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Accounting Fundamentals-LCBB4001

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(Assignment 1)

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.

1.a)

Eccles pls

Income Statement

For the year ended 31st December 2019

	£'000
Revenue (W1)	827,630
Cost of sales	<u>(578,650)</u>
Gross profit	248.980
Other income	0
Distribution costs(W2)	(31,000)
Administration expenses	<u>(35,000)</u>
Operating profit	182,980
Finance costs(W3)	<u>(4,000)</u>
Profit before tax	178,980
Taxation	<u>(68,000)</u>
Profit for the period	<u>110.980</u>

STATEMENT OF FINANCIAL POSITION AS AT 31ST
DECEMBER 2019

	£'000	£'000
<u>ASSETS</u>		
Non-current assets		
Property, plant & equipment	632,730	
Intangible assets	<u>0</u>	
		632.730
Current assets		
Inventories	330.600	
Trade and other	171,105	
Receivables(W4)		
Cash and cash equivalents	<u>12,900</u>	
		<u>514,605</u>
Total assets		<u>1.147,335</u>

LIABILITIES

Current liabilities

Trade and other payables	171.355
Accruals(W5)	5,000
Current tax payable	<u>68,000</u>

		(244,355)
Non-current liabilities		
Long term borrowings	100,000	
Long term provisions	<u>0</u>	
		<u>(100,000)</u>
Total liabilities		<u>344,355</u>
Net assets		<u>802,980</u>
<u>EQUITY</u>		
Share capital		310,000
Share premium		300,000
Other reserves		0
Retained earnings(W6)		<u>192,980</u>
Total equity		<u>802,980</u>

WORKINGS:

W1-Revenue= $826,650+980=827,630$

W2-Distribution cost= $28,000+3,000=31,000$

W3-Finance cost= $100,000 \times 4\% = 4,000$

W4-Trade relievable= $170,125+980=171,105$

W5-Accruals= $3,000$ (salesman owed commission)
 $+2,000$ (the interest that have Not been paid) $=5,000$

W6-Retained earnings: the retained profit
from 2018+profit for 2019= $242,980$

Ordinary dividend paid +Preference dividend
paid= $50,000$

$132,000+110,980=242,980$

$30,000+20,000=50,000$

$242,980-50,000=192,980$

1.b) Statement of financial position allows consumers of financial statements to determine the financial soundness of a company in terms of market risk, financial risk, credit risk and liquidity risk. The Statement of financial position, also known as the Balance Sheet, shows an entity's financial position at a given date. It has three main elements: assets, liabilities and equity. Assets are something that entity owns. Assets must be listed in the balance sheet as current or non-current, depending on the period for which the reporting entity plans to gain economic benefit from their use. Liabilities must be listed as current or non-current in the statement of financial condition, depending on the period for which the company plans to resolve the liability. A liability that will be resolved for the long term is known as non-current, while those liabilities that are supposed to be settled within one year of the reporting date are classified as current liabilities. Equity is what the organisation owes to its owners. Equity is derived by deducting the total liabilities of the total assets. It therefore reflects the residual interest of the owners in the company. (F. Wood's, Business accounting¹, 2012, p.95)

In the case of Eccles plc the statement of financial position balances because it reveals the net assets on the one side and how they were funded on the other.

2.a) **Schedule of ratio for Chocco plc for**
2019 and 2018

RATIO	Working (2019)	Working (2018)	2019	2018
Return on capital employed	$805 / (9,736 - 2,511) \times 100$	$699 / (10,087 - 3,046) \times 100$	11%	10%
Return on equity	$431 / 3,088 \times 100$	$366 / 2,912 \times 100$	14%	13%
Earnings per share	$431 / 150$	$366 / 150$	£2,90	£2,40
Price earnings ratio	$5,12 / 2,9$	$4,00 / 2,4$	£1,80	£1,67
Gross profit margin	$3,503 / 6,738 \times 100$	$3,345 / 6,441 \times 100$	52%	52%
Net profit margin	$805 / 6,738 \times 100$	$699 / 6,441 \times 100$	12%	11%
Asset turnover	$6,738 / (4,137 + 3,088)$	$6,441 / (4,129 + 2,912)$	0.93	0.91
Stock holding period	$708 / 3,235 \times 365$	$659 / 3,096 \times 365$	80days	78 days
Debtors collection period	$1,249 / 6,738 \times 365$	$1,287 / 6.441 \times 365$	68days	73days
Creditors payment period	$583 / 3,235 \times 365$	$655 / 3,096 \times 365$	66days	78days
Current ratio	$2,303 / 2,511$	$2,355 / 3,046$	0,92	0,77
Quick ratio	$(1,249 + 145) / 2.511$	$(1,287 + 232) / 3,046$	0,64	0,56

Gearing	$4,137 / (4,137 + 3,088) \times 100$	$4,129 / (4,129 + 2,912) \times 100$	57%	59%
Interest cover	805/226	699/181	3,6times	3,9times

b.) Accounting ratios, also known as financial ratios, are part of the study of the financial statements. Accounting ratios also relate the sum of one financial statement to another financial statement. The first phase in an organisation's financial assessment is ratio analysis. It makes it easier to identify items that might be relevant to examine in the future. (F. Wood's, Business accounting1,2012, p.644)

- Gross profit margin stable because is same 52% for 2018 and 52% for 2019.
- Turnover slightly increases
- Net profit stable
- Stock holding period increase, while the creditors payment period decrease