

STUDENT ID: 2029965

By Mihai Jicu

Accounting Fundamentals (LCBB4001)

Tutor- Dr. Widin Bongasu Sha'ven

University of Wales Trinity Saint David

London

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Question 1. (a) Prepare an income statement for the year ended 2020

KEDISON PLC

Income statement for the period ended

31st December 2020.

(£)

Revenue (826650+980)	827630
Cost of sales	(578650)
Gross profit	248980
Administrative expenses	(30000)

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Directors' remuneration	(5000)	
Distribution costs	(28000)	
Other income (commission)		(3000)
Operating profit	182980	
Income from investments	(0)	
Finance costs (Interest paid)		(2000)
Profit before tax	180980	
Taxation (0+ 68000)	(68000)	
Profit for the period	112980	

Workings

W1

Revenue=826650+980

=827630

W2

Taxation = (paid + unpaid)

Paid=0

Unpaid =68000

Total = (0+68000)

=68000(P&L)

W3

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Gross profit= total revenue –total cost of sales

Where total revenue = $(826650+980) = 827630$

$$= (827630-578650)$$

$$=248980$$

W4

Operating profit = (gross profit)-(total operation costs)

$$=248980-66000$$

$$=182980$$

W5

Profit before tax = operating profit-total interest (paid +unpaid)

$$182980-2000$$

$$=180980$$

W6

Profit after tax= profit before tax –taxation

$$180980-68000$$

$$=112980$$

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Question 1

KEDISON PLCStatement of financial position for the period ended31st December 2020.

	(£)	(£)
<u>Assets</u>		
Noncurrent assets		
Property and equipment		632730
Current assets		
Inventories	330600	
Debtors (170125+980)	171105	
Cash and bank	12900	
Total current assets		514605
Total assets		<u>1147335</u>
Liabilities		
Current liabilities		
Trade creditors	171355	
Commission owed	3000	
Current tax payable (unpaid)		68000

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Total current liabilities		242355
Noncurrent liabilities		
4% debentures	100000	
Total liabilities		342355
Equity		
Ordinary shares	310000	
Preference shares	300000	
Retained earnings	194980	
Total equity		804980
Total equity and liabilities		<u>1147335</u>

Workings 2;

W1

Retained earnings

Profit at the start + profit at the year -dividend =132000+112980-50000=194980

112980-(30000+20000)

=62980

Equity = Ordinary shares + Preference shares+ Retained earnings

=310000+300000+194980

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=804980

For a balance statement of financial position (balance sheet);

Total capital (equity) + Total liabilities = Total assets

804980 + 342355 = 1147335

1 (b). Why does the statement of financial position balance?

The statement of financial position reports the company's value of assets, liabilities, and equity. The asset represents resources controlled by an organization with future expectations of economic benefits. Assets are categorized as current and noncurrent assets depending on their useful economic life. Current assets can be converted into cash in a year, for example, inventories and accounts receivables. Sriram, M. (2020) Noncurrent assets are assets that take more than one year to be converted to cash; they include land, buildings, and equipment.

Liabilities are obligations of a firm resulting from a past transaction whose settlement results in a loss of economic value. Liabilities are also grouped in two

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categories which include current and noncurrent assets. Current liabilities are obligations that require to be settled within one year, for example, notes payables, accruals, and accounts payables. In comparison, noncurrent liabilities are obligations required to be settled in more than one year, such as loans or debentures. Organization equity is the value that would be paid back to the company's shareholders in terms of dividends if all were converted into cash and its debt paid off.

The main reason why the statement of financial position balances is the accounting principle of double entry. The system records all the transactions in two different accounts, which operate to ensure that all the entries are consistent. Statement of financial position is an essential document because it keeps the business owners updated about the firm's financial standing. Most businesses fail in their operation because of not examining their financial position. Suppose the company's ratio of assets to liabilities is not 1:1. In case the company is at higher risk of operating on losses, leading to the closure of the business due to bankruptcy. Statement of financial position enables the organization to access bank loans since the document makes the financial institution know whether the business qualifies for more loans or credit.

