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Accounting Fundamentals - LCBB4001

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Introduction

In terms of business, Accounting Fundamentals is considered an important subject. Accounting Fundamentals it deals with the recording of information and placement, i.e., their introduction in various reports. Aims to report but also to implement the correct data, is the act by which it keeps track of all transactions but also records the transactions of a company and produce financial statements, to be offered to creditors, investors, and external users.

In this essay I will base the information accumulated in the class to make different reports, the first being about to create a Profit and Loss statements for the year 2020, and one of the financial positions then the second is to answers to some questions and after I must calculate the RATION following the formulas (Frank, 2011).

The loss and the profit statements are a financial statement, which summarizing the cost revenues and expenses incurred in a given period, usually a fiscal year or quarter (Wood's & Alan, 2018).

QUESTION 1

a) Preparing profit & loss statement and statement of financial position:

Profit and loss statement	
Revenue	826,650
Cost of sales	578,650
Gross profit	248,000
Commission Received on sales	3,000
Distribution costs	28, 000
Administration expenses	30,000
Directors' remuneration	5,000
Operating profit	182.000
Finance costs	2,000
Profit before tax	180,000
Taxation	68,000
Profit for the period	112,000

STATEMENT OF FINANCIAL POSITION

	£'000	£'000
<u>ASSETS</u>		
Non current assets		
Property, plant & equipment	632,730	
		632,730
Current assets		
Inventories	330,600	
Debdors	170,125	
Over receivables (Goods Valued)	980	
Cash and bank	<u>12,900</u>	
		<u>514,605</u>
Total assets		<u>1,147,335</u>
<u>LIABILITIES</u>		
Current liabilities		
Trade creditors	171,355	
Current tax payable	<u>3,000</u>	
		174,355
Non-current liabilities		
Debentures 4%	100,000	
		<u>100,000</u>
Total liabilities		<u>274,355</u>
Net assets		1,078,355
<u>EQUITY</u>		
Share capital		310,000
Share premium		300,000
Retained earnings		<u>194,000</u>
Total equity		<u>804,000</u>

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

The balance sheet is in fact a financial statement (M., 2020) that ends up being used not only in companies but also by enterprises on a large rye, i.e., quite wide, of course this model statement is used by accountants. The balance sheet is called the statement of financial presentation of the company at the end of a specific year or period. Based on the above statements, the researcher has stated a net profit and positive liquidity. As per the statement of, the companies would need to complete financial statements by balancing all liquidity and liabilities. It is necessary to justify that liquidity and profitability are feasible enough to clear the debt or liabilities. The balancing figure is a break-even point to avoid loss; that means it is necessary to have excess valuation of net assets over total liabilities. Otherwise, less valuation of net assets would indicate less liquidity for the firm. On the other hand, company would need to maintain a continuous cash inflow in business so that financial statement can be closed at a balancing position.

QUESTION 2

1.Return on capital employed (ROCE):

$$\frac{\text{Profit before interest}}{\text{Assets employed.}} \times 100\% = \frac{805}{(9,736 - 2,511)} \times 100\% = \frac{805}{7,225} \times 100\% = 11,14\%$$

$$\frac{\text{Profit before interest}}{\text{Assets employed.}} \times 100\% = \frac{699}{(10,087 - 3,046)} \times 100\% = \frac{699}{7,041} \times 100\% = 9,92\%$$

ROCE	FY 2020	FY 2019
Earnings before interest and taxes (EBIT)	805	699
Total assets	9, 736	10, 087
Current liabilities	2, 511	3 ,046
Return on capital employed (ROCE)	11,14	9,92

2. Return on equity (ROE):

$$\frac{\text{Earnings}}{\text{Ordinary share capital and reserves.}} \times 100\% = \frac{431}{3088} \times 100 = 13,957\%$$

$$\frac{\text{Earnings}}{\text{Ordinary share capital and reserves.}} \times 100\% = \frac{366}{2,912} \times 100 = 12,56\%$$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Net income	431	366
Shareholder's equity	3,088	2,912
Return on equity (ROE)	13,957	12,5687

3. Earnings per share:

$$\frac{\text{Earnings}}{\text{Number of ordinary shares}} = \frac{(431-255)}{300} = 0,586\%$$

$$\frac{\text{Earnings}}{\text{Number of ordinary shares.}} = \frac{(366-242)}{300} = 0,413\%$$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Net income	431	366
Preferred dividends	255	242
Outstanding shares	300	300
Earnings per share (EPS)	0.58667	0.413333

