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BA BUSINESS MANAGEMENT

Assignment 1

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Table of Contents

Question 1	3
a) Identification of the income statement and financial position.....	3
b) Discuss the balance of the financial position statement	8
Question 2	10
a) Examine the financial ratio of organisation.....	10
b) Determine the company's financial position by analysing the financial statement and ratio calculation	20
Reference list	21

Question 1

a) Identification of the income statement and financial position

In the books of Wales plc		
Income statement		
For the year ended 31st December 2021		
Particulars	Amount	Amount
Sales	£ 800,000	
costs of sales	£ 578,650	
Gross profit		£ 221,350
Administration expenses	£ 30,000	
Ordinary dividend	£ 20,000	
Preference	£ 30,000	
interest paid	£ 2,000	

Outstanding commission	£ 3,000	
Outstanding goods	£ 980	
Directors remuneration	£ 5,000	
Distribution costs	£ 28,000	
Operating expenses		£ 118,980
Operating profit		£ 102,370
Tax		£ 100,000
Net profit		£ 2,370

Table 1: Calculation of income statement

(Source: Self-developed)

The income statement assists the business owners in making a decision on creating a profit by enhancing the sales, with reducing the costs on both. It has shown the strategy's effectiveness for the business set at the financial period starting days. Voluntary engagement of the sustainability activities helps in changing the business models (Xie *et al.* 2019, p.4). It shows the investors' financial information and shows profits at a specific time. The Gross profit value mentioned at the £ 221,350 is positive because of sales value is higher than the costs of sales. The net profit has been mentioned at the value of £ 2370 for the year ended 31st December 2021. The company

is showing a positive value of Net profit which means the company can able to generate a higher sales value as compared with the value of the expense. Therefore, with the effect of that, it can be seen that the net profit shown at £ 2370 after tax and before tax is mentioned at the value of £ 102370. The tax value was provided at the value of £ 100000 for the year ended 2021.

In addition, the income statement is the part related to the financial statement prepared by the company. Evidence of non GAAP disclosures helps in disclosing the proforma earnings in a better format (Charitou *et al.* 2018, p.1). The income statement's purpose is to give financial information to readers, creditors, and investors. The company gets profitable at the time of the financial year. The income statement is analyzed to recognize the specific shortcoming strategy and also a huge accurate and suitable direction for making decisions.

In the books of	
Balance sheet	
For the year ended 31st December 2021	
Particulars	Amount
Current assets	
Cash and cash equivalent	£ 176,250
Inventory	£ 430,600
Trade receivable	£ 170,125

Total current assets	£ 776,975
Noncurrent assets	
Plant and equipment	£ 1,250,000
Total noncurrent assets	£ 1,250,000
Total assets	£ 2,026,975
Current liabilities	
Trade payable	£ 188,625
Tax	£ 100,000
Sales commission	£ 3,000
Total current liabilities	£ 291,625
Noncurrent liabilities	
Long term borrowings	£ 200,000

Debts	£ 980
Total noncurrent liabilities	£ 200,980
Total liabilities	£ 492,605
Equity and liabilities	
Preference share	£ 400,000
ordinary shares	£ 1,000,000
Retained earnings	£ 134,370
Total equity and liabilities	£ 2,026,975

Table 2: Calculation of Balance sheet

(Source: Self-developed)

The table 2 Balance sheet, it can be seen that the value is shown at £ 2,026,975 in balance for both equity and liabilities and total assets. The Assets value mentioned at a good position is **£ 2,026,975**. However, the value of the balance sheet has shown a better position of the financial health related to the provided moment at the specific time. The Balance sheet is giving interested with its parties on giving ideas related to the organization's financial position by adding and showing what the organization owes and owns. The increasing value of assets directs to the enhancing value of equity and vice versa.

The balance sheet will not balance the equity and it shows the comparison between the liabilities and assets. It errors calculated with equity can be shown as another reason for balancing the tallied. The main purpose related to the balance sheet for showing the financial business status as on the time point. The statement has shown the entity and also the process of owning the liabilities as well as the amount invested in the equity business. By controlling the liquid assets leverage losses could be reduced to a greater extent (Jeenas, 2019, p.1). It gives better information related to the resources of the organization's assets and also the capital sources. It gives a better examination by assessing the capabilities of the organization in paying for its requirements of near-term operations, meeting the future debt obligation, and also contributing to its owners.

b) Discuss the balance of the financial position statement

The balance of the above balance sheet is shown in a good manner because the data has been put in an accurate and well manner. The balance sheet is balanced by equally taking the total assets as an equal to the liabilities by adding the shareholders' equity value. It is the statement that shows the value in the manageable form in the company's liabilities, shareholders' equity, and also assets. By the help of transformation of the economy the relevance of the forecasting as well as analysis of the managerial decisions could be done in a proper way (Osadchy *et al.* 2018, p.1). The balance sheet is one of the major financial statements utilized in business evaluation. Therefore, with the effect of that, it gives better insights and an overview of the finances of organizations as one of the publication dates.

