

UWTSD LONDON CAMPUS

APRIL 2022

Accounting Fundamentals

(LCBB4001)

ASSIGNMENT-A1

LECTURER

Dr. Rita Ukachi-Lois

FULL NAME : *EVGENI BOUTSAI*

STUDENT ID : 2114607

Table of Contents

Question 1:	4
Income Statement:	4
Balance Sheet:	4
Statement of financial position balance:	6
Question 2:	7
Ratio Analysis:	7
Comment on Financial Performance of Sweets Plc:	8
References:	11

Question 1:

Income Statement:

This is the financial statement that is prepared for revealing the expenses of the firm, sales of the company and net profit or loss earned by the organization. In addition to this, this statement is needed to be created for helping the investors and management to get insight into the current performance of the organization (Brooks and Mukherjee, 2013).

Wales plc Income Statement As of 31st Dec 2021		
Particulars	Amount (£)	Amount (£)
Sales		8,00,000
Less: Sales Return		0
Less: Cost of goods sold		578650
Gross Profit		2,21,350
Less: Expenses		
Administrative expenses	30,000	
Interest paid	2,000	
Director's remuneration	5,000	
distribution cost	28,000	
Dividend Paid (preference and ordinary)	50,000	
sales commission	3,000	1,18,000
Profit before tax		1,03,350
corporate taxation		1,00,000
Profit for the year		3,350

Sales commission was due in December 2021 but it had to be paid in 2022. Hence, the matching principle of accounting allows the companies to include the transaction in the month in which it occurs instead of the month in which it is paid.

Balance Sheet:

The balance sheet is another important statement that includes information regarding the asset, liabilities and shareholder equity of the organization. It shows the financial position of the company and creditworthiness that can be considered by the suppliers, lenders, investors and others when deciding the investment in the company (Brooks and Mukherjee, 2013).

Wales plc Balance Sheet As of 31st Dec 2021			
Particulars	Amount (£)	Amount (£)	Amount (£)
Assets			
Current Assets:			
Bank		0	
Cash and bank		71,250	
Closing Inventory		0	
Trade Receivables		1,71,105	
		0	
Total Current Assets			2,42,355
Non-Current Assets			
Plant and Equipment		6,32,730	
Stock		3,30,600	
		0	
Total Non-Current Assets			9,63,330
Total Assets			12,05,685
Liabilities			
Current Liabilities:			
Trade payables		1,71,355	
Corporate Tax rate		100000	
Long term liability:			
4% Debentures		1,00,000	
Total Current Liabilities			3,71,355
Shareholders Equity:			
£1 ordinary shares			4,00,000
10% £1 preference shares			3,00,000
Retained Profit	132000+3330		1,35,330
Total Share capital			8,35,330
Total Liabilities and Equity			12,06,685

Statement of financial position balance:

The financial position of the organization plays a very important role in the decision of the stakeholders of the company and investors of the company. The lenders of the company use the statement of financial position to get insight into the assets and liabilities to ascertain and measure whether the organization can pay the debts and loans. The suppliers consider the statement of financial position for making the important decision of the trade credit based on insight on whether it can pay suppliers on time. Investors consider this statement to determine the gap and gearing ratio to determine whether the debt burden on the company is high. Hence, this is the study of the companies to assure good quality and accuracy in the financial statement to improve the effective decision by stakeholders and to meet the needs of the buyers. Presentation of the truth is very important for providing true insight into the performance and meeting the needs of the stakeholders. Manipulation in the statement, errors in the accounts, omission of the entries and others may have an effect on final statements that may affect the quality of the information to the users of the statements. The balance sheet may be affected by the errors in the accounts. For instance, issues in the entries and omission of the transactions may cause affect the ledger account balances and adjustment of the accounts that may affect the equality in the balance sheet. Therefore, the asset side and liability side of the balance sheet should be equal because the total value after the reduction of the liabilities from the total asset should be equal to the share capital of the firm.

There must be a balance between the asset side of the statement of financial position and the liability and shareholder capital of the company to ensure the accuracy in the accounts and to generate the trust of the people in the statements and financial statements of the company. The matching concept of accounting play's an important role in achieving these goals because this principle allows the accountants to record the transaction in the same year and month when they are recognized instead of what happened (Brigham and Houston, 2012). In addition to this, a double-entry bookkeeping system and method are used in the accounting practices of the companies to record the transactions in the accounting books of the companies. This method aids the companies to ensure the two entries and two accounts of each transaction that shows two-sided effects of the transactions of the companies. For instance, the purchase of machinery may cause a reduction in cash but may increase non-current assets. Similarly, payment to the trade payables may reduce the current liability of the company and the cash may be reduced by the same amount (Warren et al., 2011). Hence, if the statement of the financial position does not balance, it may indicate the errors and mistakes in the account that the accountants can

trace but it may very difficult task because it is very hard to determine the errors and mistakes in this accounting system.

