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Assignment 1

Module: LCBB4001

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Accounting fundamental

This report is basically based on finance, and its calculations. It consists of different financial statements like: 'Income statement' and 'Balance Sheet' also called as the statement of financial position. These statements are showing the financial footing of company, where it actually stands in the market. Furthermore, the second part of the assignment is based on calculating and analyzing the different ratios for the company, provided with the financial information. It helps in analyzing financial position of the company, showing how healthy the company is going in terms of its working, efficiency, profitability and liquidity. Also how much time the company is taking to operate its operations and earning from it, by making the comparisons of its past to the present and estimating for the future.

Task 1

a) Financial statements

Income Statement

Income statement is basically the financial statement of the company shows its financial performance, with the accounts categorized as sales, COGS, other Expenses, Interest and Taxes, to give out the final net Income of the company, categorized as company's ending profit or ending balance (after deducting all its expenses). Debated by the financial analysts to take into the consideration of standardized method like Generally Accepted Accounting Principles (GAAP) to be followed while preparing the Income statements (Allee, 2022).

Income Statement		£
sales		800,000
COGS		578,650
Gross Profit		221,350
Administrative expenses		30,000
Distribution costs		28,000
Commission		3,000
Directors remuneration		5,000
Operating Income (EBIT)		155,350
Interest paid		2,000

Income Before Tax (EBT)	153,350
estimated tax	100,000
Net Income	53,350

Table 1. Income statement of the Wales plc (2021)

Above table showing income statement of the Wales Plc Company, for the 2021 year

It shows that the company has generated profits at the end of the year with **£53,350**, after paying all its expenses (Interest and Tax expenses as well). The Wales Plc remains with the profit of £53,350 at the 2021's end, to carry it forward to the 2022 as starting balance of the company.

Balance sheet

The balance sheet is also known as statement of financial position of the company. It is the statement of company's assets, liabilities and equity at any given period (can be annually, quarterly, and semiannually). These statements are comprised of the 2 columns: assets at the left side and liability and equity being at the right side. It gives the organizational snapshot of its financial position. Along with other financial statements, this statement also help companies in identifying where they stand financially (CFI, 2022).

Balance Sheet for year 2021

Assets	£	
P&E	1250000	
Stock	430,600	
Trade receivable	170,125	
Cash	176,250	
Total Assets		2,026,975
Liabilities		

Payables	188,625	
Accruals	3000	
Tax	100,000	
4% Debentures	200,000	
Equity		
Retained profits at 1st January 2021	82000	
£1 ordinary shares	1,000,000	
10% £1 preference shares	400000	
Net income	53,350	2,026,975

Table 2. Balance Sheet Statement of the Wales plc (2021)

Above table showing the Balance Sheet statement of the Wales plc Company for the Fiscal Year 2021. The Wales plc shows that it had the total assets of (£) 2,026,975 at the end of the year 2021, against its liabilities and equity. The company is having the balanced statement showing the companies has ended right before entering to 2022 with holding total of the (£) 2,026,975 assets to carry forward to the next year.

The table is showing the balance between both sides of the balance sheet at the end (Assets and Liabilities + Equity).

Company has remained good overall, in terms of its financial position and is in profits, after completing its all operations, paying its all expenses and costs. Company is resisted from the losses, analyses at the end of the year 2021, by calculating its financial statements.

b) Why does statement of financial position balance?

The statement of financial Position is also called as Balance sheet, that must be equal or balance at the both sides of accounting entries. There are basically 2 main entries in this financial statement (assets and Liabilities and sometimes shareholder's equity). Company must show the

balance between the assets company have and assets amount (received or receivable) and the debt companies pays (or payable). It provides the snapshot of financial situation of company, reporting what it owes (assets) and what it owed (liabilities) (Van, 2019).

Simply, it needs to have balance at both sides because assets are funded through either liabilities or equity (combining both).

$$\text{Assets} = \text{Liabilities and shareholder's Equity}$$

Assets needs to be sum of Liabilities + Owner's Equity

Task 2

a) Ratios Calculation

Ratios		2021	2020
		£m	£m
1	ROCE = EBIT/Capital Employed	2.683333	2.33
2	ROE = Net Income/ shareholder's Equity	0.139573	0.125687
3	Earnings per share = (NI-Preferred Dividend)/Avg. Common shares outstanding	0.586667	0.413333
4	Net profit margin = (Net Profit/ Total Revenue)* 100	6.396557	5.682347
5	Asset turnover = net sales or revenue/ Avg TA	0.692071	0.638545
6	Stock holding days = (avg Inventory / COGS) * 365	77	81
7	Debtors collection period = (Ac Recieveables/ annual credit sales)* 365 days	-781.964	-717.183
8	Current ratio = current assets/ current liabilities	-0.91716	-0.77315
9	Gearing ratio = total debt/ total shareholder's equity	-2.966	-3.50996
10	Interest cover =EBIT/ Interest Expense	-3.56195	-3.86188

Table 3. Ratios of the Sweet plc for year 2021 and 2020

Above table shows the ratios calculated for Sweets Plc for the last 2 years (2020 and 2021)

b) Analyzing financial performance and financial position of the Sweet Plc.

From the above ratios, financial position and performance can be visibly seen as the business is evaluated on the basis of its criteria set including liquidity, profitability, solvency, repayment capacity, and financial efficacy (Courtney, et al., 2022). Above are the different ratios calculated from different categories. Companies' performance can be better compared as well, as the ratios are for 2 last years' providing ease in comparison. Let's analyze the ratios one by one to clarify financial standing of the company.

