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AC4052QA – Financial Accounting

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SECTION A

Task 1: Financial Statement Analysis of Farm foods Limited

1. Introduction and Company Overview

Farm foods Limited is a Scottish privately owned frozen/chilled foods company. It has stores across the country, and prepares its financial statements to the Financial Reporting Standard 102 (FRS 102). Analysis of Farm foods' financial performance over the past five years (52 weeks) ends with 30 December 2023 and 28 December 2024 is based on profitability, liquidity, efficiency and solvency ratios. The company opened stores in 2024, as well as concluding a significant sale and lease back transaction that had an impact on the company's financial results.

2. Ratio Calculations

The ratios for the year 2023 and 2024 are summarized in Table 1 below: The Sales Revenue has been reported under the head Turnover (Net of VAT) and Capital Employed has been reported under the head of Total Assets - Current Liabilities (where the current liabilities have been reported on the face of Balance Sheet). There are full working out of those questions in the Appendix.

Ratio	Formula	2024	2023
Return on Capital Employed	PBIT ÷ Capital Employed × 100	13.31%	11.85%
Net Profit Margin	Operating profit ÷ Turnover × 100	0.95%	2.35%
Asset Turnover	Turnover ÷ Capital Employed	4.19 times	4.72 times
Current Ratio	Current assets ÷ Current liabilities	1.00: 1	1.12: 1
Acid Test (Quick) Ratio	(Current assets − Inventory) ÷ Current liabilities	0.23: 1	0.25: 1
Inventory Days	Inventory ÷ Cost of sales × 365	38.8 days	37.9 days
Receivable Days	Debtors ÷ Turnover × 365	5.8 days	6.6 days
Payable Days	Trade creditors ÷ Cost of sales × 365	38.1 days	31.2 days
Interest Cover	PBIT ÷ Interest payable	10.25 times	9.38 times

3. Interpretation and Analysis

3.1 Profitability

ROCE increased from 11.85% to 13.31%, while interest cover also improved during 2024. However, this improvement was largely due to a significant gain from the sale of properties rather than stronger retail operations. Net profit margin fell from 2.35% to 0.95%, indicating lower profitability from normal trading activities. Asset turnover also declined from 4.72 to 4.19 times, suggesting that recent investment in stores and assets has not yet generated proportional sales growth. A higher ROCE generally indicates better use of capital, but one-off gains should be excluded when assessing sustainable performance (McLaney and Atrill, 2020).

3.2 Liquidity

Liquidity weakened in 2024. Current ratio was reduced from 1.12:1 to 1:1, thus total scarcity of working capital surplus. The acid test ratio also weakened from 0.25:1 to 0.23:1 meaning, if the short-term liabilities had to be paid with the liquidation of the liquid assets, they would be less. The ratios are often applicable to the grocery retail sector due to the level of cash sales, but dropping levels indicate there should be a decrease in short-term financial flexibility. A high level of liquidity is crucial to ensure that the business does not default on its debts when they are due (Atrill and McLaney, 2022).

3.3 Efficiency

There was no significant change in efficiency. Inventory days went up marginally from 37.9 to 38.8 days, meaning that stocks were kept for a little longer. The number of days to collect the amounts due to some extent was also improving including the days of 6.6 days to 5.8 days for the receivable. The average days to payment the product is paid to supplier also increased significantly from 31.2 to 38.1 days indicating that Farmfoods would be taking even longer to settle its suppliers therefore aiding cash flow and perhaps larger usage of suppliers' credit. An effective working capital is important to the cash flow of any business and can have a positive effect on suppliers' happiness and satisfaction (Wild, 2021).

3.4 Solvency

Operating profit was sufficient to cover cost, with a rise in interest cover from 9.38 times to 10.25 times. This improvement, however, was largely due to one-off property disposals and not to improved trading performance. The company, however, maintained a broadly stable financial position but its financial obligations increased on account of the expansion of the stores, both in terms of lease obligations and long-term borrowing. A cover ratio for interest is desirable the better the company will be able to meet its debts; but the strength of a company is only judged by its operating performance (Atrill and McLaney, 2022).

4. Conclusion

In 2024 farm foods continued to be financially sound, buoyed by good cash generation and expansion in the business. Its operating performance in the trading business, however, failed to further enhance, as measured by a decline in asset efficiency and a drop in net profit margin. Current position also came into the balance with current assets of the same value as current liabilities. Profitability and interest cover was ahead on the paper; much of this was attributable to non-recurring property transactions, and more on the core retail business. Farm foods need to work on operating profit, better working capital and debt management, for sustainable long-term growth.

SECTION B

Task 2: Anca Ltd: Cash Budget and Profit Budget (January–June 2025)

(a) Cash Budget

All sales are made on a cash basis and received in the month of sale. Inventory is assumed to be purchased in the same month as the corresponding sale and paid for one month in arrears. Rent of £3,000 per month (£9,000 per quarter) is payable quarterly in advance, in January and April. All amounts are in £.

