

Accounting Fundamentals

Title Assignment A1

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Question 1 Answer:

Profit and Loss statement for Kedison PLC for the year ended 31st December 2020

Sales (Less return of ward)	£ 826,650
Less cost of Sales:	
Cost of sales	£ 578,650

£248,000

Gross Profit £248,000

Add other Income

Retained profits at 1st January 2020 £132,000

Total Income £380,000

Expenses

Distribution costs	£28,000
Interest paid	£2,000
Ordinary dividend	£20,000
Preference dividend	£30,000
Administrative expenses	£30,000
Directors remuneration	£5,000
Trade creditors	£171,355
Salesmen commission	£3,000

Corporation tax £68,000

Total Expenses £357,355

Net Profit / (Loss) £22645

Statement of financial position Kedison PLC

Current Assets		Current liability	
Cash	12,900	Admin cost	37,000
Stock	330,600	Dividends paid	50,000
		Corporation tax	68,000
		Tax due	
Non-current assets		Non-current	
		liabilities	
Trade creditors	171,355	Salesmen	3,000
Plant and equipment	632,730	Cost of sales	578,650
Goods	980.00		
Debtors	170,125	Equity	

Retained profits	132,000	4% Debentures	100,000
		10% £1 preference shares	300,000
		£1 ordinary shares	310,000
Total assets	1,436,810	Total liabilities	1,436,810

Why does the statement of financial position balance?

The statement of financial position balance, because it is reflect spending versus assets from which those cost going out for purchases, taxes, expenses and other cash outs. For example on the side of the assets can be add purchase of new offices and from the other side of the statement will be the way of payment for example loan cost for the same amount. Every expenses needs to be paid and taken from cash, loan or other type of debt and this need to be recorded from both side of the statement so at the end it is balanced.

Calculate the following ratios for Chocco plc for 2020 and 2019

1- ROCE Profit before interest/ Assets employed x 100%

$$2019 - 366 / 2912 \times 100\% = 0.12$$

$$2020 - 431 / 3088 \times 100\% = 0.14$$

2- ROE Earnings/ Ordinary share capital and reserves x 100%

$$2019 - 366 / 300 \times 100\% = 1.22$$

$$2020 - 431 / 300 \times 100\% = 1.44$$

3- Earnings per share Earnings / Number of ordinary shares

$$2019 - 366 / 300 = 1.22$$

$$2020 - 431 / 300 = 1.44$$

4- Net profit margin Net profit / Sales x 100%

$$2019 - 366 / 6441 \times 100\% = 0.05$$

$$2020 - 431 / 6738 \times 100\% = 0.06$$

5- Asset turnover Turnover / Assets employed

$$2019 - 6441 / 2912 = 2.21$$

$$2020 - 6738 / 3088 = 2.18$$

6- Stock holding days Inventory / Cost of sales x 365

$$2019 - 659 / 3096 \times 365 = 77$$

$$2020 - 708 / 3235 \times 365 = 80$$

7- Debtors collection period Trade receivables / Credit sales x 365

$$2019 - 659 / 655 \times 365 = 367$$

$$2020 - 708 / 583 \times 365 = 443$$

8- Current ratio Current assets / Current liabilities

$$2019 - 2355 / 3046 = 0.77$$

$$2020 - 2303 / 2511 = 0.92$$

9- Gearing Ratio Debt / Debt + equity x 100%

$$2019 - 2355 / 4129 + 2912 \times 100\% = 0.33$$

$$2020 - 2303 / 4137 + 3088 \times 100\% = 0.32$$

10- Invertor cover Profit before interest / Interest charges

$$2019 - 366 / 181 = 2.02$$

2020 – 431 / 226 =1.91

Financial performance and position of Chocco plc.

The return on capital employed is 0.12 in 2019 and 0.14 in 2020. The greater this proportion, the better the company's use of capital invested. Chocco plc. must exercise tighter control over the use of capital and revise its investment plan in order to raise the ROCE figure to 10, which is the average for a high-performing firm.

The earnings per share ratio is the income divided by the number of shares, and it primarily represents the profitability of the company. Earnings per share for 2019 are 1.22, while earnings per share for 2020 are 1.44. Once more, the financial value is bad, and there is a need for improved structure and accountability.

Return on equity is calculated by dividing net income by shareholders' equity, and it indicates the profitability of the company. The average performance is regarded as 10%, and anything below is seen as bad performance. As we can see, the 2019 ratio is 1.22 and the 2020 ratio is 1.44, indicating that there is some improvement, but still not enough.

Net profit margin ration evaluating the amount of net profit compared to the revenue and the ratios for 2019 is 0.05 and 2020 is 0.06 which is very poor and shows that the company's net profit margin is too weak and there is a need for initiatives to improve.

Debtors collection period is another extremely essential ratio since it shows the length of time when debtors paid their payments to the firm. The number of days in 2019 is 367, while the number of days in 2020 is 443. This is a very large figure, and the firm must move immediately to propose better and shorter payments, as the number of days for 2020 is more than a year.

Observing the financial position and the profit and loss statement we can see that the company is in growth, but there is not enough improvement for the one year period of time. Liability are decreased which shows good control over the expenses and good cash flow balance.

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