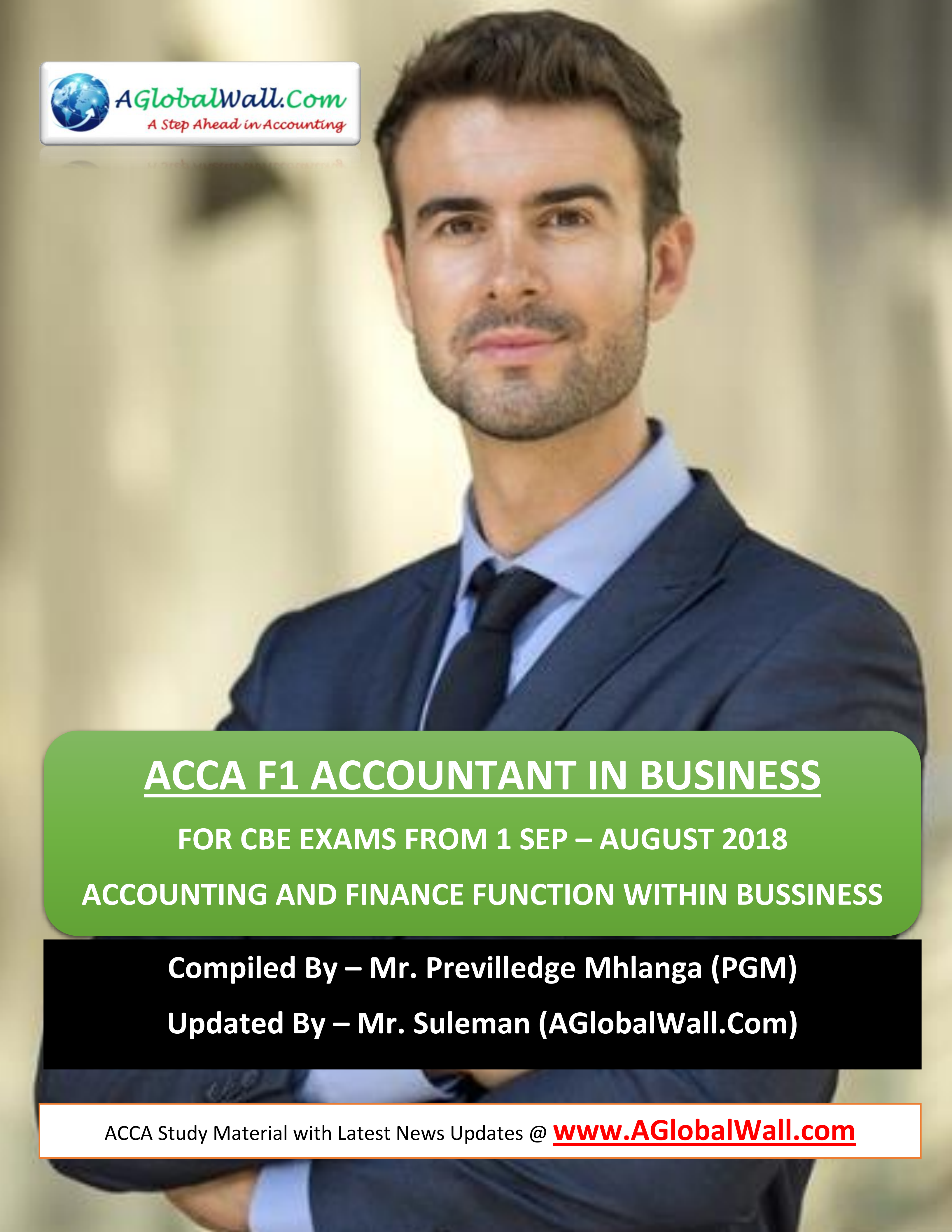

ACCA F1 ACCOUNTANT IN BUSINESS

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ACCOUNTING AND FINANCE FUNCTION WITHIN BUSSINESS

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Explain the contribution of the accounting function to the formulation, implementation and control of the organization's policies, procedures and performance?

What is accounting?

Is the systematic recording, reporting and analysis of financial transactions within a business?

The structures of the accounting function

• **Finance Director**

- ✓ debt equity structures
- ✓ financial measurement for commercial success
- ✓ planning acquisition and divestment
- ✓ dividend policy
- ✓ shareholder /stock market and financial press

• **Chief Accountant**

- ✓ financial accounting
- ✓ auditor relationships

• **Treasurer**

- ✓ debt strategy
- ✓ currency management
- ✓ working capital
- ✓ investment appraisal
- ✓ banking forecasting
- ✓ internal financial structures
- ✓ risk management

• **Tax manager**

- ✓ tax strategy
- ✓ tax mitigation
- ✓ tax compliance

• **Management accountant**

- ✓ management info and accounting
- ✓ budgeting and forecasting
- ✓ internal financial structures and control
- ✓ investment appraisal

THE FINANCIAL ACCOUNTING FUNCTION

- ✓ concerned with the production of annual financial statements in accordance with the relevant accounting standards and legislation
- ✓ Business transaction are first recorded in the books of prime entry
- ✓ examples of books of prime entry include the following:

Purchases Day Book

- ✓ used to record credit purchases made by the business
- ✓ list the invoices received from suppliers

Sales Day Book

- ✓ used to record credit sales made by the business
- ✓ list the invoices issued to customers

Cash Book

- ✓ Used to record the receipts and payment in out of the bank account.