	Jan	Feb	Mar	Apr	May	Jun
Cash sales receipts	60,000	60,000	60,000	60,000	45,000	45,000
Bank loan received	-	-	75,000	-	-	-
Total receipts	60,000	60,000	135,000	60,000	45,000	45,000
Payments for purchases	-	26,000	26,000	26,000	26,000	19,500
Wages	1,500	1,500	1,500	1,500	1,500	1,500
Rent (quarterly advance)	9,000	-	-	9,000	-	-
General overheads	750	750	750	750	750	750
Office fittings & fixtures	-	-	-	7,000	-	-
Total payments	11,250	28,250	28,250	44,250	28,250	21,750
Net cash flow for month	48,750	31,750	106,750	15,750	16,750	23,250
Opening cash balance	0	48,750	80,500	187,250	203,000	219,750
Closing cash balance	48,750	80,500	187,250	203,000	219,750	243,000

The cash budget indicates that throughout the period Anca Ltd makes a healthy and steadily increasing cash profit, from £48750 at 31st January to £243,000 at 30th June. The net inflow from the £75,000 bank loan received in March is the highest at £106,750, the net inflow in April is the lowest, due to the quarterly rent payment and the £7,000 contribution to purchase office fittings and fixtures.

(b) Profit Budget: Six Months Ended 30 June 2025

The profit budget below assumes total sales of 2,200 units for the six months (S1 = 400 units and S2 = 300 units). There we have 2 items that are both financing or capital items, one of

£7,000 (office fit out) and the other at £75,000 (bank loan), both of those items would not be given in the profit budget and a useful method or a depreciation policy for office fitouts would require a depreciation charge of the loan.

Profit Budget: Six Months Ended 30 June 2025	**£**
Sales revenue (2,200 units × £150)	330,000
Cost of sales (2,200 units × £65)	(143,000)
Gross profit	187,000
Wages (£1,500 × 6)	(9,000)
Rent (£3,000 × 6)	(18,000)
General overheads (£750 × 6)	(4,500)
Net profit for the six months	155,500

Anca Ltd is expected to make a sound profit of £155,500 for the first six months of trading, a net profit margin of 47.1% of sales revenue, after a good gross margin of 56.7% before overheads.

Task 3: Radu Limited: Financial Statements for the Year Ended 31 December 2025

(a) Income Statement

Radu Limited – Income Statement for the year ended 31 December 2025	**£**	**£**
Sales		500,000
Less: Sales returns		(6,000)
Revenue		494,000
Opening inventory	92,000	
Purchases	340,000	
	432,000	
Less: Closing inventory	(25,000)	
Cost of sales		(407,000)
Gross profit		87,000
Add: Discounts received		6,200
		93,200
Less: Expenses		
Insurance (16,800 + accrual 8,200)	25,000	
Administration expenses	16,000	
Repairs and renewals	5,000	
Rent (8,000 − prepayment 5,000)	3,000	
Depreciation – fixtures and fittings	10,000	
Depreciation – equipment	15,000	
Loan interest (5% × 100,000)	5,000	
Total expenses		(79,000)
Profit for the year		14,200

(b) Statement of Financial Position

Radu Limited: Statement of Financial Position as at 31 December 2025	**£**	**£**
Non-current assets		
Fixtures and fittings (40,000 − 26,000)		14,000
Equipment (150,000 − 65,000)		85,000
Total non-current assets		99,000
Current assets		
Inventory	25,000	
Trade receivables	123,000	
Prepayment (rent)	5,000	
Bank	5,400	
Total current assets		158,400
Total assets		257,400
Current liabilities		
Trade payables	50,000	
Accrued insurance	8,200	
Accrued loan interest	5,000	
Loan instalment due within one year	10,000	
Total current liabilities		(73,200)
Non-current liabilities		
Loan (100,000 − 10,000)		(90,000)
Net assets		94,200
Equity		
Share capital		10,000
Retained earnings (70,000 + 14,200)		84,200
Total equity		94,200

References

Atrill, P. and McLaney, E. (2020) *Financial Accounting for Decision Makers.* 10th edn. Harlow: Pearson Education.

McLaney, E. and Atrill, P. (2020) *Accounting and Finance: An Introduction.* 9th edn. Harlow: Pearson Education.

Wild, J. (2021) *Financial Statement Analysis.* 14th edn. New York: McGraw-Hill Education.

Farmfoods Limited (2025) *Annual Report and Consolidated Financial Statements: 52 Week Period Ended 28 December 2024.* Cumbernauld: Farmfoods Limited.

