

ACCOUNTING FUNDAMENTALS
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Introduction

Finance and accounting play a significant role in the operation of the business. It helps the management to perform the task appropriately and it is significant for preparing financial statements as well as income statements at the end of the accounting year. Business finance provides a better understanding of the basics of accounting so that the management can perform double-entry bookkeeping. The assignment provides a better understanding of the financial statement which helps to analyse the value of assets and liability in the organization named Kedison Plc. In the assessment, the analysis of the ratio of Chocco Plc has been done to evaluate the position of the business.

Question 1

a) Description of income and a financial statement regarding business

Income Statement

Income Statement of kedison Plc	
Particulrs	Amounts (£)
Revenue	826650
Cost of sales	578650
Gross profit	248000
Distribution cost	28000
Adminitrative expenes	30000
Other income	nil
Operating profit	190000
Income from invetment	nil
Finance cost/ interst	2000
Profit before tax	188000
Taxation	68000
Profit for the period	120000

Figure 1: Computation of income statement

(Source: Own-developed)

The statement of income helps to analyse the efficiency of the business by evaluating the sales which have been demonstrated for the amount of £26650. The cost which is involved in obtaining the sales is valued at £578650. The gross profit achieved by the organization is valued at £

248000. The gross profit leads to increasing the potential of the business. The total value of distribution cost has been identified as £28000 and administrative expenses are valued at £30000. The expenses generally decrease the achieved gross profit to obtain the net profit of the business. The expenses have been subtracted from the gross profit to evaluate the profit before tax. The net profit which amounts to £120000 is obtained by the organization named Kedison Plc is. It helps the investors to assess the position of the company whether it is generating enough profit or not. It creates a positive impact on the business by enhancing the performance of the business. The increase in the net profit helps to analyze the costs which are effectively controlled by the management.

Financial statement

statement of financial position of kedison Plc	
Assets	Amount £
Non-current assets	
Property, plant, equipment	632730
Intangible assets	nil
Current assets	
Inventories	330600
Trade recivables	170125
Cash	12900
Total assets	1146355
Liabilities	Amount £
Cuurent liability	171355
Non- current liability	nil
Equity	
Share capital	710000
Share premium	13000
Other reserves	
Retained earnings (profit at start + net pofit)	252000
Total Liabilities	1146355

Figure 2: Computation of financial statement

(Source: Own-developed)

The position of finance has been analyzed for the business during the year 2020. The initial aim for preparing the financial statement is to identify the final value which is involving the liabilities and assets during the year. The statement helps to provide information regarding the valuable assets, debentures, liabilities, and cash that is obtained by the organization. It also helps to analyze various adjustments which affect the value of elements in the statement. The assets include non-current assets which provide the demonstration of the valuation regarding plant, equipment, and property, and it is valued at £632730. The organization does not possess any intangible assets in the year 2020. The current assets include trade receivables, cash balance, and inventories which help in the process of production (Hidaka and Sakamoto, 2021, p.22). The total assets have been identified as the value of £1146355. It helps to analyze whether the organization has sufficient assets to pay its liabilities or not. The current liabilities have to be paid within one year and it is valued at £171355 and the equity has been valued at £710000. The retained earnings is valued at £25200 and the share premium has amounted to £13000. The retained earnings have been created by the company named Kedison Plc to provide dividends to the shareholders. The total liabilities can be demonstrated for the value of £1146355. The liability is always equal to the assets because the double-entry system has been followed to prepare the statement.

b) State the reason for matching the balance at the time of computation

The concept regarding financial position provides the understanding of the business and it has been prepared at the end of the accounting year. The financial position can be analysed by evaluating the value of liabilities as well as assets. The financial statement is helpful for the shareholders as well as investors because it provides better knowledge regarding the availability of liquid cash for payment of its obligations and capital which is provided by owners of the organization. The balance sheet has been prepared by involving the double-entry accounting system which helps to match the total value of liabilities and assets in the accounting period (Almail, 2017, p.41). According to the standards of accounting, every entity has a double effect in the books therefore the statement of finance shows equal balance.