The Petty Cash Book

- ✓ is used to record sundry small payments of cash made by the business eg purchase tea and biscuits for staff refreshments

The Journal

- ✓ Used to keep proper record non- routine adjustment made by the senior accounts staff.

Main financial statements prepared by the business the statements of profits and loss (SOPL)

- ✓ Details income earned and costs incurred in the period.
- ✓ used whether the business has made profit or loss

The statements of financial position (SOFP)

- ✓ Shows the assets earned and liability incurred by the business at a particular point in time.
- ✓ shows the owners' equity i.e. assets minus liabilities

The statements of cash flows

- ✓ Summarizes the cash receipts and payment for the year.
- ✓ Shows whether the company has enough cash and where cash has spent during the year.

Why do business need to prepare financial statements?

The main reason is to satisfy groups of people who have an interest in the financial Performance of the business these include:

Owners

Interested in how profitable the business is and how it is run.

Managers

Interested in the company financial situation so that they can plan effectively.

Banks

May wish to see whether the business can afford the repayments on loans and overdrafts.

Employees

Interested in the financial position of the company and the impact this have on their wages and jobs.

Suppliers and customers

May wish to check the financial stability of the company to ensure it will be able to make payments /supply goods as needed.

Government

May wish to check that the business is obeying the relevant laws on reporting and taxation.

What is Integrated Reporting?

Is a reporting approach in which the company financial statements cover the organisation financial position and performance as well as the report on any other relevant information that would be of interest to the users? Examples of such information include:

Major risks the organisation faces and any action that that they have taken to deal with them. The organisation performance regarding ethics and corporate social responsibility organisation performance regarding sustainable development.

Explain the six types of capitals according to the Integrated Reporting Framework

Financial Capital

This include such types of capital e.g. bond, shares bank notes, it enables other type of capital to be traded.

Manufactured Capital

This is a form of capital described as comprising of material goods, fixed assets, which contribute to production, rather than being output itself e.g. tools, materials and buildings.

Intellectual capital

This capital can described as the value of an organizational employee's knowledge, business training and any proprietary information that may provide a company with competitive advantages.

Human Capital

Consists of people health, knowledge, skills and motivation all these needed to improve productivity.

Social and Relationship Capital

Being concerned with the institution that help to develop and maintain human capital in partnership with others e.g. communities and trade unions, schools and voluntary organisation.

Natural capital

Stock or flow of energy and materials within an environment that produces goods and services it includes resources of a renewable and nonrenewable materials e.g. land, water ,energy, and these factors that absorb, neutralize or recycle wastes and processes.

THE MANAGEMENT ACCOUNTING FUNCTION

- ✓ Carried to assist management in discharging their duties to plan, direct and control operation of the business.
- ✓ It is concerned with the process of measuring, analyzing, interpretation and communicating information to management in a form, which is easy for them to understand.
- ✓ Uses financial accounting records as a source of data for their work.
- ✓ Can use both internal and external sources of information that will be useful to managers.
- ✓ No legal requirements for the layout of management accounts

There are three most common management reports, which are:

1. Cost schedule
2. Budgets
3. Variance reports

Explain each of the three most common management reports?

Cost Schedule

- ✓ Is a list of the various expenses involved in manufacturing units of a product?
- ✓ This often shown as a list of the costs incurred in making a unit of each product we make.
- ✓ This may called a standard cost card.

Give an example of a standard cost card or cost schedule?

ABC LTD manufactures toys .One of its product is a wooden train set, which has the following standard cost per unit.

	$
Direct materials (wood and paint)	5.5
Direct Labor	6.5
Prime cost	**12**
Variable overheads (heat and light)	4
Marginal cost	16

Fixed overheads (rent)	5
Total (Absorption) cost	**21**

The cost schedule of standard cost card helps to make several key decisions as follows:

Pricing decisions

- ✓ How much should we sell our products in order to make profits?

Break even analysis

- ✓ Which products are profitable or loss making?
- ✓ Is a new product worth producing?
- ✓ Can we sell enough units to cover the cost of making the product?

Key Factor Analysis

- ✓ Should products made in house or outsourced somewhere to external suppliers where is cheaper?

Investment Appraisal

- ✓ Should a new machine bought to replace an old one?
- ✓ Should we begin a new project such as lunching a new product?

Budgets

- ✓ Shows the total planned revenues and costs for the business for the forthcoming period.
- ✓ It based on the cost schedule.

Benefits of preparing budgets

Coordination

- ✓ Budgets provide guidance for managers and ensures that they are all working
- ✓ Together for the good of the company.