Appendix

Appendix A: Ratio Calculation Workings

A1. Key figures extracted from the financial statements

Figure	2024 (£000)	2023 (£000)
Turnover (net of VAT)	1,044,430	1,017,995
Cost of sales	1,025,782	984,868
Gross profit	18,648	33,127
Operating profit	9,888	23,930
Gain on disposal of fixed assets	23,266	1,597
Profit before interest and tax (PBIT)	33,154	25,527
Interest payable	3,235	2,722
Fixed assets	248,853	201,480
Stocks (inventory)	108,964	102,340
Debtors	16,656	18,413
Cash at bank	15,240	11,330
Total current assets	140,860	132,083
Trade creditors	107,132	84,108
Total current liabilities	140,584	118,080
Net current assets	276	14,003
Capital employed (Fixed assets + Net current assets)	249,129	215,483

A2. Profitability ratios

1. **Return on Capital Employed (ROCE) = PBIT ÷ Capital employed × 100**

2024: 33,154 ÷ 249,129 × 100 = 13.31%

2023: 25,527 ÷ 215,483 × 100 = 11.85%

2. **Net Profit Margin = Operating profit ÷ Turnover × 100**

2024: 9,888 ÷ 1,044,430 × 100 = 0.95%

2023: 23,930 ÷ 1,017,995 × 100 = 2.35%

3. **Asset Turnover = Turnover ÷ Capital employed**

2024: 1,044,430 ÷ 249,129 = 4.19 times

2023: 1,017,995 ÷ 215,483 = 4.72 times

A3. Liquidity ratios

4. **Current Ratio = Current assets ÷ Current liabilities**

2024: 140,860 ÷ 140,584 = 1.00: 1

2023: 132,083 ÷ 118,080 = 1.12: 1

5. **Acid Test (Quick) Ratio = (Current assets − Inventory) ÷ Current liabilities**

2024: (140,860 − 108,964) ÷ 140,584 = 31,896 ÷ 140,584 = 0.23: 1

2023: (132,083 − 102,340) ÷ 118,080 = 29,743 ÷ 118,080 = 0.25: 1

A4. Efficiency ratios

6. **Inventory Days = Inventory ÷ Cost of sales × 365**

2024: 108,964 ÷ 1,025,782 × 365 = 38.8 days

2023: 102,340 ÷ 984,868 × 365 = 37.9 days

7. **Receivable Days = Debtors ÷ Turnover × 365**

2024: 16,656 ÷ 1,044,430 × 365 = 5.8 days

2023: 18,413 ÷ 1,017,995 × 365 = 6.6 days

8. **Payable Days = Trade creditors ÷ Cost of sales × 365**

2024: 107,132 ÷ 1,025,782 × 365 = 38.1 days

2023: 84,108 ÷ 984,868 × 365 = 31.2 days

A5. Solvency ratio

9. Interest Cover = PBIT ÷ Interest payable

2024: 33,154 ÷ 3,235 = 10.25 times

2023: 25,527 ÷ 2,722 = 9.38 times

Appendix B: Radu Limited Income Statement

B1. Cost of sales

Item	£
Opening inventory (1 Jan 2025)	92,000
Add: Purchases	340,000
Goods available for sale	432,000
Less: Closing inventory (31 Dec 2025)	(25,000)
Cost of sales	407,000

B2. Gross profit and other income

Item	£
Revenue (500,000 sales − 6,000 sales returns)	494,000
Less: Cost of sales (per B1)	(407,000)
Gross profit	87,000
Add: Discounts received from suppliers	6,200
Gross profit plus other income	93,200

B3. Depreciation charges

Asset	Basis	Calculation	Charge for year (£)
Fixtures and fittings	25% straight line on cost	40,000 × 25%	10,000
Equipment	15% reducing balance	(150,000 − 50,000) × 15% = 100,000 × 15%	15,000

Accumulated depreciation carried forward:

Asset	Brought forward (£)	Charge for year (£)	Carried forward (£)	Cost (£)	Net book value (£)
Fixtures and fittings	16,000	10,000	26,000	40,000	14,000
Equipment	50,000	15,000	65,000	150,000	85,000

B4. Accruals and prepayments

Rent: £8,000 paid during the year, of which £5,000 relates to the period after the year end. Charge to Income Statement = 8,000 − 5,000 = £3,000. The £5,000 is a prepayment (current asset).

Insurance: Annual insurance expense is £25,000, but only £16,800 was paid during the year. Accrual (amount owing) = 25,000 − 16,800 = £8,200, charged in full (£25,000) to the Income Statement, with £8,200 recognised as a current liability (accrued expense).

Loan interest: Loan of £100,000 at 5% per annum = 100,000 × 5% = £5,000. No interest was paid during the year, so the full £5,000 is accrued as a current liability and charged to the Income Statement as an expense.

Loan repayment split: The £100,000 loan is repayable in 10 equal annual instalments of 100,000 ÷ 10 = £10,000. £10,000 is shown as a current liability (due within one year) and the remaining balance of 100,000 − 10,000 = £90,000 is shown as a non-current liability.

B5. Profit for the year and reserves

Item	£
Gross profit plus other income (per B2)	93,200
Less: Insurance	(25,000)
Less: Administration expenses	(16,000)
Less: Repairs and renewals	(5,000)
Less: Rent (per B4)	(3,000)
Less: Depreciation – fixtures and fittings (per B3)	(10,000)
Less: Depreciation – equipment (per B3)	(15,000)

Less: Loan interest (per B4)	(5,000)
Profit for the year	14,200