3,235) x 365 ≈ 77.21 days

For 2020:

Average inventory = (659 + 659) / 2 = 659 million (£m)

Days of inventory held = $(659 / 3,096) \times 365 \approx 77.70$ days

7. Debt collection period = (trade receivables / revenue) x 365 days

For 2021:

Debtor collection period = $(1,249 / 6,738) \times 365 \approx 67.54$ days

For 2020:

Debtor collection period = $(1,287 / 6,441) \times 365 \approx 72.98$ days

8. Current ratio= current assets/current liability

For 2021:

Current ratio = $2303 / 2511 \approx 0.918$

For 2020:

Current ratio = $2355 / 3046 \approx 0.773$

9. Gearing ratio= long term debt/ long term debt + equity * 100 %

For 2021:

Gear ratio = $(4,137 / (3,088 + 4,137)) \times 100 \approx 57.23\%$

For 2020:

Gear Ratio = $(4,129 / (2,912 + 4,129)) \times 100 \approx 58.68\%$

10. Interest cover = profit before interest /interest charges (times)

For 2021:

Interest coverage = $805 / 226 \approx 3.56$

For 2020:

Interest coverage = $699 / 181 \approx 3.86$

These are the calculated ratios for Sweets plc for the years 2021 and 2020

B) COMMENT ON THE FINANCIAL PERFORMANCE OF SWEETS PLC

- Gross profit margin:

Gross profit margin = (gross profit / revenue) * 100

For 2021:

Gross profit margin = (3,503 / 6,738) * 100 ≈ 52%

For 2020:

Gross profit margin = (3,345 / 6,441) * 100 ≈ 52%

For both years, the gross profit margin maintained reasonably steady at roughly 52%. Statistics demonstrates that Sweets plc has maintained a solid degree of earnings on the revenue it generates.

- Operating profit margin:

Operating profit margin = (operating profit / revenue) * 100

For 2021:

Operating profit margin = (805 / 6,738) * 100 ≈ 12%

For 2020:

Operating profit margin = (699 / 6,441) * 100 ≈ 11%

The operating profit margin increased from 11% in 2020 to 12% in 2021. It demonstrates that the organization's efficiency of operation has increased, which leads to increased profit when compared to consumption.

- Return on Equity (ROE):

ROE = (Profit per year / average equity) * 100

For 2021:

ROE = (431 / ((2,912 + 3,088) / 2)) * 100 ≈ 14.7%

For 2020:

ROE = (366 / ((2,912 + 2,912) / 2)) * 100 ≈ 12.5%

The return on equity (ROE) grew from 12.5% in 2020 to 14.7% in 2021. This signifies that the firm earned greater returns for its stockholders throughout the course of the whole year.

- Current ratio:

Current ratio = current assets / current liabilities

For 2021:

Current ratio = $2303 / 2511 \approx 0.92$

For 2020:

Current ratio = $2355 / 3046 \approx 0.77$

In 2021, the current ratio increased from 0.77 in 2020 to 0.92. Despite the current ratio remains below one, suggesting an overall insufficient liquidity status, the rise implies an immediate boost in stability.

CONCLUSION-

Sweets plc's revenue growth looks to be favorable. The corporation kept its gross profit margins unchanged while improving its operational revenue margins. Furthermore, the profit return on assets has grown, implying enhanced stakeholder prosperity. Nevertheless, the present ratio indicates that the firm may still be experiencing liquidity concerns. Sweets plc should carefully evaluate its liquidity situation and seek methods to enhance it, such as better managing its financial resources or acquiring extra finance if essential.

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