

University Of Wales Trinity Saint David London

BA Business Management

Accounting Fundamentals LCBB4001

Assessment 1-Oct 2020 Term 1

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LCBB4001ACCOUNTING FUNDAMENTALS

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Question No. 1

(A) Preparation of Income statement for the year ended 31st Dec 2019 and statement of financial position as at that date:

Income statement of Eccles for the year ended 31.12.19		
Particulars	Amount	Amount
Sales		826650
(-) Cost of Sales		578650
Gross Profit		248000
(-) Operating Expenses		
Administrative Expenses	30000	
Selling Expenses	28000	
Directors Remuneration	5000	63000
Operating Profit before Interest and Tax		185000
(-) Interest Paid		2000
Operating Profit Before Tax		183000
(-) O/S Tax		68000
Net Profit After Tax		115000
(+) Retained Earnings		132000
Net Profit		247000
(-) Dividend Paid		
Preference Dividend Paid	30000	
Ordinary Dividend Paid	20000	50000
Net Profit After the payment of dividend		197000

Statement of Financial Position of Eccles as on 31.12.2018		
Particulars	Amount	Amount
Non-Current Assets		
Plant and Machinery		632730
Current Assets		
Debtors	171105	
Cash and Bank	12900	
Inventory	329620	513625
Total Assets		1146355
Equity & Liability		
Share Capital		
Ordinary Shares	300000	

10% Preference Shares	310000	
Net Profit	197000	807000
Non-Current Liability		
4% Debenture		100000
Current Liability		
Trade Creditors	171355	
O/S Tax	68000	
O/S Commission	3000	242355
Total Liability		1146355

Workings	
Workings - 2	
Debtors	170125
(+) O/S Debtors	980
	171105
Workings - 3	
Inventory	330600
(-) O/S	980
	329620

(B) Explaining the statement of financial position

Statement of financial position or Balance sheet generally highlights the financial derivatives and value of different financial heads of an organisation within a specific period of time. The financial statement of Eccles plc balances by making equity and liability equals to the assets of the company i.e. 1146355. The amount of assets and equity became equal by passing the three-adjustment entry in the income statement and statement of financial statement of the corporate entity. The first adjustment entry is about the outstanding tax that amounts to 68000 pounds which is deducted in the income statement and it is categorised under the heading of current liability. Outstanding commission is also an important element in the enhancing the value of current liability. The value of debtors is increased by 980 GBP whereas on the other hand the value of inventory is reduced by the same amount. It is crucial to understand that net profit is calculated from the income statement and balance each added inequities (Fleckenstein, et al., 2020). The reason stands clear, as the net worth of Eccles has improved. However, the main reason, which leads to a balancing of the equity and liabilities side, because the principle of double-entry accounting is used for the purpose

of recording the accounting entries. Therefore, the entry record two accounts. In this scenario, all the items are separated categorically assets currently under three different elements such as administrative costs, and cost of sales. All of the pieces necessary to do in order to get the real value of net income. Two aspects of accounting to make sure that the items in increasing the balance of the other aspects are also increasing. However, in the case of one aspect decreasing the other side of the balance automatically decreased because of a double-entry accounting system (Lin, et al., 2018)

Question No. 2

(A) Schedule of ratio for Chocco Plc for the year 2019 and 2018

Liquidity Ratio:

Current Ratio = Current Assets / Current Liabilities	
2019 = 2303 / 2511	0.92
2018 = 2355 / 3046	0.77

Quick Assets = Current Assets - Inventory	
2019 = 2303 - 708	1595
2018 = 2355 - 659	1696

Acid Test Ratio = Quick Asset / Current Liabilities	
2019 = 1595 / 2511	0.64
2018 = 1696 / 3046	0.56

Solvency Ratio:

Debt Equity Ratio = Long Term Debts / Shareholders Funds	
2019 = 4137 / 3088	1.34
2018 = 4129 / 2912	1.42

Total Asset to Debt Ratio = Total Asset / Long Term Debt	
2019 = 9736 / 4137	2.35
2018 = 10087 / 4129	2.44

Proprietary Ratio = Shareholders Funds / Total Assets	
2019 = 3088 / 9736	0.32
2018 = 2912 / 10087	0.29

Activity Ratio:

Average Stock = (Opening Stock + Closing Stock) / 2	
2019 = (659 + 708) / 2	683.5
2018 = (659 + 659) / 2	659

Note: The opening stock of 2018 is not specified in the question. So, the opening and closing stock of 2018 is assumed to be equal.