1. ROCE

Return on Capital employed (ROCE) ratio is used to measure the financial profitability of company, showing/ understanding how well the company is making profits from its capital as it's put in use. The ROCE of Sweet plc in year 2021 is 11.14% which has remain 9,92 in 2020, showing that company has increased its profitability from last year in terms of generating ROCE.

This ratio has been calculated by formula: $ROCE = (\text{Operating Income} / \text{Assets Employed}) * 100$

2. ROE

Return on Equity (ROE) is also used to measure organizational profitability, shows how efficiently company using it capital invested by shareholders. The ROE calculated for company shows (£m) 0.139573 or 14% in 2021, which was 0.125687 (12.5%) in 2020, resulting that 2021 had been better utilized by company in using it capital by shareholders but overall showing not good performance in both year, as below the 20% (which is considered good or average benchmark set).

ROE ratio has been calculated by formula: $ROE = (\text{Net Income} / \text{shareholder's Equity}) * 100$

OR

$$ROE = (\text{Net Income} / (\text{ORD shares} + \text{CAP} + \text{RES})) * 100$$

3. EPS

Earnings per share (EPS) are used to measure company's value on a wider basis. It shows how much money an organization makes for its shares. Calculated EPS for the 2021 was 0.586667 or 58% and 0.413333 (41%) in 2020, showing 2021 has been good years for company than previous in terms of its EPS and investors would be paying more for the company's share in 2021. But analyzing it overall shows that the company is not having good EPS in both years as below 80.

EPS ratio has been calculated using formula: Earnings per share = (NI-Preferred Dividend)/Avg. Common shares outstanding

4. NPM

Net Profit Margin (NPM) is used to calculate organitsional profitability to its total expenses. Sweet plc had (£m) 6.396557 or 6.3% in 2021, which was 5.682347 (5.6%) in the year back to 2020. Showing that company has operated well in 2021 than 2020, and had higher money kept in 2021 comparatively.

Net Profit Margin has been calculated using formula: Net profit margin = (Net Profit/ Total Revenue) x 100

5. Asset Turnover

The ratio is used to measure organitsional efficiency about how much sales company can generate from its assets. Sweet Plc shows (£m) 0.692071 in 2021 and 0.638545 in 2020, showing that 2021 had been bit good for the company in terms of earning more sales than 2020 from its assets.

Assets Turnover has been calculated using the formula: Asset turnover = net sales or revenue/ Avg Total Assets (TA)

6. Stock holding days

Shows the number of Days Company holds its inventory prior to sales. Sweet plc had 77 days in 2021 and 81 days in 2020, indicating 2020 to be good than 2021, as it had took less days for inventory to rotate in business, proving good efficiency of the company in 2021. Although there

is not much difference found between the both years holding days, indicating the company is good overall in its efficiency for rotating the stock (it takes between the 2 to 2.5 months).

Stock holding days has been found using one of the many formulas available: Stock holding days = $(\text{avg Inventory} / \text{COGS}) \times 365$. Furthermore the Average Inventory has been calculated by adding both inventories and dividing it with 2.

7. Debtor collection period

In accounting, this ratio is used to calculate the average time company will take to collect its debt trades. Sweet plc showing -781.964 in 2021 and -717.18 in 2020, indicating better efficiency of company in 2021 with less period taken.

Ratio of Debtor Collection period has been calculated using formula of: Debtors collection period = $(\text{Ac Receivables} / \text{annual credit sales}) \times 365 \text{ days}$

8. Current ratio

Current Ratio (CR) shows the liquidity of company with measuring company's ability to cover company's short term obligations with its current assets. Sweet plc showing -0.91716 (-0.9:1) in 2021 and -0.77315 (-0.7:1) in 2020, indicating 2020 being good in terms of fulfilling its short term obligation. It can be because of company having more current assets in 2020 than in 2021.

Current ratio has been calculated using its formula of: Current ratio = $\text{current assets} / \text{current liabilities}$.

9. Gearing ratio

This is used to indicate organizational financial risk. Calculated for Sweet plc has 57.2% in 2021 and 58.6% in 2020, indicating higher gearing ratio in 2020, means company had much debt in 2020 comparatively and that could cause company with financial distress. Even both years are showing high Debt risk for Sweet plc but FY 2022 is bit more risky than 2021.

Gearing ratio has been calculated by: Gearing ratio = $(\text{non-current debt} / (\text{non-current debt} + \text{Equity})) \times 100$

10. Interest Cover

This ratio is used to show how many times company can pay its obligations by using its earnings. Sweet plc found with -3.56195 in 2021 and -3.86188 in 2020, showing lesser in 2020, meaning the Company had been burdened with more debt expenses in 2020 than 2021.

Interest Cover ratios has been calculated by: Interest cover = EBIT/ Interest Expense formula.

Above ratios have been effective in measuring the Sweet plc's financial performance and analyzing its future direction, which seems to be positive and profiting to the company in coming future, as company has financial capabilities to perform its operations, timely and efficiently.

The overall financial performance and position had been observed good/well in 2021 than 2020, showing company is moving towards profitability and less debt obligations found with more efficiently utilizing its operations and processes. Overall the Sweet plc is performing well (in both 2020 and 2021), with more efficiency and good profitability. Company is a growing and is earning profits with passing years as seen in year 2021. The financial performance of the company shows that company is being profitable with passing time and is creating its good position in the market, by being financially well enough. The liquidity terms of the company are playing well but needs bit more consideration, profitability is good and is expected to grow more in the coming future as it is efficiently playing its role in financial activities like: selling its assets, taking less time to rotate the inventory and less time for paying its debt obligations and earning good margins of profit.

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