



**LCBB4001 Business Management (BABM) Accounting
Fundamentals (50%)**

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QUESTION 1

a)

Income Statement	£	£
Sales	900,000	
Less cost of sales	(578,650)	
<i>Gross profit</i>		321,350
<i>Expenses</i>		
Admin expenses	(30,000)	
Distribution costs	(28,000)	
Sales commission expense	(3,000)	
Directors remuneration	(5,000)	
Total expenses		(66,000)
<i>Profit before interest and Tax</i>		255,350
Interest paid	(2,000)	
Ordinary dividends paid	(20,000)	
Preference dividends paid	(30,000)	
Total		(52,000)
Income before tax		203,350
Tax		(100,000)
<i>Net profit</i>		103,350
Retained profits at 1st January 2022	132,000	
<i>Retained profits at 31st Dec 2022</i>		235,350
Balance Sheet		
Current assets	£	£
Stock	510,850	
Trade receivable	170,125	
Cash & Bank	96,000	
<i>Total current assets</i>		776,975

Non-current assets		
PPE	1,250,000	
Total non-current assets		1,250,000
Total assets		2,026,975
Equity & Liabilities		
Equity		
Ordinary shares (900000x1)	900,000	
Preference shares (500000x1)	500,000	
Retained profits	135,350	
Total equity		1,535,350
Liabilities		
Non-current liabilities		
Debentures	200,000	
Total non-current liabilities		200,000
Current liabilities		
Trade payable	188,625	
Income tax	100,000	
Sales commission	3,000	
Total current liabilities	291,625	
Total liabilities		491,625
Total liabilities and equity		2,026,975

b)

The statement of financial status is balanced because it provides a clear picture of the assets and liabilities that make up a corporation. Consider a pie that represents all the resources available to the business. The company's funding methods—borrowing money (liabilities) or making investments from the owner and retained earnings (equity)—determine the amount of this pie (assets). Every piece of the pie (each asset) must be matched by either a piece reflecting borrowed money (liabilities) or a piece displaying the owner's share (equity) in order for the pie to be complete and accurate. As a result, the corporation is responsible for where and how its resources are employed. Accounting uses a "give and take" method to record each resource movement. When an asset is added to one side, a liability or equity of equal value must be added to the opposite side. This keeps the pie in balance and gives a clear picture of the business's financial status.

QUESTION 2

a)

	Formula	2021	2020
1- ROCE	(Operating Profit / Capital Employed) * 100	11.14 %	9.93 %
2- ROE	(Profit for the Year / Shareholders' Equity) * 100	13.96 %	12.57 %
3- Earnings per share	Profit for the Year / Number of Ordinary Shares	0.72	0.61
4- Net profit margin	Net profit / sales x 100	6.40 %	5.68 %
5- Asset turnover	Revenue / Capital employed	0.93	0.91
6- Stock holding days	(Inventory / Cost of Goods Sold) * 365	79.88 3	77.69 2
7- Debtors collection period	(Trade Receivables / Revenue) * 365	67.65 9	72.93 2
8- Current ratio	Current assets / current liabilities	0.917 2	0.773 1
9- Gearing ratio	(Non-Current Liabilities / (Equity + Non-Current Liabilities)) * 100	57.21 %	58.61 %

10- Interest cover	Operating Profit / Interest Payable	3.561	3.861
		9	9

b)

Here is a remark on the financial performance and position of Sweets plc based on the financial ratios and data provided for the years 2021 and 2020:

- Return on Capital Employed (ROCE): In 2021, Sweets Plc.'s ROCE grew to 11.14% from 9.93% in 2020. This suggests that over the past year, the company's capacity to produce profits from its capital utilised has somewhat improved (Sari, 2022).
- The company's return on equity (ROE) increased from 12.57% in 2020 to 13.6% in 2021. This shows that Sweets plc is improving how well it returns investments to its shareholders.
- EPS (Earnings Per Share): In the period from 2020 to 2021, Sweets plc's EPS increased from 0.61 to 0.72. This implies that the net earnings of the company that are accessible to shareholders have increased, leading to an increase in earnings per share (Rudianto, 2022).
- Net Profit Margin: From 5.68% in 2020 to 6% in 2021, the company's net profit margin grew. This suggests that Sweets plc was successful in keeping a little bit more of its sales as net profit.
- Asset Turnover: In 2020, Sweets plc's asset turnover was 0.91; in 2021, it was 0.93. As a result, it appears that the business is making more money per unit of average total assets, which indicates improved asset utilisation (Restianti, 2018).
- Stock Holding Days: From 77.69 days in 2020 to 79.883 days in 2021, the company's stock holding days has increased. This suggests that Sweets plc is keeping inventory on hand for a little bit less time, which might result in better working capital management.
- Debtors Collection duration: From 72.9 days in 2020 to 67.7 days in 2021, Sweets plc's debtors collection duration has shrunk. This may indicate that the business is more effectively obtaining money from its clients.
- Current Ratio: In 2021, the current ratio increased from 0.8 to 0.9. This suggests that Sweets plc has a little stronger capacity to pay its current liabilities with its short-term obligations.

- Gearing Ratio: From 59% in 2020 to 57% in 2021, the gearing ratio has dropped. The company's financial leverage may have slightly decreased as a result, which could improve its risk profile.
- Interest Cover: From 3.9 in 2020 to 3.6 in 2021, Sweets plc's interest cover has shrunk. Even though it is still greater than 1, which shows that the business can pay its interest costs, a downward trend can be cause for concern (Rashid, 2021).

Profitability, effectiveness, liquidity, and leverage are only a few of the important financial criteria that Sweets plc has generally improved. In comparison to the year before (2020), these encouraging developments point to a greater financial performance and position in 2021.

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