The financial position assists the management in concern about the performance of the organization. It has done with giving better management in making accurate and suitable management of the company's policies. It can be done by making decisions with proper and accurate policies for making organizations better decisions. The most major important for the organization's financial statement is using the income statement. It shows the capability of the organization's business in creating profit. It assesses the business position in the way of financial stability and also the potential risks. It has been seen that financial stability creates direct impact on the asset- market volatility and redemption and liquidity related risks (Anadu *et al.* 2020, p.2). The balance sheet's asset carries related to the organization receive future and measurable. The liabilities of the organization owes like payables, taxes, debts, and salaries. The equity of

shareholders section shows the retained earnings of the organization and also the capital for distribution to the shareholders. Hence, for example, total assets and total balance sheet should be equal to the shareholder's equity and liabilities.

It is important to show the balance of the balance sheet is the double entry accounting principle. This accounting system records all the transactions showing at let two divergent accounts. Therefore, with the effect of that, it acts as the check to ensure the entries are frequent. Assets are the first major subcategories on the balance sheet. The current assets show the value of the assets that can be more reasonably expected to be altered into cash within one year. It utilized proceeding with paying current operations and expenses. Potential impact of the volatility and tradeoff analysis is done (Bullmann *et al.* 2019, p.10). They carry major information related to the financial health of the organization. They can also assist the organization in making decisions on investing in the organization. An income that gets derived comes under many assumptions (Carpenter *et al.* 2017, p.2) The financial statement assists the organization in making informative decision-making economics. They have highlighted the company's areas in giving the best "***return on investment (ROI)***". Therefore, while in the recording the funds of income statement flowing in or out with the organization all over the period of time.

The "***consolidated balance sheet and income statement***" is showing insights into the financial position of the organization at a provided time. On the other hand, the balance sheet has shown the organizations own liabilities and assets on the comparison between the two stockholder's equity. It has shown comparison and shows the stockholder's stake book value in the organization. It has called with the balance sheet due to showing both sides related with equation balance with assets equal plus the stockholder's equity.

Question 2

a) Examine the financial ratio of organization

1.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
EBIT " <i>Earnings before interest and tax</i> "	620	539
Total assets	9736	10087
Total current liabilities	2511	3046
ROCE	0.09	0.08
ROCE= {EBIT/(Total assets-total current liabilities)}		

Table 3: Identification of ROCE

(Source: Self-developed)

“Return on Capital Employed (CAPM)” is referred to a “profitability ratio” that helps to recognize whether a company will be able to make a profit or not in the specific period of time impact of intellectual capital helps in investigating the financial performance as well as profitability (Thomas, 2019, p.1). It has consisted of three primary factors such as “EBIT”, “Total Assets”, and “Current liabilities”. The formula used for determining the ROCE of the company is presented below:

Formula: “ROCE= {EBIT/ (Total assets-total current liabilities)}”

In the year 2020, the ROCE is stood at 0.08 while it increases in 2021 and stands at 0.09. It is represented in this study that the company has increased ability in making a profit through its capital.

2.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Net income	431	366
Shareholders' equity	3088	2912
ROE	0.14	0.13

$$\text{ROE} = (\text{Net income} / \text{shareholder's equity})$$

Table 4: Identification of ROE

(Source: Self-developed)

“Return on Equity (ROE)” is helpful in measuring the net income of an organisation dividing the equity of the shareholders. The formula which is used in this determination is presented below:

Formula: “ROE= (Net income/shareholder's equity)”

It is determined that the ROE stands at 0.13 in 2020 which increases to 0.14 in 2021. The primary reason for increasing ROE is an increase in “net income” and “shareholder’s equity”. It refers that the company has increased ability in order to generate a significant income.

3.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Net income	431	366
Dividend payment	255	242

Weighted average shares outstanding	1071	1071
EPS "<i>Earning per share</i>"	0.16	0.12
EPS= (Net income-dividend payment/weighted average shares outstanding)		

Table 5: Identification of EPS

(Source: Self-developed)

It assists the organization in making a comparison between the promising performances of the organization. It assists in picking the most suitable and accurate investment option. The EPS also direct in the way of comparing the company's financial standing in all over the years. In the year 2021, the EPS was given at 0.16 times which is higher as compared with the previous value which is 0.12 times. The higher value of EPS means the organization is showing more profit sufficient in paying out more money to its shareholders. Hence, for example, the organization might enhance in dividends as earnings enhance in all over time.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Net profit	431	366

Sales	6738	6441
NPM "<i>Net profit margin</i> "	6%	6%
NPM= (Net profit*100/sales)		

Table 6: Identification of NPM

(Source: Self-developed)

“Net profit margin (NPM)” is referred to as the profitability ratio “that helps to measure the efficiency of an organisation in order to make a profit by selling goods and services.

