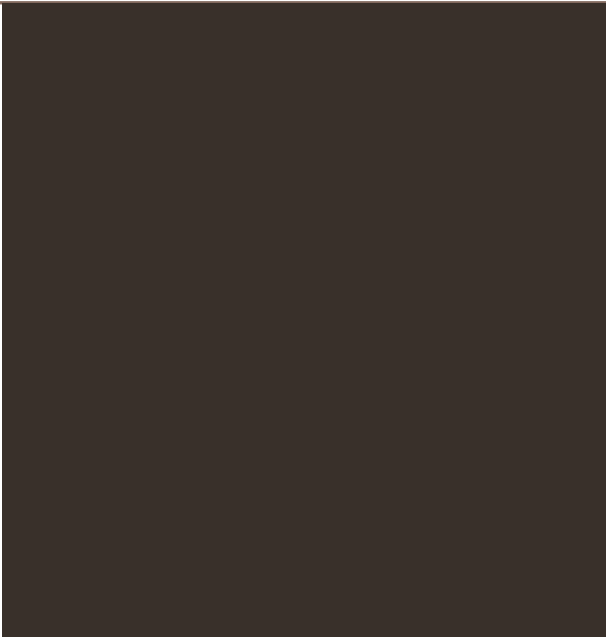




Assignment – A1; Accounting Fundamentals

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Question 1

a.

Income Statement

Accounts	£
Sales	\$800,000.00
cost of sales	<u>(\$578,650.00)</u>
Gross P/L	\$221,350.00
overhead expenses	
administrative	(\$30,000.00)
directors remuneration	(\$5,000.00)
distribution	<u>(\$28,000.00)</u>
Operating P/L	\$158,350.00
interest paid	(\$2,000.00)
tax expenses	<u>(\$100,000.00)</u>
Net P/L	\$56,350.00

Trial Balance

Accounts	Debit	Credit
Plant and equipment	£1,250,000.00	
Stock at 31st December 2021	£430,600.00	
Cash and bank	£176,250.00	
Trade receivable	£170,125.00	
Trade payable		£188,625.00
4% Debentures		£200,000.00
£1 ordinary shares		£1,000,000.00
10% £1 preference shares		£400,000.00
Sales		£800,000.00
Cost of sales	£578,650.00	
Retained profits at 1st January 2021		£132,000.00
Ordinary dividend paid	£20,000.00	
Preference dividend paid	£30,000.00	
Administrative expenses	£30,000.00	
Directors remuneration	£5,000.00	
Distribution costs	£28,000.00	
Interest paid	£2,000.00	
	<u>£2,720,625</u>	<u>£2,720,625.00</u>

Wales PLC Balance Sheet as of 31 December 2021

Accounts	£
Assets	
Plant and equipment	£1,250,000
Stock at 31st December 2021	£430,600
Cash and bank	£176,250
Trade receivable	£170,125
Accrual income	£980
Total assets	£2,027,955
Liabilities	
Trade payable	£188,625
4% Debentures	£200,000
Tax	£100,000
current liabilities/ accrual expenses	£3,000
Total liabilities	£491,625
Equity	
£1 ordinary shares	£1,000,000
10% £1 preference shares	£400,000
Retained profits as of 31st Dec 2021	£251,330
Ordinary dividend paid	-£20,000
Preference dividend paid	-£30,000
Administrative expenses	-£30,000
Directors remuneration	-£5,000
Distribution costs	-£28,000
Interest paid	-£2,000
	£1,638,350
	£2,027,955

b. Why does the statement of financial position balance?

In the additional information section was mentioned the following information:

Accounts payable	£3,000
Accounts receivable	£980
Corporate tax	£100,000

Within the current balance sheet is represented a snapshot of the current financial state of Wales Plc. The additional information regarding accounts payable and accounts receivable is applicable to current financial statements, because the incoming and outgoing assets are accruals. Accruals are appearing

when a service or product has been provided in the examined period of time, but the payments are about to occur in the future – dated next financial year.

