

Accounting Fundamentals

Module code: LCBB4001

Assessment 1

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Introduction

Accounting fundamentals are the basic criteria that are to be considered while framing the financial position of the company. These include recording the data and interpreting it so that it can be analysed. Besides, it is also linked with classifying and analysing the information so that information regarding the financial position of the company can be determined. Thus, in this report, the main area of focus will be to determine the profit/loss and financial position statement for an organisation. In addition, the report will calculate the ratios for different financial issues for the organisation.

Question 1

Prepare a Profit and Loss statement for the year ended 31st December 2020 for Kedison PLC and a statement of financial position as of that date.

To prepare a profit/loss statement for Kedison Plc, it is important to evaluate the revenue generated and calculate the cost of goods that are being sold by the company. To determine the gross profit of the company, it is important to take into consideration the operating expenses and take into consideration any additional income (Ciuhureanu, 2017). Likewise, it is required to calculate any kind of interest or taxes that are owned by the organisation. Thus, the profit and loss statement developed can identify whether the organisation is progressing upwards or downwards. Following is a Profit/Loss statement for Kedison Plc as of 31st December 2020 (Monte-Mor *et al.*, 2018).

Profit and loss statement

For the year ended on 31st December 2020

Particulars	Amount(£)	
Statement of financial position		
Sales	826,650.00	
Add: Goods sold on 31st	980.00	827,630.00
Cost of goods sold		-578,650.00
Gross Profit		248,980.00
Less: Expenses	30,000.00	
Directors Remuneration	5,000.00	
Distribution cost	28,000.00	
Add: commission not recorded	3,000.00	66,000.00
Operating Profit		182,980.00
Interest paid		2,000.00
Net income before tax		180,980.00
Less: Tax		68,000.00
Net income		112,980.00

Administrative expenses
Non-Current Assets:

- Plant and Equipment = £632,730

Total= £632,730

Current Assets:

- Accrued income £980
- Inventory - £330,600
- Cash and bank - £12,900
- Debtors £170,125

Total Assets= £514,605

Net Assets= £1,147,335	£1,147,355
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Current Liabilities:

- | | | |
|----------------------------|---------------|-----------------|
| • Creditors | £171,355 | |
| • commission of December : | £3,000 | |
| • Tax | 68,000 | -242,355 |

Total : £ 242,355

Non current Liability

Debentures	£ 100,000	-£100,000
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Net Assets	£804,980
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Equity:

- | | | |
|-----------------------|------------|----------|
| • Ordinary shares: | | £310,000 |
| • Preferences Shares: | | £300,000 |
| • Outstanding : | | £980 |
| • Retained earnings | 132,000 | |
| • net income | £112,980 | |
| • ordinary dividends | - £ 20,000 | |
| • preference dividend | -£ 30,000 | £194,000 |

£804,98

Why does the statement of financial position balance?

The reason behind the balancing of the financial position is that the balance sheet follows the principle of double-entry (Borisovna, 2020). Thus, the system keeps a record of all the previous transactions based on which the entries are monitored and checked consistently. Likewise, the financial statement position gives the overall net worth of the organisation which provides information about the profit and loss.

Question 2

a) Calculate the following ratios for Chocco plc for 2020 and 2019, showing the formulas and workings:

1. ROCE: It is defined as the return on capital employed by the company and defines the stability and position of the company in the market (Shrotriya, 2019).

ROCE = Operating Profit/Employed Capital x100%

$$= 805/9736-2,511=7225$$

11.14% for the year 2020

$$\text{ROCE for 2019} = 699/10.087-3.046$$

9.93% = for the year 2019

2. ROE: It is known as return on equity which provides the financial performance of the company (Casielles, 2019).

ROE for the year 2020 = Earnings/Shareholder's equityx100%

$$= 431/3088$$

=13.96% for 2020

$$\text{ROE for the year 2019} = 366/2912$$

= 12.57% for 2019

3. Earnings per Share: It is defined as the profits that are earned by the organisation by shares that are outstanding in the stocks.

EPS for the year 2020 = Earnings/number of ordinary shares Shares

$$= 431/600$$

= 0,71 for 2020

$$\text{EPS for the year 2019} = 366/600$$

= 0,61 for 2019

4. Net Profit Margin: It gives the percentage of the income or profit that is being generated out of the total revenue (Nariswari and Nugraha, 2020).

For 2020, NPM = net profit x 100%/Sales = 431/6,738=6,40%

For 2019, NPM = $366/6,441 = 5,68 \%$

- 5. Asset Turnover:** It defines the sales that have been generated to the total assets of the company

Asset Turnover for 2020 = Sales/ total Assets employed

for 2020 = $6738/9736 = 0,69$ times

Asset Turnover for 2019 = $6441/10087 = 0,64$ times

- 6. Stock Holding Days:** It is defined as the period for which an organisation holds its stock before selling it.

For 2020, inventory x 365/ Cost of sales

= $708/3235 = 80$ days

For 2019,

= $659/3096 = 78$ days

- 7. Debtors Collection period:** It is given by the formula amount that is owed by a debtor to annual sales into 365.

For the year 2020, it will be

= $1249/6738 * (365)$

= 68 days

For the year 2019,

= $1287/6441 * (365)$

= 73 days

- 8. Current Ratio:** It is defined as the ability of an organisation to pay back short-term loans (Monte-Mor *et al.*, 2018).

For 2020,

= (Current assets/Current Liabilities)

= $(2303/2511)$

= 0.92

For 2019,

= $2355/3046$

= 0.77

9. Gearing Ratio: It is the type of financial ratio that is determined by comparing the equity of the owner to the debt owed by the company.

It is given by the formula of Debt of business/ Debt +Equity of the company. Thus for the year **2020**, it is given by,

$$= 4137/4137+3088*100$$

$$=4137/7225*100$$

$$=57,26 \%$$

For **2019**,

$$=4129/4129+2912*100$$

$$=58,64\%$$

10. Inverter Cover: It is defined by the total assets owned by the company to total liabilities.

It is given by **COGS/ Average inventory**

$$=3235/708= 4,57$$

for **2020**

And for **2019**, it is

$$=3096/659=4.70$$

b. Using the information in the financial statements and the ratios you have calculated, comment on the financial performance and position of Chocco plc.

Based on the information that has been gathered using the statements and ratios calculated above, it can be said the company is performing quite well in the year 2020 as compared to the year 2019. This is a sign that the company is making progress towards strengthening its financial position in the market. For example, the stock holding days of the company have reduced in the year 2020 as compared to 2019. Also, the company has witnessed an increase in the net profit margin. This indicates that the company can use this profit for investing in expansion processes. Also, the company has registered a higher profit in the year 2020 as compared to 2019. Likewise, the liabilities of the company have decreased and simultaneously there has been an increase in the overall assets of the company. This indicates that the company is performing well in the financial sector.

Conclusion

Through the report, a profit and loss statement was prepared for an organisation highlighting the overall revenue and gross profit generated by the company. Alongside, the report also provided a financial statement for the organisation. In the next part, different financial and liquidity ratios were calculated for an organisation. Further, based on these ratios and financial statements, the financial performance of the company was determined.

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