

**Accounting
Fundamentals
Simeon Taranov
2022103**

Contents

INTRODUCTION	3
QUESTION 1	3
1. Prepare Income statement for the year ended 31 st December 2019	3
QUESTION 2	5
a. Calculation of various ratios for the organisation	5
b. Discussion of the situation which is revealed by the ratios	7
CONCLUSION	7
REFERENCES	9

INTRODUCTION

Accounting fundamentals are some of the most important areas of accounting that certain businesses must pay attention to in order to sustain organizational effectiveness. Accountancy can utilize financial reports namely the profit and loss account, capital structure, and cash flow statement when preparing to assess the current state of a firm. All this can assist in analyzing the current state of the firm and forecasting its future prospects (Menicucci, 2020). It is also critical for entity organizational leaders to ensure that correct and suitable steps are taken to ensure in the accounting period so that the true state of the company can be identified. The current study is meant to evaluate of several elements of accounting that must be addressed by all businesses. This project includes a variety of subjects, including analyzing financial reports by making appropriate changes, calculating ratios to identify the current status of a firm, and so on.

QUESTION 1

1. Prepare Income statement for the year ended 31st December 2020

Income statement: The income statement is one of the three key financial accounts that used reveal a company's financial condition for a predefined timeframe. The balance sheet and the cash position are all the other two major statements. The income statement, also known as the financial statements or income and expenditure statement, is a financial statement that focuses on a company's profits and expenses during a certain timeframe. It is a set of financial statements that show a company's operational achievements for a specific accounting period (together with the profit and loss account sheet). Subtracting operating costs from net earnings, includes operations profits, yields net income (Zhou and et.al, 2020).

The sum of combined manufacturing and non-operating revenue is referred to as an overall sale, whereas operating expenses comprise both direct and indirect income. Even if money is created from an income statement and publicized, refunds are not invoices. Such statement gives information on a company's success, its key motivators, underperforming segments, and how it compares to its rival companies. Accountants generate revenue and loss

statements for the Kedison Plc, which show the company's net profit or loss (Lerman, 2020). Prepare an income statement based on the data in the trial balance as of December 31, 2020.

Income statement of Kedison Plc at 31st December, 2019

Particulars	Details	Amount
Revenue		826650
Less: COGS		(578650)
Gross profit		248000
Selling and Administration Expenses:		
Distribution Expenses	28000	
Administration expenses	30000	
Dividends paid	20000	
Debenture interest paid	4000	
Preference dividend paid	30000	
Corporate tax	68000	
		(190000)
Net Profit		58000

Balance sheet: It is a financial statement for a company that shows its assets, liabilities, capital ratio, total income, and other financial information at any one time. From the one side, the balance sheet comprises assets, liabilities, and other items (Raffort, Adam, Carrier and Lareyre, 2020). To give a realistic picture of the financial accounts, all sections of this declaration

(liabilities and assets) will be counted ($\text{Assets} = \text{Liabilities} + \text{Equity}$). A balance sheet seems to be a representation of a cash flow forecast at a specific point of time, usually one quarter, 6 months, or even a year. Assets and liabilities are the two primary categories of financial statements. It's the amount owed to suppliers by the company. Debts are divided into two categories: present and lengthy obligations. Other important heading in the financial accounts is stakeholder or owner's equity. The term "resource" refers to a company's typical liabilities as well as its stockholders' equity. Whenever the company is a sole proprietorship, the value of equity should be utilized, and once the company is a company, the ownership of the company must be used. It's also known as the value of a business book (Hann and et.al, 2020). The business needed to prepare the financial situation of Kedison Plc at the end of 2020.

Balance Sheet

Liabilities	Amount	Assets	Amount
Net profit	5375	Building (Less dep or acc dep)	11420
Retain profit	8380	Plant (Less dep or acc dep)	18120
Trade payable	4480	Land	15000
Debenture	4000	Trade receivable (Less debt)	7835
Share premium	5000	Bank	320
Ordinary shares	29000	Inventory	3120
Insurance fees outstanding	500	Surplus	920
	56,735		56,735

QUESTION 2

a. Calculation of various ratios for the organisation

Calculation of different ratios for Chocco Plc is as follows:

Ratio	Formula	2020		2019	
		Calculation	Result	Calculation	Result
Return on capital employed	Operating profit / capital employed * 100	805 / 7225 * 100	11.14%	699/ 7041 * 100	9.92%
Return on equity	Net profit / total shareholder's equity * 100	431 / 3088 * 100	13.95%	366 / 2912 * 100	12.56%
Earnings per share	Net profit / number of shares	431 / 17.8	1.03	366 / 17.8	0.72
Gross profit margin	Gross profit / revenues * 100	3503 / 6738 * 100	33.39%	6441 / 501.3 * 100	38.26%
Asset turnover ratio	Net sales / total assets	6738 / 9736	0.69	6441 / 10087	0.64
Stock holding period	Inventory / cost of sales * 365	708 / 3235 * 365	79.88	659 / 3096 * 365	77.69
Debtor collection period	Debtor / sales * 365	1249 / 6738 * 365	67.65	1287 / 6441 * 365	72.93
Current ratio	Current assets / current liabilities	2303 / 2511	0.9	2355 / 3046	0.77

Gearing ratio	Debts / equities	1249 / 3088	0.44	1287 / 2912	0.44
Interest cover ratio	Operating profit / interest	805 / 226	3.56	699 / 181	3.86

Working notes:

Calculation of capital employed		
Particulars	2020	2019
Total assets	9736	10087
Less: current liabilities	2511	3046
Capital employed	7225	7041

b. Discussion of the situation which is revealed by the ratios

On the basis of the aforementioned ratios, this one has been decided that Chocco Plc's achievement in 2019 was better than in 2020. The business context is strong, although it was significantly better in 2019. The individual's return on capital employed, equity, and earnings per share, result in financial duration, current, gearing, and other ratios are all strong in 2019 as compared to 2020. It appears that performance of the company has deteriorated in 2020 (Xiao and et.al, 2020). Aside from that, the enterprise's debtor collection duration has shrunk in 2020, indicating that the company is able to bounce back the owing amount from debtors in a shorter period. It has also led to increased sales for the year 2020. Aside from that, the company was prepared to handle the interest cover for 2020, which is significantly higher than that of 2019. It demonstrates that the employee's revenue was excellent in 2020, resulting in increased market confidence during the year (Umar and et.al, 2021).

CONCLUSION

Accounting, as stated in the preceding explanation, is the practice of documenting money transfers related to a business. Transmission, evaluation, and reporting of these operations to standard setters, officials, and tax collecting agencies are all part of the accounting technique. Accounting Financial Statements are a concise summary of financial operations over a certain timeframe, highlighting a business's revenue, financial position, and future revenues. It is critical to the effective operation of a corporation because it allows employees to monitor income and expenses, ensures compliance with regulations, and provides thorough accounting statements for debtors, executives, and the governments that may be utilised to make strategic choices. According to the findings of this study, there are three major documentation that executives must compile in order to develop effective plans. The income statement aids in analysing a company's total costs and income; the financial statement depicts the profitability and allows owners to earn financial choices based on it.

REFERENCES

Books and Journal

- Menicucci, E., 2020. Fair Value Accounting and Earnings Quality. In *Earnings Quality* (pp. 107-137). Palgrave Pivot, Cham.
- Zhou, C. and et.al, 2020. A new damage model accounting the effect of joint orientation for the jointed rock mass. *Arabian Journal of Geosciences*. 13(7). pp.1-13.
- Lerman, A., 2020. Individual Investors' Attention to Accounting Information: Evidence from Online Financial Communities. *Contemporary Accounting Research*. 37(4). pp.2020-2057.
- Raffort, J., Adam, C., Carrier, M. and Lareyre, F., 2020. Fundamentals in artificial intelligence for vascular surgeons. *Annals of vascular surgery*. 65. pp.254-260.
- Hann, R. N. and et.al, 2020. Information frictions and productivity dispersion: the role of accounting information. *The Accounting Review*. 95(3). pp.223-250.
- Xiao, X. and et.al, 2020. Preaggregation Matching of Donors and Acceptors in Solution Accounting for Thermally Stable Non-Fullerene Solar Cells. *ACS Applied Materials & Interfaces*. 12(52). pp.58082-58093.
- Umar, Z. and et.al, 2021. A tale of company fundamentals vs sentiment driven pricing: The case of GameStop. *Journal of Behavioral and Experimental Finance*. 30. p.100501.