Question 2:

Ratio Analysis:

Ratio	Formula	2021	2020
ROCE	<i>Net Income / Capital employed</i>	5.97%	5.20%
	<i>Net Income</i>	431	366
	<i>Capital Employed</i>	7,225	7,041
ROE	<i>Income/ Equity*100</i>	50.94397668	45.8757
	<i>Income</i>	431	366
	<i>Equity</i>	3,088	2,912
Earning Per share	<i>Income/ Outstanding shareholders</i>	0.718333333	0.61
	<i>Net Income</i>	431	366
	<i>Outstanding Shareholders</i>	600	600
Net profit Margin	<i>Net Income / Net Sales*100</i>	6.40%	5.68%
	<i>Net Income</i>	431	366
	<i>Net Sales</i>	6,738	6,441
Asset turnover	<i>Net Sales/ Total Assets *100</i>	8.1979	7.83655
	<i>Net Sales</i>	6,738	6,441
	<i>Total Assets</i>	3,00,000	3,00,000
Inventory Turnover	<i>Inventory / Cost of Goods Sold *365</i>	79.88253478	77.6922
	<i>Inventory</i>	708	659
	<i>Cost of Goods Sold</i>	3,235	3,096
Debtors's days	<i>Recievable / Sales *365</i>	67.65880083	72.932
	<i>Receivable</i>	1,249	1,287
	<i>Sales</i>	6,738	6,441
Current ratio	<i>Current assets/Current Liabilities</i>	0.92	0.77
	<i>Current Assets</i>	2,303	2,355
	<i>Current Liabilities</i>	2,511	3,046
Acid Test Ratio	<i>(Current Assets-Inventory) / Current Liabilities</i>	0.635205098	0.5568
	<i>Current Assets-(Inventory-inventory)</i>	1,595	1,696
	<i>Current Liabilities</i>	2,511	3,046
Interest coverage	<i>PBIT/Interest</i>	3.56	3.86

	<i>PBIT</i>	805	699
	<i>Interest</i>	226	181

Comment on Financial Performance of Sweets Plc:

Return on Capital Employed:

This ratio may be used as a good indicator of the profitability and efficiency of the organization to use the capital effective for generating high income for the company. It may measure the effectiveness of the investment decision of the company (Weygandt et al., 2015). Therefore, it can be said that ROCE increased by 5.97% in 2021 from 5.20% in 2020 for Sweet Plc which indicates the effectiveness of the capital employed by the company (Brigham and Daves, 2012). It has increased the capital employed to a good extent but increased profitability of the company enhanced the ROCE of the organization which can aid to attract investors to the organisation.

Return on Equity:

This ratio can be adopted and used as a good financial measure to determine the efficiency of the organization to invest the fund of a shareholder in activities and projects that can raise the income and wealth of the shareholders (Warren et al., 2011). From the analysis of this ratio, it can be said that the ROE of Sweets Plc increased by 50.94 in 2021 from 45.87 in 2020 which indicates effectiveness in the investment decisions of the company. The net income of the organization has increased which contributed to improving the ROE which means the company has the capacity to improve the wealth of the shareholders by deploying its capital on the right projects (Brigham and Daves, 2012).

Earing Per share:

This ratio is used as the indicator to measure the market performance of the organization whether the company has good value in the market and can attract investment. High EPS means high income to the shareholders that can attract more capital from the investors (Robinson et al., 2015). Hence, it can be interpreted that Sweet Plc has deployed capital efficiency which led to the income high and improved EPS from 0.61 to 0.72 in 2021. It shows the ability of the organization to improve the wealth and capital gain of the investors by raising the income of the business (Brigham and Houston, 2012).

Net Profit:

This is also an important ratio that may be applied for testing the progress of the firm whether the profit of the business is increasing or not. This ratio measures the relationship carried by the net income of the firm and net sales revenue (Brigham and Ehrhardt, 2013). Hence, it is found that Sweet Plc generated good profit and income in 2021 that improved net profit to 6.40% from 5.68% in 2020 which indicates efficiency in the operation of the organization and cut the expenses of the operation (Dyson, 2017).

