

# **LCBB4001 Accounting fundamentals**

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Accounting Fundamentals Assessment 1

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“In submitting this work, I affirm that my work adheres to the scholarly and intellectual standards of honesty and integrity. I affirm that this work is my work only and that in the preparation of this work I have not consulted any person. I affirm that I have not plagiarised or misrepresented the ideas or language of someone else as my own and that I have fully and accurately attributed any ideas or text of others to the sources and documented each source”.

### Question 1

- a. Prepare an income statement for the year ended 31st December 2019 for Eccles plc and a statement of financial position as at that date.

Eccles Plc

#### Income statement as at 31<sup>st</sup> December 2019

| Particulars                    | Amount (£) | Amount (£)     |
|--------------------------------|------------|----------------|
| Sales                          |            | 827,630        |
| Cost of sales                  |            | 578,650        |
| <b>Gross Profit</b>            |            | <b>248,980</b> |
| Administration expenses        | 30,000     |                |
| Outstanding commission         | 3,000.00   |                |
| Directors remuneration         | 5,000.00   |                |
| Distribution expenses          | 28,000     |                |
| Total expenses                 |            | 66,000         |
| <b>EBIT</b>                    |            | <b>182,980</b> |
| <b>Interest</b>                |            | <b>2,000</b>   |
| <b>Net income</b>              |            | <b>180,980</b> |
| <b>Tax</b>                     |            | <b>68,000</b>  |
| <b>Net profit for the year</b> |            | <b>112,980</b> |

Ecles plc

**Balance sheet as at 31<sup>st</sup> December 2019**

| <b>Particulars</b>                    |                  | <b>Amount (£)</b> | <b>Amount (£)</b> |
|---------------------------------------|------------------|-------------------|-------------------|
| Assets                                |                  |                   |                   |
| <b>Current Assets:</b>                |                  |                   |                   |
| Closing Inventory                     |                  | 329,620           |                   |
| Receivables                           |                  | 170,125           |                   |
| Cash at Bank                          |                  | 12,900            |                   |
| Total Current Assets                  |                  |                   | 512,645           |
| <b>Fixed Assets:</b>                  |                  |                   |                   |
| Plant and equipment                   |                  | 632,730           |                   |
| <b>Total Fixed Assets</b>             |                  |                   | 632,730           |
| <b>Total Assets</b>                   |                  |                   | <b>1,126,335</b>  |
| <b>Capital and Liabilities</b>        |                  |                   |                   |
| <b>Current Liabilities:</b>           |                  |                   |                   |
| Payables                              |                  | 171,355           |                   |
|                                       |                  |                   |                   |
| Total Current Liabilities             |                  |                   | 171,355           |
| <b>Long-term Liabilities:</b>         |                  |                   |                   |
| <b>Debenture</b>                      |                  |                   | 100,000           |
| <b>Capital</b>                        |                  |                   |                   |
| Capital (equity share and preference) | (310,000+300000) | 610,000           |                   |
| Net Profit                            |                  | 112,980           |                   |
| Retained Earnings                     |                  | 132000            |                   |
| Total capital                         |                  |                   | <b>854,980</b>    |
| <b>Total capital and liability</b>    |                  |                   | <b>1,126,335</b>  |

b. Explain why the statement of financial position balances.

The reason the financial statement is balancing is that the year end journals have been recorded correctly in the accounts. The payment and receipts have been made through the bank this only affects the bank and corresponding entries being written off against debtor & creditor accounts.

## Question 2

a. Prepare a schedule of ratios for Chocco plc for 2019 and 2018 and comment

### Ratio Analysis:

| Ratio                     | Formula                                  | 2019               | 2018               |
|---------------------------|------------------------------------------|--------------------|--------------------|
| ROCE                      | <i>Profit After Tax/Capital employed</i> | 0.0443             | 0.0363             |
|                           | <i>Profit after tax</i>                  | 431.00             | 366.00             |
|                           | <i>Capital employed</i>                  | 9,736.00           | 10,087.00          |
| Gross profit margin       | Gross Profit / Net sales*100             | <b>51.99%</b>      | <b>51.93%</b>      |
|                           | Gross profit                             | 3,503.00           | 3,345.00           |
|                           | Net sales                                | 6,738.00           | 6,441.00           |
|                           |                                          |                    |                    |
| Net profit                | Net income / Sales*100                   | <b>6.40%</b>       | <b>5.68%</b>       |
|                           | Net income                               | 431.00             | 366.00             |
|                           | Sales                                    | 6,738.00           | 6,441.00           |
|                           |                                          |                    |                    |
| Asset turnover            | Net sales / Total assets                 | <b>0.692</b>       | <b>0.639</b>       |
|                           | Net sales                                | 6,738.00           | 6,441.00           |
|                           | Total Assets                             | 9,736.00           | 10,087.00          |
|                           |                                          |                    |                    |
| Inventory Turnover        | Inventory / Cost of Goods Sold *365      | <b>79.88253478</b> | <b>77.69218346</b> |
|                           | Inventory                                | 708.00             | 659.00             |
|                           | Cost of Goods Sold                       | 3,235.00           | 3,096.00           |
|                           |                                          |                    |                    |
| Debtors collection period | <i>Trade receivables/sales*365</i>       | <b>67.65880083</b> | <b>72.93199814</b> |

