

Accounting Fundamentals

Assessment 1

Module LCBB4001

Lecturer Dr Widin Bongasu Sha'ven

Marcin Klytta

Student nr 1919648, Term 2 group 1

INCOME STATEMENT FOR THE YEAR ENDED 31 st December
2019

	£'000
Revenue (IS1)	827 630
Cost of sales	<u>(578 650)</u>
Gross profit	248 980
Other income	0,00
Distribution costs (IS2)	(31 000)
Administration expenses (IS3)	<u>(35 000)</u>
Operating profit	182 980
Finance costs (IS4)	<u>(4 000)</u>
Profit before tax	178 980
Taxation	<u>(68 000)</u>
Profit for the period	<u><u>110 980</u></u>

STATEMENT OF FINANCIAL POSITION AS AT 31 st December 2019

	£'000	£'000
<u>ASSETS</u>		
Non-current assets		
Property, plant & equipment	632 730	
Intangible assets		
		<u>632 730</u>
Current assets		
Inventories	330 600	
Trade and other receivables W1	174 105	
Cash and cash equivalents	<u>12 900</u>	
		<u>514 605</u>
Total assets		<u>1 147 335</u>
<u>LIABILITIES</u>		
Current liabilities		
Trade and other payables W2	174 355	
Interest unpaid W3	2 000	
Current tax payable	68 000	
		244 355
Non-current liabilities		
Long term borrowings	100 000	
Long term provisions		
		<u>100 000</u>
Total liabilities		<u>344 355</u>
Net assets		<u>802 980</u>
<u>EQUITY</u>		
Share capital		310 000
Share premium		300 000
Other reserves		
Retained earnings W4		<u>192 980</u>
Total equity		<u>802 980</u>

Calculation for 1 a)

$$IS\ 1 = 826\ 650\ (\text{sales}) + 980 = 827\ 630$$

$$IS\ 2 = 28\ 000\ (\text{distributed costs}) + 3\ 000 = 31\ 000$$

$$IS\ 3 = 30\ 000\ (\text{admin expense}) + 5000 = 35\ 000$$

$$IS\ 4 = 4\% \text{ of } 100\ 000 = 4\ 000\ (\text{total interest})$$

$$4000\ (\text{total}) = 2000\ (\text{unpaid}) = 2000\ (\text{paid})$$

$$W1 = 170\ 125\ (\text{debtors}) + 980 = 171\ 105$$

$$W2 = 171\ 355\ (\text{trade creditors}) + 3\ 000 = 174\ 355$$

$$W3 = 4000\ (\text{total interest}) - 2000\ (\text{paid interest}) = 2000\ (\text{unpaid interest})$$

$$W4 = 132\ 000\ (\text{retained profit on 1st January 2018})$$

$$+110\ 980\ (\text{profit for period})$$

$$- 30\ 000 - 20\ 000\ (\text{paid dividends})$$

$$= 194\ 980$$

Answer for question 1b)

According to Newton P. balance sheet (Statement of financial position) illustrates the statement of assets for a given day (what the entity has) within the variety of assets and their sources of origin and financing (liabilities and capital)

On its basis, we will also assess financial stability, i.e., whether the strategy of financing provides the company with adequate liquidity and a possible risk of bankruptcy. It also shows the availability of tools that would increase profit within the future.

Assets are the property resources of a given entity, while liabilities are sources of financing these resources. Each kind of property must be identified with its sources of financing.

This means that the sum of the assets must equal the sum of the liabilities.

This equality must always occur - after each economic operation.

This is the fundamental law on which all accounting is predicated, called the balance sheet principle. (Wood F., Sangster A)

$\text{Assets} = \text{Liabilities}$

Since the sum of equity and liabilities is equal to all liabilities of the enterprise:

$\text{Assets} = \text{Equity} + \text{Liabilities}$.

Similarly, study capital:

$\text{Equity} = \text{Assets} - \text{Liabilities}$.

Economic operations within the course of which they arise, increase, or decrease debts always cause changes on the side of liabilities. They cause a particular group of liabilities in an exceedingly given economic unit to arise, increase or decrease.

Each economic operation causes changes in two different record components and is entered within the books by the bookkeeping system. It is justified by the very fact that each one of the accumulated assets belonging to the corporate are the sum of receivables to stakeholders and also the funds accumulated and made available by the owners.

Double entry concept $A = \text{Liabilities} + \text{Owners equity}$

Answer for question 2a)

Ratio	Working (2019)	Working (2018)	2019	2018
Return on capital employed	805/ (9736-2511) X100%	699/ (10087-3046) X100%	11.1%	9.9%
Return on equity	431/3088X100%	366/2912X100%	14.0%	12.6%
Earnings per share	431/300	366/300	2.90 £	2.40 £
Gross profit margin	(3503/6738) X100%	(3345/6441) X100%	51.99%	51.93%
Net profit margin	805/6738 X100%	699/6441 X100%	11.95%	10.85%
Asset turnover	6738/ (9736-2511)	6441/ (10087-3046)	0.93	0.91
Stock holding period	708/3235 X365	659/3096 X365	80 days	78 days
Debtors collection period	1249/6738 X365	1287/6441 X365	68 days	73 days
Creditors payment period	583/3235 X365	655/3096 X365	66 days	78 days
Current ratio	2303/2511	2355/3046	0.92	0.77
Quick ratio	(2303-708) /2511	(2355-659) /3046	0.64	0.56
Gearing ratio	4137/ (4137+3088) X100%	4129/ (4129+2912) X100%	57.0%	59.0%
Interest cover	805/226	699/181	3.6 times	3.9 times

Answer for question 2b)

Based on the presented data, we can conclude that the analyzed company increased its financial liquidity over the year. This is evidenced by the increase in the current ratio from 0.77 to 0.92.

This indicator is admittedly lower than 2, which is presented as a reference based on historical data. However, technological advances enable the company to distribute

and sell faster. (Albrecht & Stice). Probably the company found other sales channels or improved communication with partners. It may also be related to higher investments also in advertising your products, which makes them transferable on the market faster.

The company also slightly improved the increase in assets to generate sales, as evidenced by the 0.93 asset turnover indicator. These could be, for example, investments in a better car fleet, or a more productive use of production space.

Net profit margin increased by 1.1%, which is probably due to the adjustment of prices to the market in which the company sells. The company increased the selling prices or lowered their costs. Which made it more profitable compared to the previous year. It is possible that for this purpose it used the increase in online sales.

Also, the average payback time for contractors decreased from 73 days to 68 (as mentioned in the debtors collection period), which allowed the company to turn and invest money, or pay its receivables faster. In our case, this time has decreased from 78 days to 66 days, which may prove a greater stability in settling one's obligations. This increases the financial ability to take out loans for other projects and thus the credibility of Chocco plc.

References:

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