

Assignment A1

Programme: BA Business Management (BABM)

Module: Accounting Fundamentals

Teacher: Emad Elkhashen

Student: Momchil Kostadinov

Student ID: 2028013

Question 1

A.

INCOME STATEMENT FOR THE YEAR ENDED 31st **December 2020 for Kedison PLC**

	£
Revenue	827,630
Cost of sales	<u>(579,630)</u>
Gross profit	248,000
Distribution costs	(28,000)
Administration expenses	<u>(30,000)</u>
Directors remuneration	<u>(5,000)</u>
Commission	<u>(3,000)</u>
Operating profit	182,000
Finance costs	<u>(4,000)</u>
Profit before tax	178,000
Taxation	<u>(68,000)</u>
Profit for the period	<u><u>110,000</u></u>

Workings:

Revenue: $826,650 + 980 = 827,630$

Cost of sales: $578,650 + 980 = 579,630$

Interest: $100,000 \times 4\% = 4,000$

STATEMENT OF FINANCIAL POSITION AS AT 31st
December for Kedison PLC

	£	£
<u>ASSETS</u>		
Non current assets		
Property, plant & equipment	632,730	
		632,730
Current assets		
Inventories	330,600	
Trade and other receivables	170,125	
Cash and cash equivalents	<u>12,900</u>	
		<u>513,625</u>
Total assets		<u>1,146,355</u>
<u>LIABILITIES</u>		
Current liabilities		
Trade and other payables	171,355	
Commission	3,000	
Current tax payable	<u>68,000</u>	
		<u>242,355</u>
Non-current liabilities		
Long term borrowings	2,000	
		<u>2,000</u>
Total liabilities		<u>244,355</u>
Net assets		<u>902,000</u>
<u>EQUITY</u>		
Share capital		710,000
Retained earnings		<u>192,000</u>
Total equity		<u>902,000</u>

Retained profits	
Retained profits at 01.01.20	132,000
Profit for year	110,000
Dividends paid	<u>(50,000)</u>
	<u>192,000</u>

B.

The statements of financial position also known as balance sheet shows the accumulated wealth at a certain moment in time. They are made in a way so that the total assets logged are equivalent to the sum of liability and equity in the company. Because the total asset of a company needs to be the same as the amount the investment from the owner and any other party. The most important explanation is because of the double-entry accounting system. All transactions are logged in at least two different accounts in which way we can check everything is correct.

Question 2

A.

For 2019

- 1- ROCE – $699 / (10,087 - 3,046) = 9.93\%$
- 2- ROE – $366 / 2,912 = 12.57\%$
- 3- Earnings per share – $366 / 300 = 1.22$
- 4- Net profit margin – $699 / 6441 = 10.85\%$
- 5- Asset turnover – $6,411 / 7041 = 0.91$
- 6- Stock holding days – $659 / 3,096 \times 365 = 77-78 \text{ days}$
- 7- Debtors collection period – $1,287 / 6441 \times 356 = 72-73 \text{ days}$
- 8- Current ratio – $2,355 / 3,046 = 0.77$
- 9- Gearing ratio – $4,129 / (4,129 + 2912) = 58.64\%$
- 10- Interest cover – $699 / 181 = 3.86 \text{ times}$

For 2020

- 1- ROCE – $805/(9,736-2,511)=11.14\%$
- 2- ROE – $431/3,088=13.96\%$
- 3- Earnings per share – $431/300=1.437$
- 4- Net profit margin – $805/6,738=11.95\%$
- 5- Asset turnover – $6,738/7,225=0.93$
- 6- Stock holding days – $708/7,235 \times 365=79\text{-}80 \text{ days}$
- 7- Debtors collection period – $1,249/6,738 \times 365=67\text{-}68 \text{ days}$
- 8- Current ratio $-2,303/2,511=0.92$
- 9- Gearing ratio – $4,137/(4,137+3,088)=57.26\%$
- 10- Interest cover – $805/226=3.58 \text{ times}$

B.

Businesses use the ratios to assess the financial performance and to make sure they are profitable and improving constantly. A healthy ROCE should be higher than the cost of capital which we can see in Chocco Plc performance for 2020. ROE has increased this year as well. EPS is higher for 2020 compared to 2019. Net profit margin evaluates the efficacy of the business in pricing its products and we can see that it has increased from 2019 to 2020. A greater turnover ratio is more favourable since it indicates increased efficiency of the company in making better use of its assets. The company has a small increase from 0.91 to 0.93. The determination of the stock holding period is vital in enabling the management to determine sufficient inventory to hold and we can see it has increased this year. An increase in the debtor's collection period is a strong indicator of ineffectiveness of current credit policies. But we can see that this has decreased this year which is a good sign for the business. The higher the current ratio the more liquid the business is which is strong indicator to prospective creditors and investors. As per the above, we can see that the liquidity for 2020 is higher than 2019 which means that Chocco Plc can cover its short-term debts. Gearing ratios are critical in assisting potential investor and we can see for 2020 is higher than 2020. The interest ratio assures has decreased this year.

References

Frank Wood & Alan Sangster, (2012) Frank Wood's Business Accounting 2, 12th Edition, Pearson Education Limited

Balance sheet, Available at:

https://en.wikipedia.org/wiki/Balance_sheet (Accessed on 01/09/21)