



Assignment Title:	Accounting Fundamentals Assessment 1
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Introduction-

This report is based on various accounting concepts and the importance of financial statement for an organisation. In this report the financial statement are being prepared in respect to the given situation. This report also focuses on the various uses and the benefit of financial statement for the different users. This will also focus on the financials statement of the organisation. It will also include the focus on the financial accounting and its principles.

Question

a. Income Statement and balance Sheet of Eccles PLC

Income Statement of Eccles PLC

Income Statement	
(For the year ending 2019)	
(A) Revenue	
revenue from operations	827630
Total revenue	827630
(b) Expenses	
cost of sales	578650
administration expenses	30000
interest paid	2000
directors remuneration	5000
distribution cost	28000
preference dividend	30000
dividend	20000
sales commission	3000
Total expenses	696650
profit before tax and extraordinary item	130980
extraordinary item	0
profit before tax	130980
corporate tax	68000
profit after tax	62980

Balance Sheet of Eccles PLC

Balance sheet	
(As on 31st December 2019)	
1) Assets	
a) Current assets	
cash and bank	12900
accounts receivable	171105
Inventory	330600
Total current Assets (A)	514605
b) non - current assets	
Plant and machinery	632730
Total non-current assets (B)	632730
total assets (A + B = C)	1147335
2) Liabilities	
d) current liabilities-	
corporation tax	68000
sales commission	3000
accounts payable	171355
Total current liabilities (d)	242355
e) Non-current liabilities	
4 % debentures	100000
total non-current liabilities €	100000
Total liabilities (D + E = F)	342355
Net Assets (C - F)	804980
3) Equity	
Equity capital	610000
retained earnings	132000
Add: current year's profit	62980
total equity	804980

b.

Statement of Financial Position

Balance Sheet –it shows the financial position of the company.

Users of Financial position

The financial position of the company is evaluated on the basis of various users of the balance sheet, government, management and investors of the company.

The assets and liabilities of the company are created with a process of recoding transactions. The transactions are based on double entry system. This leads to matching of both the sides of the trial balance of the company. The reasons of double entry lead to have direct controls in an organization. It is important to organize long term efficiency in the company.

The liabilities of the company include short and long term liabilities of the company.

The success of the organization is based on estimating necessary controls in the organization.

The balance sheet of the company helps in depicting following information-

- i. Degree of liquidity
- ii. Business nature
- iii. Assumptions and estimates
- iv. Quality of maintaining internal controls

In the above case the income statement and balance sheet has been prepared for the company Eccles PLC.

The profits of the company are ascertained on the basis of generally accepted accounting principles.

The users of the balance sheet can use the information to take several decisions related to investments and analysis of the performance.

Question 2-

a) Ratio calculation of Chocco plc for 2018 & 2019-

particulars	Formula	2019	2018
<u>Current Ratio</u> - - -	Total current assets / Total current liabilities	CA / CL 0.92	CA / CL 0.77
<u>Liquid Ratio</u> - -	(Total current assets - Inventory) / Total current liabilities	(CA - INV) / CL 0.64	(CA - INV) / CL 0.56
<u>Inventory Turnover Ratio</u> -	COGS / average inventory	COGS / average inventory 1.18	COGS / average inventory 4.70
<u>Earnings per share</u> -	Profit for shareholders / Number of ordinary shares	0.72	0.61
<u>Return on Assets</u> - - -	Net Profit / Average Total Assets	$= 431 / ((9736 + 10087) / 2)$ $= 0.043$ 4%	$= 366 / 10087$ $= 0.036$ 4%

- <u>Return on Equity</u> -	Net Profit / Average Equity	$= 431 / ((300 + 300) / 2)$ $= 1.44$	$= 366 / 300$ $= 1.22$
- <u>Net Profit Margin</u> -	Net Profit / Revenue	$= 431 / 6738$ $= 0.064$ 6%	$= 366 / 6441$ $= 0.057$ 6%
- <u>Expense ratio</u> -	Expenses (excluding tax) / Revenue Expenses = Total Operating Expenses Revenue = Net Operating Income	$2698 / 6738$ 0.400 40%	$2646 / 6441$ 0.411 41%
- <u>Cash flow to sales</u> -	Net cash flow from operating activity / Revenue	$805 / 6738$ 0.119 11.95%	$699 / 6441$ 0.109 10.85%