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Additionally, the statement of financial position assists the potential investors to understand better the expected future returns of the business. Potential investors will appreciate businesses with a high liquidity state, which are high cash assets, because this indicates that the company will prosper. According to Zorn, A. et al. (2018), the financial position statement also helps the organization be aware of its finances, especially the relationship of the firm's customers and suppliers. The statement of position must balance by following the double-entry accounting principle to make it legible for its users.

QUESTION 2(A).

$$1. \text{ ROCE} = \frac{\text{EBIT}}{\text{Total assets-current liabilities}}$$

Year.	2020	2019
	$\frac{846}{9736-2511} \times 100\%$	$\frac{720}{10087-3046} \times 100\%$
	=11.7	=10,2

$$2. \text{ ROE} = \frac{\text{Earnings}}{\text{ordinary share capital}} \times 100\%$$

Year	2020	2019
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$$\frac{431}{3088}$$

$$\frac{366}{2912}$$

$$=13,95$$

$$=12,56$$

3. Earnings per share

$$\frac{\text{Earnings}}{\text{number of ordinary shares}}$$

Year 2020

2019

$$\frac{431}{300}=1.437$$

$$\frac{366}{300}=1.22$$

4. Net profit margin

$$\frac{\text{operating profit}}{\text{Revenue}} \times 100\%$$

Year

2020

2019

$$\frac{431}{6738} = 6.39$$

$$\frac{366}{6441}=5,68$$

5. Asset turnover

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$$\frac{\textit{Turnover}}{\textit{Assets employed}}$$

Year	2020	2019
	$\frac{6738}{9736}$	$\frac{6441}{10087}$
	=0.692	=0.639

6. Stock holding days

$$\frac{\textit{Inventory}}{\textit{Cost of sales}} \times 365$$

Year	2020	2019
	$\frac{708 \times 365}{3235}$	$\frac{659 \times 365}{3097}$
	=80 days	=78 days

7. Debtors' collection period

$$\frac{\textit{Trade receivables} \times 365}{\textit{credit sales}}$$

Year	2020	2019
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$$\frac{1249 \times 365}{6738}$$

=68 Days

$$\frac{1287 \times 365}{6441}$$

=73 days

8. Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Year 2020

2019

$$\frac{2303}{2511}$$

=0.917

$$\frac{2355}{3046}$$

=0.773

9. Gearing ratio

Year 2020

2019

$$\frac{\text{Debt}}{\text{Debt} + \text{Equity}} * 100$$

$$\frac{6648}{6648 + 9736}$$

=0.406

$$\frac{7175}{7175 + 10087} = 0.4156$$

10. Interest cover; $\frac{\text{profit before interest}}{\text{interest charges}}$

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Year 2020	2019
$\frac{846}{226} = 3.74$	$\frac{730}{181} = 4.03$

Question 2 (b)

Chocco PLC is a chocolate and confectionery manufacturing company in the UK that makes sales worldwide. According to the presented statement of financial position, Chocco PLC Company has a high liquidity state that enables it to sustain its operations in the market. The company's liquidity state level in 2020 is higher than in 2019. This indicates that the company is improving its profitability levels. Gearing ratios of the company as depicted on the ratio analysis compares the company's form of equity or capital to its debt. The company's gearing level is high, which makes the company well established to meet its debts. Chocco PLC. Company asset turnovers in 2020 increased by 8%. This indicates that the company's sales or revenues generated are increasing. The profitability ratios

analysis of the company depicts that the company profitability index is high, which enables potential investors to invest in this project (Zorn et al., 2018). The

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company's high profitability levels indicate that the company can generate a lot of income through the proper utilization of its assets.

The gross profit margin ratio of the company is the most used profitability or margin ratio since it shows the difference between the company's generated revenues or sales and the cost incurred in the production activities (cost of goods sold). Return on equity (ROE) is also a key measure for evaluating how effectively the financial managers manage the company's capital since it measures the company's financial performance. The return on equity of Chocco PLC. Company increased in 2020 compared to 2019, which is an indication that the growth rate is increasing. In conclusion, Chocco PLC Company has a high financial growth rate, as depicted in the financial position statement and ratio analysis.

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Reference List

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