|                    |                                                    |             |             |
|--------------------|----------------------------------------------------|-------------|-------------|
|                    | Trade receivables                                  | 1,249.00    | 1,287.00    |
|                    | sales                                              | 6,738.00    | 6,441.00    |
|                    |                                                    |             |             |
| Current ratio      | <b><i>Current assets/Current Liabilities</i></b>   | 0.92        | 0.77        |
|                    | <b><i>Current Assets</i></b>                       | 2,303.00    | 2,355.00    |
|                    | <b><i>Current Liabilities</i></b>                  | 2,511.00    | 3,046.00    |
|                    |                                                    |             |             |
| Gearing Ratio      | <b><i>Long term loans/Internal liabilities</i></b> | 1.34        | 1.42        |
|                    | <b><i>Long term liability</i></b>                  | 4,137.00    | 4,129.00    |
|                    | <b><i>Total equity</i></b>                         | 3,088.00    | 2,912.00    |
| Earnings per share | Net income/number of ordinary shares               | <b>0.72</b> | <b>0.61</b> |
|                    | Net income                                         | 431.00      | 366.00      |
|                    | number of ordinary shares                          | 600.00      | 600.00      |
| Dividend payout    | Dividend/income                                    | <b>0.59</b> | <b>0.66</b> |
|                    | Dividend                                           | 255.00      | 242.00      |
|                    | Income                                             | 431.00      | 366.00      |
| P/E ratio          | Share Price/EPS                                    | <b>7.11</b> | <b>6.56</b> |
|                    | Share Price                                        | 5.12        | 4.00        |
|                    | EPS                                                | 0.72        | 0.61        |

The financial ratio gives the knowledge about the position of **chocco plc** in the marketing position. The entire ratio has been determined with the help of data; the ratio indicates that the company chocco plc is good enough about holding the market position. Besides all of that the debt value is seen to be decreased in the year 2019.

The current ratio for the company **Chocco plc** has seen to be improved in the year 2019. The ratio becomes 0.92 in the year 2019 whereas the ratio has been 0.77 in the year 2018 (Lallemandand Strauss, 2016, p. 70). That indicates a progression has been done about the company. The progression has been done in a sufficient amount that carries a significant impact on the accounts department of the **Chocco plc** Company.

The gross profit margin has seen to be increased in the small term. The amount of gross profit has been estimated to be 51.99 in the year 2019 whereas the value has been estimated to be 51.93 in the year 2018 (Okekeand Nwankpa2017, p. 281). It indicates the company chocco plc is able to hold a great position in the global market sector by reporting an expanded profit base.

The net profit margin has also improved within one year. It increased to 6,40% from the value of 5,68% estimated in 2018. **Chocco plc** Company is surely able to hold the position in a strong way within its operating industry and has demonstrated better progress represented in the form of larger net profit for the current year.

The assets turnover also has been seen to improve and has been estimated to be 0,692 in year 2019. The increasing value of the return on assets ratio implies that the company **Chocco plc** deals with the marketing position and utilizes its assets in a good way. The reputation and the business path of the company are very successful to expand its business in the year.

The leverage ratio comes with the debt ratio, debt capital, and debts assets ratio. All of the ratios have seen to be decreased in the year 2019. It indicates that **chocco plc** is able to increase the market position and as a result profit can be seen about the business process of **chocco plc**.

The efficiency ratio is seen to be decreased in the year 2019. It indicates that the company chocco plc gets difficulty to hold the position in the global market. The business path may get some barriers to gain profit. The quality of the product may get decreased due to the lowest efficiency. It affects the accounts department of chocco plc in an effective way. Success cannot be achieved easily. The reputation of choco plc also gets decreased with poor efficiency (Caswell, 2019, p. 17). The business strategy that has been applied by chocco plc is not good enough for gaining a high profit with comparison to other companies.

## Conclusion

The project can be concluded which contains two questions which is solved with the help of the balance sheets and different data provided. The financial statement aims to provide information to the users for decision-making. There are several users of the financial statement, which is produced by any organization.

## Reference List

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