b) Financial position and analysis of Chocco plc-

After analysing the financial statement of Chocco plc it can be said that in the income statement of Chocco plc the rise in income can be seen. This income has risen in 2019, due to which the gross profit has also risen. In 2018 it was £6441 and in 2019 it came up to £6738. The rise in sales has ultimately affected the expenses that will be incurred for the production and sales of goods. The variable cost is directly related to the production and sales hence the expenses have also increased. Hence they have also increased. The profit is to some extent impacted due to the variation in the same. Hence same is the case with Chocco plc, that the profits have also rise. The profits were £699 million for 2018 and have come up to £805 million for 2019. A decrease in the amount of assets can also be seen in case of Chocco plc, which amounts to £351 million in both the year, which is fall in amount in 2019. The profit has been earned by Chocco plc on the assets being sold which amounted to £19 million in 2019, from the loss shown in income statement of £5 million in 2018. The cost of interest has also increased in 2029 which amounts to £45 million on the funds procured. The EBT have risen to £620 in 2019 after paying tax of £189 million the PAT has been £431 million in this year. This is good symbol for the performance of the company.

In totality the non-current asset have been similar in both the year. The plant and machinery are similar for both years.

Ratios of Chocco plc-

Current ratio-

This ratio considers the position of liquidity in the company for Chocco plc. For this case the current ratio have raised as this was very low in 2018 This appropriate ratio is 1:2. This ratio for 2019 is 0.99 which is considerable improvement in the ratio of the company. The reason for this can also be considered that the liabilities of short-term have reduced for Chocco plc.

Liquid ratio-

This ratio have raised this year as the liabilities have reduces and the asset considered for this are excluding the inventories. It is 0.64 for 2019.

Return on equity-

This defines the income generation capacity for the company that is Chocco plc. This means that the equity is 1.44 return on the component of equity in case of 2019, this ratio is 1.44 in 2019

Return on assets-

This defines the returns which are being generate by the assets of the company for the provided year. This case of Chocco plc I having return of 4 %, which is being constant for both the year.

Earnings per share-

This defines the earnings that the shareholders earn for the specified period. This ratio of 0.72 for 2019 has been return on the assets the Chocco plc is earnings

Inventory turnover ratio-

This defines the ratio of the turnover of the goods for the company in an accounting year. In case of Chocco plc this ratio is 1.18 which is quite low in comparison to 2018. This is because of variation in the amount of sale for the company.

Cash flow to sales ratio-

This defines the flow of cash of the company in respect to sales. This means the cash that expends or a company earns on its sales This ratio has risen for 2019 which shows the expenses have increased but the sales have not in its proportion. This ratio is 11.95 for 2019

Net profit ratio-

This defines the percentage of profit that the company earns in a specified period. This ratio for Chocco plc has been similar or constant for both the years.

Expense ratio-

This defines the percentage of expenses that are made by the company .this expenses are defines in n this ratio, for Chocco plc this same and has been maintained by the company for both year. These finances may be taken for asset finances for the future growth of the company

Need of users-

The company has various users which use the financial statement for their purpose and decision making. The users such as internal as well as external use the financial statement for analysing then present and past performance of company that is Chocco plc and make the estimation of the future performance.

Demerits of financial statement-

- It consider the cost of purchase for recording of assets, this does not always hols correct in every situation. In major cases the market value persisting is needed.
- The inflation effect is not being considered in these statement. This is the major issues that needs to be considered as inflation affects the cost of many things including assets.
- The issues not having finances effect are also too considered by the company.

Accounting regulations-

The regulations of accounting is the basis of accounting for the company, in case of Chocco plc the accounts need to be the accounts forms the base for the decision of the users of the financial statements. These need to prepare based on these regulation so as to enhance their accuracy. These regulations are need to be complied by the company for smooth summing of the business. Non compliances can create issue for the company, as these are mandatory and preferably be used where applicable.

Conclusion-

This report is based on the analysis of the financial statement. This financial statement have been analysed and interpreted for the both the given cases in this report. In the given two cases the financial statement are being prepared analyzed in first. Whereas in the later part of report the ratios have been calculated and financial statement are analyzed.

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