4. Net profit margin:

$$\text{Net profit} \times 100\% = \frac{805}{7} \times 100\% = 11,94\%$$

Sales 6,736

$\frac{\text{Net profit}}{\text{Sales}} \times 100\% = \frac{699}{6,441} \times 100\% = 10,85\%$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Net profit	805	366
Total sales / revenue	6738	6441
Net profit margin	0.06397	0.056823

5.Assets turnover:

$\frac{\text{Turnover}}{\text{Assets employed}} = \frac{6,738}{9,736} = 0,692$

$\frac{\text{Turnover}}{\text{Assets employed}} = \frac{6,441}{10,087} = 0,638$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Net sales	6, 738	6, 441
Average total assets	9736	10, 087
Assets turnover ratio	0.69207	0.638545

6.Stock holding days:

$\frac{\text{Inventory}}{\text{Cost of sales.}} \times 365 = \frac{708}{3,235} \times 365 = 79,88$

$\frac{\text{Inventory}}{\text{Cost of sales}} \times 365 = \frac{659}{3,096} \times 356 = 77,69$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Inventory	708	659
Cost of sales	3235	3096

Total days in a year	365	365
Stock holding days	79.8825	77.69218

7. Debtors' collection period

$$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 = \frac{1,249}{6,738} \times 365 = 67,65 \text{ (days 68)}$$

$$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 = \frac{1,287}{6,441} \times 365 = 72,93 \text{ (days 73)}$$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Debtors' amount	1, 249	1, 287
Sales / revenue	6, 738	6, 441
Total days in a year	365	365
Debtors' turnover ratio	67.6588	72.932

8. Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2,303}{2,511} = 0,91 \text{ times (1)}$$

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2,355}{3,046} = 0,77 \text{ times (1)}$$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Current assets	2303	2355
Current liabilities	2511	3046
Current ratio	0.91716	0.773145

9. Gearing ratio:

$$\frac{\text{Debt}}{\text{Debt} + \text{equity}} \times 100\% = \frac{4,137}{(4,137+3,088)} \times 100\% = 57,25\%$$

$$\frac{\text{Debt}}{\text{Debt} + \text{equity}} \times 100\% = \frac{4,129}{(4,129+2,912)} \times 100\% = 58,64\%$$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Total debt	4137	4129
Total shareholders' equity	3088	2912
Gearing ratio	57,25	58,64

10. Interest cover:

$$\frac{\text{Profit before interest}}{\text{Interest charges}} = \frac{805}{226} = 3,56$$

$$\frac{\text{Profit before interest}}{\text{Interest charges}} = \frac{699}{181} = 3,86$$

Particulars (<i>Amounts in £ million</i>)	FY 2020	FY 2019
Profit before interest	805	699
Interest charges	226	181
Interest cover	3,56	3,86

b). Commenting on financial performance and position of Chocco Plc :

According to the computation, it has been tracked down that the organization Chocco Plc has fostered their ROCE position in 2020 contrasted with 2019 with worth of 11,14 %. That implies organization's productivity is 11,14% or 11% as far as capital, which was less during past financial year as 10%. Be that as it may, complete resources valuation has been diminished in 2020. For this situation, organization's ROE has been expanded to 13%; which means organization's value level has been expanded and organization's pay level has upheld that. Here, increment of overall gain has been demonstrated in 2020 contrasted with monetary year 2019. This is expressed a positive value position for the organization .

The resources turnover has been expanded in monetary year 2020 contrasted with earlier year 2019. This has occurred because of expanding pace of net deals, since complete resources didn't expanded in 2020. Consequently, it is important to build the all out resources for covering the obligation position of the organization . According to the current proportion, it has been discovered that organization's liquidity position has been expanded to 91% contrasted with past monetary year

2019, which was 77%. Nonetheless, the valuation of current liabilities is more contrasted with current resources; yet the organization is attempting to recuperate the lack position.

Conclusion

In this calculation report I tried to implement all the information, but also the data accumulated in class. This essay helps me to understand how I can make the financial statement but also a Profit and Loss statement. Accounting Fundamentals it was about learning the basic concepts of accounting but also to understand how to properly prepare financial statements with investors and not only.

Reference

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