Question 2

a) Description of ratios

1. ROCE ratio

ROCE ratio		2019(£m)	2020 (£m)
Profit before interest and tax		720	846
Capital employed		7225	7041
Ratio(PBIT/capital employed)		10%	12%

Figure 3: Calculation of the ROCE ratio

(Source: Own-developed)

The profit before interest as well as tax can be effectively identified from the above-presented figure which is valued at £720 in the year 2019 and the value in the year 2020 is £846. The capital which had been employed in the previous year of 2019 has been valued at £7225 and the value in the current year is £7041.

The ratio can be demonstrated for the current year is 12% and the ratio of the previous year is 10%. The current year ratio has been increased due to an increase in the profit before tax and interest. The ratio helps to increase the efficiency of the business carried on by the company named Chocco Plc.

The ratio can be increased by improving the sales. The increase in sales leads to increased profit and this helps to improve the ratio.

2. ROE ratio

ROE		2019(£m)	2020 (£m)
total equity		300	300
net profit		366	431
ratio=net income/total equity		1.22	1.44

Figure 4: Calculation of the ROE ratio

(Source: Own-developed)

The ratio regarding return on equity has been completed by dividing net income by total equity. The total equity can be demonstrative for the value of £300 in the previous year and it remained the same in the current year. The net profit of the present year is valued at £431 and the amount of

the previous year 2019 is valued at £366. The cause of the increase in net profit is an increase in revenue in the year 2020.

The ratio of 2019 can be identified from the above-presented table is 1.22 and the ratio of 2020 is 1.44. The ratio has been increased in the current year which leads to creating a positive impact on the organization. The investors will invest more amounts due to increasing the ratio.

The further improvement in ratio helps to achieve high returns and for that, the organization has to increase its net profit of the year.

3. Earnings per share ratio

Earning per share		2019(£m)	2020 (£m)
Preference dividend		nil	nil
Net Income		366	431
Share Outstanding		1071	1071
EPS ratio [(Net income - Preference dividend)/ outstanding share]		0.341736695	0.402427638

Figure 5: Calculation of the share ratio

(Source: Own-developed)

The ratio of the earning per share involves income which demonstrates the amount of 2019 £366 and the amount of 2020 is £431. The outstanding share has been presented as the value of £1071 in 2019 and the value remains equal in the year 2020.

The ratio of the present year has been demonstrated for the value of 0.402 and the ratio has been identified for the year 2019 is 0.341. It has improved in the current year and it leads to a positive impact by increasing the capability of the business.

The ratio can be improved by increasing the price of the products and it can also be improved by decreasing the cost of labour.

4. Margin regarding net profit

net profit margin		2019(£m)	2020 (£m)
net profit		366	431
sales		6441	6738
net profit/sales		6%	6%

Figure 6: Calculation of the net profit ratio

(Source: Own-developed)

The profit provides an analysis of the ability of the enterprise and it can be achieved by deducting overall expenses. The net profit has been identified as of the year 2020 is valued at £431 while the net profit of the previous year has been valued at £366. The sales which have been achieved by the company has been analyzed from the stated figure is £6441 in 2019 and £6738 in the accounting year of 2020.

The ratio of the present year is equal to the ratio of the previous year. It leads to an analysis of the efficiency and the capability of the organization. The efficiency of the business remains the same due to the ratio.

The ratio can be increased by increasing the sales which will help to increase the profit of the year.

5. Assets turnover ratio

Assets turnover ratio		2019(£m)	2020 (£m)
total assets		10087	9736
net sales		6441	6738
Assets turnover ratio (net sales/total assets		0.638544661	0.692070666

Figure 7: Computation of asset turnover ratio

(Source: Own-developed)

The assets turnover ratio helps to provide a better understanding of the efficiency of the organization. The ratio leads to involving total assets as well as net sales for computing the outcome. The net sales of the present year have been valued at £6738 and the value of the previous year is £6441. The total assets are valued at £9736 in the present year and the amount of the previous year is £10087.