Stock Turnover Ratio = Cost of Goods Sold / Average Stock	
2019 = 3235 / 683.5	4.73
2018 = 3096 / 659	4.70

Average Trade Receivable = (Opening Trade Receivable + Closing Trade Receivable) / 2	
2019 = (1287 + 1249) / 2	1268
2018 = (1287 + 1287) / 2	1287

Note: In 2018, the opening balance of trade receivable is not specified in the question. So, the opening and closing stock of 2018 is assumed to be equal.

Trade Receivable Turnover Ratio = Credit Sales / Average Trade Receivable	
2019 = 6738 / 1268	5.31
2018 = 6441 / 1287	5.00

Note: Entire Sales for the year of 2018 and 2019 are considered as credit sales.

Working Capital = Current Assets - Current Liabilities	
2019 = 2303 - 2511	-208
2018 = 2355 - 3046	-691

Working Capital Turnover Ratio = Net Sales / Working Capital	
2019 = 6738 / (-208)	-32.39
2018 = 6441 / (-691)	-9.32

Asset Turnover Ratio = Net Sales / Total Assets	
2019 = 6738 / 9736	0.69

2018 = $6441 / 10087$	0.64
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Profitability Ratio:

Net profit margin = $(\text{Net profit} / \text{Net Sales}) * 100$	
2019 = $(431 / 6738) * 100$	6.40%
2018 = $(366 / 6441) * 100$	5.68%

Operating profit margin = $(\text{Net profit} + \text{Interest} + \text{Tax}) / \text{Revenue} * 100$	
2019 = $(431 + 226 + 189) / 6738 * 100$	12.56%
2018 = $(366 + 181 + 173) / 6441 * 100$	11.18%

Dividend Pay-out ratio = $(\text{Total dividend} / \text{Net income})$	
2019 = $(255 / 431)$	0.59
2018 = $(242 / 366)$	0.66

(B) Analysing the financial performance and position of Chocco Plc

There are a total of 12 ratios calculated from four different segments to gain an in-depth understanding of the financial position of Chocco plc. Considered an ideal current ratio of 1.5 times current liabilities over current assets, which indicates that the company is in a favorable financial liquidity position. The same condition applies to the corresponding acid test ratio accounting principles 1 time. These results indicate that the company is facing a liquidity crisis or a stable liquid position. The following organizations have been getting ratio is currently less than 1, indicating that the company Chocco Plc weak enough in balancing their liquidity. However, in 2019, has improved slightly but has not achieved the ideal value ratio. Therefore, it will be important for organizations to reduce the value of receivables by making a significant collection of debt to avoid a cash crisis. However, the solvency ratio figures show the debt burden, the company faces in

compared with the holdings owned by corporate entities. The ideal debt-to-equity is considered as 2 but in this scenario. This is much less than that to make sure the business is being done on capital. As a result, Chocco plc. must pay a lower amount of debt interest. This is a positive aspect of the business to attract more investment. Other solvency ratios also suggest a similar kind of image that the company is in favor of doing business with its own funds rather than relying on others (Camin, et al., 2016). It is important to mention that for the purpose of calculating the ratio of the activity of certain assumptions considered. Formation suffered badly in managing liquidity to conduct their routine operations. Figures' ideal stock turnover ratio lies somewhere between 4 to 6 and the ideal ratio is considered as 6. The debtor turnover ratio that is calculated is also lie in the following ranges. It displays the company's positive growth in the last two financial years. The final section covers the profitability ratios in which companies have earned huge profits, which can promote the growth of the organization in the long term. Thus, it will be important to make a proper

backup and surplus and improve the whole value of the company's equity in order to reduce the liquidity situation in the financial crisis to come. Chocco plc does not just keep the entire profit with them but also shares a certain portion of profits to shareholders in the form of dividends (Zolfani, et al., 2018). It gains the interests of shareholders in investing in the company and maintain a stable volume of liquidity in the coming operational year.

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