Formula: “NPM= (Net profit*100/sales)”

This study has shown that the above-mentioned formula has been used to determine the NPM of the company. The NPM stands at 6% in both the selected years which represents stable growth in the financial condition. Therefore, it is recommended that there is a requirement for increasing sales growth and net profit to improve the NPM of this company.

5.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)

Net sales	6738	6441
Average total assets	9736	10087
Assets turnover (AT)	0.69	0.64
AT= (Net sales/Average total assets)		

Table 6: Identification of AT

(Source: Self-developed)

It shows the efficiency of the organization in deploying the assets in producing the sales. The AT can be found related to the company's performance in managing its performance. It can be seen that the AT value slightly increase in the year 2021 which is 0.69 times form 0.64 times. It shows a better financial position of the organization and the company creates sales from its assets.

6.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Costs of goods sold	3235	3096

Average inventories	708	659
Stock Holding days	4.57	4.70
$\text{SHP} = \{(\text{Ending value} - \text{Beginning value}) + \text{income}\} / \text{beginning value}$		

Table 7: Identification of SHP

(Source: Self-developed)

It gives insights of the organization in showing the funds align with inventory form before they have realized on sales. The inventory value holds the period depends on the kinds related to industry and business. The value reduces in the current year because of “*weak sales or excessive inventory*”. It could be the issues with inadequate marketing, and the retail chain’s merchandising strategy.

7.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Trade receivables	1249	1287

credit sales	6738	6441
"Debtors collection period (DCP)"	68	73
Debtor days= (Receivable/ net sales)*365		

Table 8: Identification of DCP

(Source: Self-developed)

"Debtors collection period (DCP)" is one of the significant "efficiency ratio" measures in the process of showing efficiently an organisation can collect a debt. This study has used the below-mentioned formula for the purpose of evaluating DCP . This table has shown that the DCP stands at 73 days in 2020 and in 2021, it stands at 68 days in. Based on this data, it is opined in this study that this company has increased efficiency in collecting money within a specific period of time. In addition, increased sales are recommended by this paper for improving the debtor days.

8.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Current assets	2303	2355

Current liabilities	2511	3046
CR	0.92	0.77
Current ratios (CR) = Current assets/ current liabilities		

Table 9: Identification of CR

(Source: Self-developed)

It thinks about the creditors in evaluating the credit status before giving the “*short term debts value*”. It evaluates the showing insights related to the operating cycle of the organization. The CR increased in the year 2021 which is 0.92 times as compared with 0.77 times in 2020. It shows the higher value of CR means it has the capability to change into liquidating its assets in paying the short-term liabilities.

9.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
Total debts	6648	7175

Total equity	3088	2912
Gearing ratio	2.15	2.46
GR= (Total debts/ total equity)		

Table 10: Identification of GR

(Source: Self-developed)

It is important for the organization in knowing the financial risk related with the organization. It shows the greater portion related to debt to equity value. The company's GE is lower in the current year which is a good sign for the organization. Moreover, the company has maintained the value of its debt in the current scenario.

10.

Sweets plc		
Particulars	2021	2020
	Amount (£m)	Amount (£m)
EBIT	620	539

Interest expenses	226	181
Interest coverage	2.74	2.98
IC (EBIT/ interest expenses)		

Table 11: Identification of IC

(Source: Self-developed)

“Interest Coverage ratio” helps to determine the efficiency of an organisation in order to pay interest on outstanding debt. “Interest coverage ratio” stands at 2.98 in 2020 and 2.74 in 2021. This data has represented the decreased ability of the company in order to pay interest.

b) Determine the company’s financial position by analyzing the financial statement and ratio calculation

As per the basis of the above ratio analysis, it can be observed that the organization’s financial position is well positioned. The observation has been made on the basis of determining the outcome of ROCE *“(Return on capital employed)”*, ROE *“(Return on equity)”*, EPS *“(Earnings per share)”*, *“Net profit margin, Asset turnover, Stock holding days, Debtors collection period, Current ratio, Gearing ratio, and Interest cover”*. The financial position is mentioned in a good position as per the basis of ratio analysis. The GE value has reduced in the current year which is a good sign for the organization because the company has paid its debts by using the assets. Therefore, with the effect of that, it attracts investors in making investments because of the good value of the gearing ratio.

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