The ratio of 2019 is 0.16 and the ratio of 2020 has been computed as 0.69.

The ratio can be improved by increasing the purchase of total assets in the business.

6. Stock holding days

stock holding period		2019(£m)	2020 (£m)
inventories		659	708
COGS		3096	3235
(inventory/COGS)*365		77.69	79.88

Figure 8: Computation of stock holding ratio

(Source: Own-developed)

The inventories of the previous year have been evaluated for the value at £708 in 2020 and the value of inventory in 2019 is £659. The ratio that has been computed for the year 2019 is 77.69 and the ratio of 79.88.

The ratio has been increased which helps to analyse that the stocks have increased in the company.

The ratio can be effectively improved by controlling the cost which is involved for goods sold.

7. Debtors collection period

debtors collection period		2019(£m)	2020 (£m)
account receivable days		1287	1249
sales		6441	6738
(receivable/sales)*365		72.93199814	67.65880083

Figure 9: Computation of Debtors collection period

(Source: Own-developed)

The debtor's collection period helps to provide the ratio in 2020 is 67 days. The ratio of the previous year has been computed as 72 days.

It can be improved by providing discounts to the debtor so that they can avail the faster payment.

8. Current ratio

current ratio		2019£	2020 £
current assets		2355	2303
current liability		3046	2511
current assets/current liability		0.773145108	0.917164476

Figure 10: Computation of current ratio

(Source: Own-developed)

The current assets that have been valued for the previous year are £2355. The value of assets for the present year is £2303. The current liability has been valued for 2019 at £3046 and the present year's value at £2511.

The ratio has increased in the present year by 0.91 from the previous year of 0.77. It helps to analyse that the company is more capable of paying off its liabilities.

9. Gearing ratio

Gearing ratio		2019(£m)	2020 (£m)
debt		242	255
equity		300	300
ratio (debt/equity)		81%	85%

Figure 11: Computation of gearing ratio

(Source: Own-developed)

The gearing ratio leads to analysing the value of equity which remains equal in both the year. The ratio of the previous year has been valued at 81% and the ratio of 2020 is 85%. The ratio has increased due to an increase in debt in the year 2020.

The percentage of ratio had been increased in the current year which leads to increase the efficiency of the organization.

The ratio can be further improved by enhancing the equity in the business.

10. Inverter cover ratio

interest coverage ratio		2019(£m)	2020 (£m)
EBIT		539	620
Interest expenses		181	226
ratio = EBIT/ INTEREST EXPENSES		2.98	2.74

Figure 12: Computation of inverter ratio

(Source: Own-developed)

The ratio involves earning before tax and interest as well as expenses of interest. The value of EBIT has been identified for the previous year as £539 and the value of the present year amounts to £620. The interest of 2020 is £226 and the value of the interest in 2019 is £181.

The ratio of the previous year had been demonstrated for the value of 2.98 and the value of 2020 is 2.71. The rate of interest has decreased due to a decrease in the ratio.

It can be improved by increasing the earnings of the organization.

b) Analyse the position of the business

The ratio is helpful because it provides the knowledge of the position by evaluating the position of the enterprise. Investors generally focus on the organization's capability of producing profit with the help of capital. The current ratio has been increased in the present year and it also helps to identify that the assets have been increased to pay the liabilities (Minford and Meenagh, 2019, p.160). The ratio of net profit also has been improved which helps to analyse the generation of profit.

Conclusion

The study leads to conclude that accounting is significant for analysing the efficiency of the organization. It helps to run the business as well as it also helps to compute the financial statement of the organization and it also helps to analyse the financial records of the enterprise. The assessment provides a better understanding of the assets, revenue, liabilities, and income which led to evaluating the position of the business. The analysis of ratio helps to evaluate various elements which involve net profit, current assets, and stock for evaluating the position of the

business. It is also helpful for the investors to analyse the capability of business before investing in the company.

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