ASSIGNMENT ONE

LCBB4001 Accounting Fundamentals

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QUESTION 1

The summarized trial balance of Wales plc at 31st December 2022 is given below:

	£'000	**£'000**
Sales		800,000
Cost of sales	578,650	
Distribution expenses	28,000	
Administration expenses	30,000	
Plant at cost	1,250,000	
Director remuneration	5,000	
Trade receivables	170,125	
Trade payables		188,625
Stock at 31st December 2022	510,850	
Cash at bank	96,000	
£1 ordinary shares		900,000
10% £1 preference shares		500,000
Retained profits at 1st January 2022		132,000
2% debentures		200,000
Interest paid	2,000	
Dividends paid	50,000	
	2,720,625	**2,720,625**

The following information is relevant:

1. Corporation tax for the year is estimated at £100000

2. Salesmen are owed commission of £3000 in respect of December sales. It will be paid on 31st January 2023 and has not been recorded in the ledger accounts yet.
3. Goods valued at £980 were sent to customers on 31st of December 2022. Payment is due on 28th February 2023. This has not been recorded in the ledger accounts yet.
4. The preference shares should be included within equity.

1A

Wales Ltd

Income Statement for the year ended 31st December 2022

		£'000
Revenue		800,000
Cost of sales		(578,650)
Gross profit		**£221,350**
Other income (accruals)		980
Expenses:		
Distribution costs		(28,000)
Administrative expenses	**W1**	(38,000)
Operating profit		**£156,330**
Finance costs	**W2**	(4,000)
Profit/(loss) before taxation		**£152,330**
Taxation		(100,000)
Profit for the period		**£52,330**

W1

Sales commission	3,000
Admin	30,000
Directors remuneration	5,000
TOTAL ADMIN	38,000

W2

Debentures	200,000
Interest	2%
	4,000

Wales Ltd

Statement of Financial Position as at 31st December 2022

		£'000	£'000
Non-current assets			
Property, plant & equipment		1,250,000	
Intangible assets			
			1,250,000
Current assets			
Inventory		510,850	
Trade receivables		170,125	
Accruals		980	
Cash and cash equivalents		96,000	
			777,955
TOTAL ASSETS			**2,027,955**
Current liabilities			
Trade payables		(188,625)	
Accruals	**W3**	(25,000)	
Short term borrowings			
Current tax payable		(100,000)	
			313,625
Non-current liabilities			
Long term borrowings		(200,000)	
Long term provisions			
			200,000
TOTAL LIABILITIES			**513,625**
NET ASSETS (TA-TL)			**1,514,330**
EQUITY			
Share capital			900,000
Share premium			500,000
Retained earnings	**W4**		114,330
TOTAL EQUITY			**1,514,330**
TOTAL L+E			**2,027,955**

	10% £1 pref. shares 500000=50000 (30K paid)	£	20,000
W3	2% debentures outstanding	£	2,000
	Sales commission	£	3,000
	TOTAL	**£**	**25,000**

	Retained profits at 1st January 2022	132,000
W4	Dividends paid	-50,000
	Prem. dividends due	-20,000
	Profit for the year 2022	£52,330
	TOTAL	**114,330**

1B Why does statement of financial position balance?

SOFP also called Balance sheet is a depiction of the relationship between assets, liabilities and equity of an organisation (Nguyen, 2021). Assets being physical or non-physical goods or services the company owns or expects to receive, liabilities – financial obligations owed to an external supplier providing assets for the use of the organisation, and equity – the amount invested into the business by the owner. Thes three items form the accounting equation Assets = Equity + Liability. As stated by Atrill (2019, p.41) for a business to acquire more assets it should have the funds equal to the value of these assets. These funds can either be raised by the owners (using equity) or by external suppliers creating a liability, leading to the conclusion that the cost of assets should be equal to the amount of equity and liabilities.

QUESTION 2

2A

Ratio	Working 2021	Working 202
ROCE	(846 / 7225) X 100 = 11.71%	(720 / 7041) X 100 = 10.23%
ROE	(431 / 3088) X 100 = 13.96%	(366 / 2912) X 100 = 12.57%
EPS	431 / 300 = 144p.	366 / 300 = 122p.
NPM	(805 / 6738) X 100 = 11.95%	(699 / 6441) X 100 = 10.85%
Asset turnover	6738 / 7225 = 0.93 times	6441 / 7041 = 0.91 times
Stock holding days	(708 / 3235) x 365 = 79.88 days	(659 / 3096) x 365 = 77.69 days
DCP	(1249 / 6738) x 365 = 67.66 days	(1287 / 6441) x 365 = 72.93 days
Current ratio	2303 / 2511 = 0.92 : 1	2355 / 3046 = 0.77 : 1
Gearing ratio	(4137 / (4137 + 3088)) x 100 = 57.26%	(4129 / (4129 + 2912) x 100 = 58.64%
Interest cover	846 / 226 = 3.74 times	720 / 181 = 3.98 times

2B Comments on financial performance of Sweets plc.

Based on the information in the above table, a slight increase in profitability is noted in year 2021 compared to the previous year. This tendency is backed by increase of return rate of employed capital, earnings per share, return of equity and increase in net profit margin. The significance of this increase, however, cannot be measured solely on the data collected from 2 consecutive years. Longer period comparison is needed to determine the benefit of this increase.

Based on the information provided in the income statement, assumption can be made that Sweets plc. has expanded their market (increase in revenue, distribution and advertising cost). This has implied a need for investment into new property, plant and equipment, subsequently increasing the net profit margin.

An increase in the price of average shares has resulted in higher dividend pay-out, making the company more attractive to new investors, as well as increase in the retained profits available for reinvestment in the company.

An increase in current ratio can be noted, however, as it is still under 1 it is an indication for underperformance of the company meaning that current assets do not cover current liabilities (Investopedia, 2022).

References

Atrill, P. (2019) *Accounting and finance for non-specialists.* Eleventh edition. Harlow, England :, Pearson.

Investopedia (2022) Financial ratios, available at: https://www.investopedia.com/financial-ratios-4689817, accessed: 1st September 2023

Nguyen, J. (2021) Does the Balance Sheet Always Balance? Available at: https://www.investopedia.com/ask/answers/09/does-balance-sheet-always-balance.asp, accessed: 31.08.2023