The corporate tax rates are included within the Income statement, as it focuses on the evaluation of the entire period of discussion. Taxes are added as current liabilities and subtracted from the retained profits as of 31 December 2021

Question 2

a. Ratios

ROCE

$$\frac{\text{operating profit}}{\text{assets employed}} \times 100$$

Assets employed = total assets – current liabilities

	2021	2020
total assets	£9,736.00	£10,087.00
current liabilities	<u>-£2,511.00</u>	<u>-£3,046.00</u>
Assets employed	£7,225.00	£7,041.00

$$\frac{805}{7225} \times 100$$

= 11.1% => **ROCE 2021 = 11%**

$$\frac{699}{7041} \times 100$$

= 9.93% => **ROCE 2020 = 10%**

ROE

$$\frac{\text{Profit for the year}}{\text{Equity}} \times 100$$

$$\frac{£431.00}{£3,088.00} \times 100$$

= 13.95% => **ROE 2021 = 14%**

$$\frac{£366.00}{£2,912.00} \times 100$$

= 12.56% => **ROE 2020 = 12.6%**

Earnings per share

$$\text{Basic EPS} = \frac{\text{net assets}}{\text{number of shares}}$$

2021

Number of shares = total dividend / avg share price

$$= £255,000,000.00 / 5.12 \text{ (price per share)} = 49,804,687.5 \text{ shares}$$

$$\text{EPS} = 3,088,000,000 / 49,804,687.5 = 62$$

2020

$$2912 / 242 = 12.03$$

$$\text{NOS} = 242,000,000 / 4 = 60,500,000 \text{ shares}$$

$$\text{EPS} = 2,912,000,000 / 60,500,000 = 48.1$$

Net Profit Margin

$$\text{NPM} = \frac{\text{net profit}}{\text{total revenue}} \times 100$$

$$2021 = (3088 / 6738) \times 100 = 45.8\% \text{ (0.46p per £)}$$

$$2020 = (2912 / 6441) \times 100 = 45.2\% \text{ (0.45p per £)}$$

Asset turnover

$$\text{ATR} = \frac{\text{net assets}}{\text{Average Total Assets}}$$

$$\text{ATA} = \frac{(\text{Total assets for the current year} + \text{total assets for the previous year})}{2}$$

$$\text{ATA} = (9736 + 10087) / 2 = 9911.5$$

2021

$$3088 / 9911.5 = 0.31$$

2020

$$2912 / 9911.5 = 0.29$$

Stock Holding Days

$$\text{SHD} = \frac{\text{Avg. inventory}}{\text{ }}$$

Costs of sales

Average inventory = $(708+659)/2 = 683.5$

2021

$(683.5/3235) \times 365 = 77.1 \Rightarrow$ approx. 71 days

2020

$(683.5/3096) \times 365 = 80.6 \Rightarrow$ approx. 81 days

Debtors Collection Period

$(\text{trade receivables} \times 365) / \text{Revenue}$

2021

$(1249 \times 365) / 6738 = 67.65$ approximately 68 days

2020

$(1287 \times 365) / 6441 = 72.93$ approximately 73 days

Current Ratio

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2021

$2303/2511 = 0.91$

2020

$2355/3046 = 0.77$

Gearing Ratio

$$\text{GR} = \frac{\text{non-current liabilities}}{\text{non-current liabilities} + \text{equity}} \times 100$$

	2021	2020
non-current liabilities +	4137	4129
equity	3088	2912
	<u>7225</u>	<u>7041</u>

2021

$(4137/7225) \times 100 = 57.3\%$ approx. 57%

2020

$$(4129/7041) \times 100 = 58.6\% \text{ approx. } 59\%$$

Interest Cover Ratio

$$\text{Interest Cover Ratio} = \frac{\text{P/L before taxation}}{\text{interest payable}}$$

2021

$$620/226 = 2.74$$

2020

$$539/181 = 2.98$$