

Assignment One: Accounting Fundamentals

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Question number one: A

Statement of Financial Position as at 31st December 2020

ASSETS

Non-current assets

Property, plant & equipment – 632,730

And total non-current assets are 632,730

Current assets

Inventories – 330,600

Trade and other receivables – 170 125

Cash and cash equivalents 12,900

Total assets – 1, 146,355

LIABILITIES

Current liabilities – 242,355

Trade and other payables - 171,355

Short term borrowings – 3,000

Current tax payable – 68,000

Non-current liabilities

Long term borrowings

Long term provisions – 132,000

Total liabilities – 374,355

EQUITY

Share capital – 310,000

Share premium – 300,000

Retained earnings – 132,000

Total equity – 742,000

Profit and loss statement for the year
ended at 31st December 2020

Revenue	855,630	
Cost of sales	578,650	
Gross profit	276,980	
Other income		x
Distribution cost	28,000	
Administration expenses	30,000	
Operating profit	123,980	
Sales	826,650	
Profit before tax	596,625	
Taxation for the period	68,000	
Profit for the period	528,625	

Question number one: B

What is a balanced sheet? The balance sheet is a financial statement. Which shows the total assets, total liabilities and total capital of the business owner. In addition, the balance sheet shows the financial condition of the company at a certain date. The balance sheet has the equation: $\text{Assets} = \text{liabilities} + \text{equity}$. Why is it that the balance is always balanced? According to the accounting rule, "for each debit, there must be a credit," and thus the balance sheet is produced, with obligations as debits and assets as credits. Why is it impossible for the balance to be out of whack and inaccurate? At the end, the balance must match. Another piece of knowledge is that whatever information is provided may be incorrect. And if the balance is not corresponding and its not balanced then this might indicate that you received arithmetic mistakes or that the company failed to record one or more transactions. (Wood, 2018)

Question number two: A

In that section will be presented information about accounting ratios from the lectures of Accounting fundamentals by the University of Wales Trinity Saint David and also the book from (Atrill, 2016) "Accounting and Finance for non -specialists". In the table below will be separated the information for the years 2020 and 2019 in two columns including the working and formulas for the ratios plus explanation for each ratio.

ROCE	2020: $620/9,736-2,511*100\%$ $620/7,225*100\%$ $0,085813*100\%=8,58$ 2019: $539/10,087-3,046*100\%$ $539/7,041*100\%$ $0,0765*100\%=7,65\%$	8,58%	7,65%
ROE	2020: $431/3,088*100\%$ $0,1395*100\%=13,95$ 2019: $366/2,912*100\%$ $0,1256*100\%=12,56$	13,95%	12,56%
EPS	2020: $431/300=1,43666..$ 2019: $366/300=1,22$	1,44	1,22
Net profit margin	2020: $805/6,738*100$ $0,119*100$ $=11,9$ 2019: $699/6,441*100$ $0,108*100$ $=10,8$	11,9	10,8
Asset turnover	2020: $6,738/9,736-2,511$ $6,738/7,225$ $=0,9325$ 2019: $6,441/10,087-3,046$ $6,441/7,041$ $=0,9147$	0,9325	0,9147
Stock holding days	2020: $708/3,235*365$ $0,218*365$ 79,57 rounded is 80 2019: $659/3,096*365$ $0,212*365$ 77,38 if we round it is 78	80days	78days
Debtors collection period	2020: $1,249/6,738*365$	68days	73days

	$0,185 \times 365$ 67,525 rounded is 68 2019: $1,287 / 6,441 \times 365$ $0,199 \times 365$ 72,635 rounded is 73		
Current ratio	2020: $2,303 / 2,511$ =0,917 2019: $2,335 / 3,046$ =0,765	0,917	0,765
Gearing ratio	2020: $4,137 / (4,137 + 3,088) \times 100\%$ $4,137 / 7,225 \times 100\%$ =57,2 2019: $4,129 / (4,129 + 2,912) \times 100\%$ $4,129 / 7,041 \times 100\%$ =58,6	57,2	58,6
Interest cover	2020: $805 / 226$ =3.561 2019: $699 / 181$ =3.861	3.5	3.8

Formulas used

Investment Ratios

1. ROCE-Return on capital employed = Profit before interest/Assets employed*100%
Here the assets can be found by share capital + non-current liabilities +reserves
2. ROE-Return on equity = Earnings /Ordinary share capital*100%
Here the profits that are available to ordinary shareholders are the actual Earnings.
3. EPS-Earnings per share = Earnings/Number ordinary share rankings for dividend

Profitability Ratios

4. $\text{Net profit margin} = \text{Net profit} / \text{Sales} * 100\%$

Usually, the profit before interest is used for the net profit itself.

Efficiency Ratios

5. $\text{Asset turnover} = \text{Sales or Turnover} / \text{Assets employed}$

It indicates how much the business is effective and how well the resources are used.

6. $\text{Stock holding period} = \text{Inventory} / \text{Cost of sales} * 365$

This ratio corresponds to the time one stock is spending in the business or company.

7. $\text{Debtors collection period} = \text{Trade receivables} / \text{Credit sales} * 365$

This ratio is for the expected time to collect a trade debits.

Liquidity Ratio

8. $\text{Current ratio} = \text{Current assets} / \text{Current liabilities}$

This ratio should be 1:1 or 2:1.

Financing Ratios

9. $\text{Gearing Ratio} = \text{Debt} / \text{Debt} + \text{Equity} * 100\%$

The quantity of financing given by shareholders is compared to the amount of finance provided by lenders.

10. $\text{Interest Cover} = \text{Profit before interest} / \text{Interest charges}$

Determines how well interest is covered by available earnings.

References

Atrill, P., 2016. *Accounting and Finance for Non-Specialists*. 10th ed. s.l.:Pearson Education.

Wood, F., 2018. *Business Accounting*. 14th ed. Harlow: Pearson.

