

ACCOUNTING FUNDAMENTALS - LCBB4001

Assignment- A1

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List of Contents

The answer to part 1	3
Income statement of Wales Plc.	3
Financial position statement of Wales Plc.	4
Calculation and workings of the financial position statement	5
Why a Balance sheet is in balance	5
The answer to part 2	5
Computation of relevant accounting ratios of Sweets Plc for 2020 and 2021	5
Financial position and performance review of Sweets Plc.	10
Reference list	11

The answer to part 1

Income statement of Wales Plc.

Dr.					Cr.
In the books of Wales plc					
For the year ended 31/12/2021					
Income Statement					
Particulars	£	£	Particulars	£	£
To purchase	578650		By Sales		800,000
To gross profit c/d	221,350				
Total	800,000		Total		800,000
			By gross profit b/d		221350
To Administrative expenses	30,000				
To interest paid	2,000				
To director's remuneration	5,000				
To distribution costs	28,000				
To pay an ordinary dividend	20,000				
To pay of preference dividend	30,000				
To corporation tax	100,000				
To outstanding commission	3,000				
To net profit	3,350				
	221350				221350

Table 1: Income statement of 2021

(Source: Self-report, 2022)

Talking the income statement of a company is one of the main financial statements of a company. Revenues, expenses, profits, and losses are reported by an income statement for a particular

financial period. An income statement is used to show the financial performance of a company (AccountingCoach, 2022).

Calculations:

- Gross profit means the general earning of a company that includes overhead expenses as well. Here, gross profit is evaluated by subtracting the cost of goods purchased from the total sales.
- Net profit is evaluated by subtracting the overhead expenses from the gross profit of the company.

Financial position statement of Wales Plc.

In the books of Wales plc					
For the year ended 31/12/2021					
Statement of financial position					
Liabilities	£	£	Asset	£	£
Share capital					
Ordinary share	500,000		Fixed Asset		
Pref share	200,000		Plant		650,000
Total	700,000		Current asset		
Add: Net profit	3,350		Trade receivable		170,125
Add: retained earning	132,000		Cash and bank		76,250
		835,350	Stock		330,600
Debentures		100,000			
Current liabilities					
Outstanding expenses		3000			
Corporation tax		100000			
Trade payable		188625			
Total		1,226,975	Total		1,226,975

Table 2: Financial position statement of 2021

(Source: Self-report, 2022)

The balance sheet is used to measure the financial positioning of the company. The balance sheet is one type of financial statement which is also called a financial position statement. The assets and liabilities are considered in a balance sheet. The financing of the assets either through equity or through debt is displayed on a balance sheet. Also, the balance sheet follows a formula that is: **Assets= Liabilities+ Shareholders' equity** (Corporate Finance Institute, 2022).

Calculation and workings of the financial position statement

1. **Total assets:** The total assets are the sum of current assets, trade receivables, stocks, cash at the bank, plant, etc.
2. **Total liabilities:** Total liabilities are the sum of Current liabilities, ordinary and preference shares.
3. **Shareholders' equity:** Shareholders' equity is derived from subtracting the total liabilities from the total assets.

Why a Balance sheet is in balance

The financial position and condition of a company are projected on the balance sheet. The treasure trove of the transactions is provided by the balance sheet in detail. A balance sheet is a fundamental part of the business accounts of a company. The calculation of accounting gets more transparent because of using the balance sheet. A balance sheet is used to present the finance operations and sources to the investors and shareholders of the company as well as the money-related transactions. The debits and credits are shown on the balance sheet. The balance between the debit side and credit side resembles that the information projected in the balance sheet is correct for a company. Otherwise, there are some unseen errors in the statement and it needs to be revisited (Gocardless, 2022).

The answer to part 2

Computation of relevant accounting ratios of Sweets Plc for 2020 and 2021

1. Return of Capital Employed (ROCE)

Computation of Return on capital employed		
Particulars	2021	2020
Earnings before interest and tax (EBIT)	805	699

Total Asset	9,736	10,087
Current liabilities	2,511	3,046
Capital employed	7,225	7,041
ROCE= EBIT/ Capital employed	11.1419	9.92757

2. Return on Equity (ROE)

Computation of Return on equity (ROE)		
Particulars	2021	2020
Net income	431	366
Shareholders' equity	300	300
ROE= Net income/Shareholders Equity	1.436667	1.22

3. Earning Per Share (EPS)

Calculation of Earnings per share		
Particulars	2021	2020
Net income	431	366
Outstanding shares	300	300
Average outstanding shares	300	150
EPS= Net income/ Average outstanding shares	1.436667	2.44

4. Net profit margin:

Computation of Net profit margin

Particulars	2021	2020
Net profit	431	366
Total revenue	6738	6441
Net profit margin= (net profit /revenue) *100	6.396557	5.682347

5. Assets turnover:

Evaluation of Asset turnover		
Particulars	2021	2020
Total revenue	6738	6441
Total Asset	9,736	10,087
Average total asset	9911.5	5043.5
Asset turnover= Revenue/average total asset	0.679816	1.277089

6. Stock holding days:

Computation of Stock holding days		
Particulars	2021	2020
Closing stock	708	659
Cost of goods sold	3235	3096

Stock holding days= (Closing stock/cost of goods sold) x 365	79.8825	77.6921835
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7. Collection period of debtors

Evaluation of debtors' collection period		
Particulars	2021	2020
The amount owed by Debtors	1,249	1,287
credit sales	6,738	6,441
Debtors' collection period= (Amount owed by debtor/annual credit sales) *365	67.6588	72.93199814

8. Current ratio

Evaluation of current ratio		
Particulars	2021	2020
Current asset	9,736	10,087
Current liabilities	2,511	3,046
Current ratio= current asset/ current liabilities	3.87734	3.311556139

9. Gearing ratio

Evaluation of gearing ratio		
Particulars	2021	2020
Loans and borrowings	4137	4129
Shareholder equity	3,088	2,912
Gearing ratio= loans and borrowings/shareholder equity	1.42067	1.41792582

10. Interest cover

Computation of interest cover		
Particulars	2021	2020
Earnings before interest and taxes	805	699
Interest expenses	226	181
Interest cover= EBIT/Interest expenses	3.561947	3.861878453

Financial position and performance review of Sweets Plc.

Even though the return of capital employed has been higher in 2021, the value of total assets has dropped which is not good from the company's point of view. Interest expenses have increased as well in 2021. But the company has managed to earn a higher net income in 2021 than in 2020 despite all these issues. Total sales have increased as well. But the cost of goods sold is higher in 2021 which has also increased the stock holding days. This means that the inventory costs may rise for the company. Loans and borrowings have not increased that much, it's negligible. Looking at the overall performance, the company has done well in terms of sales and profits.

Reference list

AccountingCoach.com. 2022. What Is an Income Statement | AccountingCoach? [online] Available at: <<https://www.accountingcoach.com/income-statement/explanation>> [Accessed 1 September 2022].

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