Responsibility

- ✓ The budgets authorizes managers to make expenditures ,hire staff and generally
- ✓ Follow the plans laid out in the budgets.

Utilization

- ✓ Budgets especially cash budgets help managers to get the best out of their
- ✓ Business resources in the coming period.

Motivation

- ✓ The budget can be a useful tool for influencing the behavior of managers and motivating them to perform in line with business objectives.

Planning

- ✓ Budgets force managers to look ahead.
- ✓ They may help them to identify opportunities for, threats to the business, and make effective decisions in advance.

Evaluation

- ✓ Budgets often used as a basis for management appraisal.
- ✓ The manager deemed to have performed well if he /she met the budget in the period.

Communication

- ✓ Budgets ensure that the members of the business understand what expected from them during the coming period.

Variance Reports

- ✓ Compares the budget to the actual results achieved for the budget period and identifies any significant differences or variances between the two.
- ✓ Management must establish why a certain variance has occurred.
- ✓ Once the reason has been has been established then the appropriate control measures must be taken so as to;
- Prevent the adverse variance from occurring again in the future.
- Repeat the favorable variance in the future.
- Bring actual results on course to achieve the budgeted results.

Explain the differences between financial and Management Accounting?

	Management Accounting	Financial Accounting
Users of Information	Internal use eg managers,employees	External use eg shareholders,creditors,banks
Purposes of Information	To aid planning,controlling and decision making	Financial performance and position of business
Legal requirements	None	Limited companies must produce financial statements
Formats	Management decides on the format of presenting their information	Format and contents must follow accounting standards and company law
Nature if information	Financial and non financial	Mostly Financial
Time Period	Historical and forward looking	Mainly historical

The Treasury Function

- Is the corporate handling of all financial matters, the generation of external and internal funds for the business?
- The management of currencies, cash flows, and the complex strategies, policies and procedures of corporate finance.

Key roles of the treasury and finance function

Working capital management	Monitors the organisation's cash balance and working capital to ensure and working capital to ensure that it never runs out of money
Cash Management	Preparation of cash budgets and arrangements of overdrafts where necessary.
Financing	Monitor the organisations investment and borrowing to ensure the gain as much investment income as possible and incur as little interest as possible.
Foreign currency	Monitor the foreign exchange rates and try to manage the organisation's affairs so that it minimises losses due to changes in foreign exchange rates.
Tax	Manages the organisation's affairs to legally avoid as much tax as possible

The Management of Working Capital

- ✓ Working capital is the capital available for conducting the daytoday operations of an organisation
- ✓ It calculated as the excess of working current assets less current liabilities

	$
Inventory	X
Trade Receivables	X
Cash	X
Total Current Assets	X
Less current Liabilities	(X)
Working Capital	X

• The treasury function is responsible for deciding on the level of investment in Working capital.

What are the advantages of either a small / large balances of components of working capital?

	Advantages of large balance	Advantages of small balance
Inventory	Inventory Customers are happy since they can immediately provide with goods	Low holding costs. Less risk of obsolescence costs
Trade Receivables	Customers are happy since they like credit	Less risk of irrecoverable debts Good for cash flows
Cash	Cash Creditors are happy since bills paid promptly	More can invested elsewhere to earn profits
Trade Payables	Preserve your own cash	Suppliers are happy and may offer discounts

Management must decide on the appropriate balance to be stuck for each component.

Evaluating and Obtaining Finance

- ✓ Organisation may need extra finance to invest or grow the business.
- ✓ This finance can obtained from two most external sources of finance, which are debt, and equity finance.

Debt Finance

This involves borrowing finance from third parties and promising to repay them later.

The business normally has to pay interest on the borrowed money.

Examples of debt finance include:

- ✓ bank loans
- ✓ overdrafts
- ✓ venture capitalist
- ✓ bonds
- ✓ debentures

Main advantages of debt finance are:

- ✓ Interest payments are allowable against tax.
- ✓ Raising debt finance does not change the ownership of the organisation
- ✓ debt finance tend to be cheaper to service than equity finance as is often secured against company assets and takes priority over equity in the event of liquidation.

Equity Finance

- ✓ Involves selling a stake in the business in order to raise cash.
- ✓ It involves selling shares to either new or existing shareholders.

Main Advantages of Equity Finance

- ✓ The is no minimum level of dividends that must be paid to shareholders
- ✓ Dividends can suspended if there is insufficient profits and the company cannot afford to pay them.
- ✓ No interest payments unlike in debt finance.
- ✓ No security in order to get equity finance

Determining the business tax liabilities

- ✓ The treasury function must calculate the business tax.
- ✓ Find legal measures to mitigate or reduce tax liability.

Tax Avoidance

- ✓ Is the legal use of the rules of the tax regime to one ' s own advantage in order to reduce the amount of tax payable by means that are within the law.

Tax Evasion

- ✓ Is the use of illegal means to reduce the tax liability for example by deliberately misrepresenting the true state of the business affairs to the tax authorities?
- ✓ Examples also include declaring less income than actually earned by the business.