

## ACCOUNTING : ASSIGNMENT A1

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## TASK 1:

### Profit and Loss Statement for the year ending on 31<sup>st</sup> Dec. 2020 for Kedison PLC.

#### Balance Sheet

#### Statement of Profit and Loss

|                              | £'000                 |
|------------------------------|-----------------------|
| Revenue                      | 827,630               |
| Cost of sales                | (578,650)             |
| <b>Gross profit</b>          | <b>248,980</b>        |
| Distribution costs           | (28,000)              |
| Administration expenses      | (30,000)              |
| Directors Remuneration       | (5,000 )              |
| Commission                   | (3,000 )              |
| Total Expenses               | <b>(66,000)</b>       |
| Other income                 |                       |
| <b>Operating profit</b>      | <b>182,980</b>        |
| Income from investments      |                       |
| Finance costs                | (2000)                |
| <b>Profit before tax</b>     | <b><u>180,980</u></b> |
| Taxation                     | <u>(68000)</u>        |
| <b>Profit for the period</b> | <b><u>112,980</u></b> |

## **Statement of financial position**

## **ASSETS**

### **Non current assets**

|                            |         |         |
|----------------------------|---------|---------|
| Property, plant, equipment | 632,730 |         |
|                            |         | 632,730 |

### **Current assets**

|                                     |         |         |
|-------------------------------------|---------|---------|
| Inventories                         | 330,600 |         |
| Trade receivables                   | 170,125 |         |
| Goods sold on 31 <sup>st</sup> Dec. | 980     |         |
| Cash                                | 12,900  | 514,605 |

|                     |  |                  |
|---------------------|--|------------------|
| <b>Total assets</b> |  | <b>1,147,335</b> |
|---------------------|--|------------------|

## **LIABILITIES**

### **Current liabilities**

|                 |         |  |
|-----------------|---------|--|
| Trade Creditors | 171,355 |  |
| Commissions     | 3,000   |  |
| Taxes           | 68,000  |  |

### **Non current liabilities**

|               |         |  |
|---------------|---------|--|
| Debentures 4% | 100,000 |  |
|---------------|---------|--|

|                          |  |                |
|--------------------------|--|----------------|
| <b>Total liabilities</b> |  | <b>342,355</b> |
|--------------------------|--|----------------|

## **EQUITY**

|                          |         |  |
|--------------------------|---------|--|
| Share capital            | 310,000 |  |
| Shareholders equity      | 300,000 |  |
| Preference dividend paid |         |  |
| Ordinary Dividend paid   | -50,000 |  |

|                                     |         |                  |
|-------------------------------------|---------|------------------|
| Retained earnings                   | 132,000 |                  |
| Net Income for the year             | 112,980 |                  |
| <b>Total equity</b>                 |         | <b>804,980</b>   |
| <b>Total Liabilities and Equity</b> |         | <b>1,147,335</b> |

### **TASK 1 B: Reasons why the Statement of Financial Position Balance**

The statement of financial position also known as balance sheet is a financial statement that represent what are the assets and liabilities of the business for a period of time. It is a document, that illustrates the current financial situation of the business.

The statement of financial position is used by the internal accounting management to monitor the financial position of the business and to suggest ways for improvement based on the information. Usually the document is also called balance sheet because it seek for balance between the assets and liabilities of the business (Carey, Knowles & Towers-Clark., (2020).

The reason for creating statement of financial positions are:

Help to evaluate the financial position of the business

Help to track organisational assets and balance it with liabilities and equities. The equation is **Assets = Equity + liabilities**. That is the equation that gives an true information of the business and that is why is also called a balance sheet.

Help to evaluate performance in comparing to previous accounting periods

Prevent organisation to have liquidity problems.

The statement of financial position can be used by potential investors in order to decide whether to invest in the organisation or not .

The balance sheet gives much broader picture for the organisation than the profit and loss statement. For example the profit and loss statement may show a very good performance in terms of sales and generated profit, however the organisation may hold (Lessambo, 2018).