Asset Turnover:

This is the ratio for testing the efficiency of the company to optimize the usage of the capital and assets effectively to increase the sales revenue of the organization (Dyson, 2017). Therefore, the asset turnover ratios in Sweet Plc were 7.83 and 8.18 in 2020 and 2021 respectively demonstrating that Sweet Plc is quite significant and effective to use the assets for improving profit. The company focused on optimum usage which led to the income high of the firm (Titman et al., 2013).

Stock Holding Days:

It is an effective measure of the efficiency of the management to use the inventory and stock to improve the production and sales of the firm. If the stock holding days are high, it means the time duration for replenishment of inventory is high which means there is no efficient use of inventory to produce the products (Madura, 2011). From the analysis, it can be interpreted that inventory turnover days of Sweet Plc increased by 79.88 days in 2021 but it was just 77.69 days in 2020. It indicates management of the company did not manage the inventory properly and used the inventory for the production of the products which increased the inventory turnover days. Hence, Sweet Plc needs to focus on cutting the inventory cost and improving inventory management.

Debtor's Days:

This is a ratio that may be considered for measuring the effectiveness of the credit policies and administration or management of the trade receivables. If the debtor's days increase, it may cause the risk of bad debts in the company and can influence the cash conversion cycle of the company (Madura, 2011). Furthermore, it is found that trade debtor's days of Sweet Plc decreased by 68 days in 2021 which were 73 days in 2020. It means the company has improved the credit policies to collect money frequently from the consumer which has improved the effectiveness of the management.

Current Ratio:

This is a good indicator of the liquidity of the enterprise that aids to assess whether the current assets and cash of the company are enough to pay the current liabilities and financial expenses (Epstein and Lee, 2014). From the analysis, it can be said that the current ratio increased by 0.92 in 2021 which was just 0.77 in 2020. It indicates that Swett Plc improved its liquidity to a good level to manage the current liabilities but it still needs to cut the expenses and liabilities to achieve the target liquidity ratio of 1.0 (Madura, 2011).

Acid Test Ratio:

From the analysis, it is found that the acid test ratio increased by 0.63 in 2021 but was only 0.55 in 2020. It means Sweet Plc is managing expenses effectively but it still needs to improve the cash assets more to manage the cash expenses and obligations easily (Epstein and Lee, 2014). This may aid to cut the financial burden on the organization.

Interest Coverage Ratio:

This is a measure of the ability of the firm to pay the interest expenses on the amount of loan carried by the company. Hence, a high income may improve the ability of the entity to pay its expenses (Madura, 2011). From the analysis, it is found that the interest coverage capability of Sweet Plc decreased by 3.56 in 2021 which was 3.86 in 2020. However, the interest coverage ratio is still much high which means Sweet Plc can easily pay its interest liabilities.

Overall, it can be stated that Sweet Plc performed well in 2021 as compared to 2020.

References:

- Brigham, E. F., and Ehrhardt, M. C. (2013) *Financial management: Theory & practice*. USA: Cengage Learning.
- Brigham, E. F., and Houston, J. F. (2012) *Fundamentals of financial management*. USA: Cengage Learning.
- Brigham, E., and Daves, P. (2012) *Intermediate Financial Management*. USA: Cengage Learning.
- Brooks, R., and Mukherjee, A. K. (2013) *Financial management: core concepts*. USA: Pearson.
- Dyson, J. R. (2017) *Accounting for Non-Accounting Students, 9th Edition*. UK: Prentice Hall
- Epstein, M. and Lee, J. (2014) *Principle of Managerial Finance*. AU: Pearson Higher Education.
- Madura, J. (2011) *International financial management*. USA: Cengage Learning.
- Robinson, T. R., Henry, E., Pirie, W. L., and Broihahn, M. A. (2015) *International financial statement analysis*. USA: John Wiley & Sons.
- Titman, S.J., Martin, J.D. and Keown, A.J. (2013) *Financial Management: Principles and Applications 12th edn*. UK: Prentice Hall.
- Warren, C., Reeve, J., and Duchac, J. (2011) *Financial & Managerial Accounting*. USA: Cengage Learning
- Weygandt, J., J., Kimmel, P., D. and Kieso, D., E. (2015) *Financial and Managerial Accounting*. US: John Wiley & Sons.