## **TASK 2.A:**

ROCE (Return on capital employed)

The formula for ROCE is:

$$\text{ROCE} = (\text{Operating Profit} / \text{Capital employed (Total Assets} - \text{Current liabilities)}) \times 100$$

**2019**

Operating Profit = £699

Capital Employed = £10,087 - £3,046 = £7,041

ROCE =  $(699/7,041) \times 100 = 9.93\%$

## **2020**

Operating Profit = £805

Capital Employed = £9,736 - £2,511 = £7,225

ROCE =  $(805/7,225) \times 100 = 11.14\%$

## **ROE**

The formula for ROE is:

ROE =  $(\text{Net income} / \text{Total Equity}) \times 100$

## **2019**

Net income = £366

Equity = £2,912

ROE =  $(366/2,912) \times 100 = 12.57\%$

## **2020**

Net income = £431

Equity = £3,088

ROE =  $(431/3,088) \times 100 = 13.96\%$

## **Earnings per Share (EPS)**

Earnings per share = Net profit/Number of hold shares

**2019**

Net profit = £366,000,000

Shares outstanding = 6,000,000

EPS =  $366/6 = \textbf{£61}$

**2020**

Net profit = £431,000,000

Shares outstanding = 6,000,000

EPS =  $431/6 = \textbf{£71.83}$

**Net Profit Margin**

Net profit Margin = (Net profit/Revenue) × 100

**2019**

Net profit = £366

Revenue = £6,441

Net profit margin =  $(366/6,441) \times 100 = \textbf{5.68\%}$

**2020**

Net profit = £431

Revenue = £6,738

Net profit margin =  $(431/6,738) = 6.4\%$

### **Asset Turnover**

Asset Turnover = Net sales/Total Assets

#### **2019**

Net sales = £6,441

Total assets = £10,087

Asset turnover =  $6,441/10,087 = 0.64$

#### **2020**

Net sales = £6,738

Total assets = £9,736

Asset Turnover =  $6,738/9,736 = 0.69$

### **Stock Holding Days**

Stock holding days =  $(\text{Inventory} / \text{Cost of sales}) \times 365$

#### **2019**

Inventory = £659

Cost of sales = £3,096

Stock holding days =  $(659/3,096) \times 365 = 77.69 \text{ days}$

#### **2020**

Inventory = £708

Cost of sales = £3,235

Stock holding days =  $(708/3,235) \times 365 = 79.88 \text{ days}$

### **Debtors Collection Period**

Debtors' collection period =  $(\text{Trade receivables} / \text{Total net sales}) \times 365$

### **2019**

Trade receivables = £1,287

Net sales = £6,441

Debtors' collection period =  $(1,287/6,441) \times 365 = 72.93 \text{ days}$

### **2020**

Trade receivables = £1,249

Net sales = £6,738

Debtors' collection period =  $(1,249/6,738) \times 365 = 67.66 \text{ days}$

### **Current Ratio**

Current ratio =  $\text{Current assets} / \text{Current liabilities}$

### **2019**

Current assets = £2,355

Current liabilities = £3,046

Current ratio =  $2,355/3,046 = 0.77$

## **2020**

Current assets = £2,303

Current liabilities = £2,511

Current ratio =  $2,303/2,511 = 0.92$

### **Gearing Ratio**

Gearing ratio =  $(\text{Debt}/\text{Equity}) \times 100$

## **2019**

Debt = £4,129

Equity = £2,912

Gearing ratio =  $(4,129/2,912) \times 100 = 141.79\%$

## **2020**

Debt = £4,137

Equity = £3,088

Gearing ratio =  $(4,137/3,088) \times 100 = 133.97\%$

### **Coverage Ratio**

Coverage ratio = Capital Employed /Interest expense

**2019**

Capital Employed =£699

Interest expense = £181

Coverage ratio =  $699/181 = 3.86$

**2020**

Capital Employed = £805

Interest expense =£226

Coverage ratio =  $805/226 = 3.56$

**TASK 2.B: Comment on the Financial Performance and Position of Chocco Plc.**

Chocco Plc has some good financial signs and some that shows that the organisation needs to improve in certain areas.

First of all in 2019<sup>th</sup> the organisation has ROCE below 10% (9.93%), which indicate that the organisation does not use its capital employed in the most efficient way (Carey, Knowles & Towers-Clark (2020).

However in 2020<sup>th</sup> that ratio increase to 11.14% which is sufficient improvement, however the business should aim to reach at least 15% in order to have more available profitability.

Secondly the ROE shows that the organisation is able to achieve an income that match the organisational equity. 12.57% in 2019 and 13.96% in 2020 are strong indicators for the positive movement in this direction.

In general the organisation is performing well, as it manage to generate profit that is increasing each year, however the management should aim to reduce the amount of non-current liabilities or at least not going into higher rates.

The trade receivables of 1,249m could be reduced to the levels of trade payables (583m).

## References

Carey, Knowles & Towers-Clark., (2020). *Accounting – A Smart Approach*. Fourth Edition. Oxford University Press.

Edmonds, T. and Olds, P. (2013). *Fundamental Managerial Accounting Concepts*. 7thEd. Maidenhead: McGraw-Hill.

Lessambo, F.I., (2018). Analysis of the Statement of Income. In *Financial Statements* (pp. 149-157). Palgrave Macmillan, Cham.