DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Contents

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Purpose of Financial and Management Accounting

Financial accounting can be viewed as the process through which businesses record, summarize, and report their business transactions that have occurred over a specified time (Yu, Lin, and Tang, 2018). The aim of financial accounting is to keep track of all business transactions that the business has engaged in over a specified time. Financial accounting also provides a snapshot of the financial health of the business entity. Financial accounting is crucial due to various factors. First, financial accounting ensures that proper financial statements are preferred in line with accepted accounting standards (Mita et al., 2018). Secondly, financial accounting ensures that the managers make crucial financial decisions in line with the financial statements. Financial accounting is also carried out to ensure that a business complies with the set taxation laws. Financial accounting is also crucial when valuing the business for significant events like merging and sale of the business (Homburg, Theel, and Hohenberg, 2020). Financial accounting can also provide evidence in case of legal suit and also provides crucial information to external and internal users of financial information.

Management accounting can be viewed as the process of identifying, measuring, analyzing, and interpreting accounting information. Management accounting, therefore, aims at ensuring that the management of the business makes correct and reliable decisions and effectively manages the entity's daily operations. Management accounting has various uses. First, management accounting is used to forecast the future. The management uses accounting information to make forecasts, including future diversification and market expansion (Azudin, A. and Mansor, 2018). Secondly, management accounting is used in making the make-or-buy decision (Miyazhdenovna et al. 2020). The management can use cost information and sales data to make purchasing decisions. Thirdly, management accounting is used to forecast future cash flows.

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Various Users of Accounting Information

Users of accounting information can be classified under internal and external users. Internal users of accounting information include business owners, directors, managers, employees, internal departments, and internal auditors. Directors and managers are interested in the balance sheet, income statement, and statement of cash flow as such information is used to determine whether the company is making profits hence adopt more effective strategies (Muravskyi, Muravskyi, and Shevchuk, 2021). The internal auditor is interested in all financial instruments, including ledgers and cash books, to ensure that all transactions reflect a free and fair view of the entity's financial performance. Employees and internal departments are interested in the income statement, balance sheet, and departmental financial reports to determine their performance in relation to other departments.

External users of financial information include creditors, investors, government, and regulatory agencies. Creditors are interested in the income statement and balance sheets to determine whether the company can pay its financial obligations. The government and regulatory agencies are interested in the income statement and balance sheet to determine whether the company complies with various legal policies and regulations. Investors are interested in the balance sheet and income statement to determine whether the company should be considered for investment (Rothman, 2020).

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

The role of the International Accounting Standards Board (IASB) and the Standards Advisory Council (SAC)

The International Accounting Standards Board (IASB) is mandated to issue international accounting standards. Previously, IASB amended various financial standards. However, IASB started offering its own standards known as the International Financial Reporting Standards (IFRS). The IASB also nominates and approves the nomination of the IFRS Foundation trustees (Barker and Eccles, 2018). The IASB conducts various technical activities, including the preparation and issuance of IFRS and exposure drafts. Every IASB member has a single vote, and a final standard is approved after being passed by at least ten members.

The Standards Advisory Council (SAC) has thirteen members and contributes immensely to the preparation of standards. The SAC has various roles, including advising the IASB and briefing the board on the implications of the standards on its users (Osei 2017).

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Books of original entry

Sales Journal		
Date	Details	Amount (USD)
October	Stuffed Animal	4,847
	Educational Toys	4,486
	Video Games	4,702
	Pretent-play toys	1,827
	Total	15,862

Purchase Journal		
Date	Details	Amount (USD)
October	Stuffed Animal	4,044
	Educational Toys	3,547
	Video Games	4,169
	Pretent-play toys	1,382
	Total	13,142

Cash Journal		
Date	Details	Amount (USD)
August	Lease of computer equipment in advance for November	500
	Office supplies	416
	Payment on account (Bing's)	390
	Payment of wages	2,500
	Payment for cleaning services	74
	Total	3,806

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

General Ledger

General ledger				
Date	Description	Debit	Credit	Balance
October	Beginning cash balance			2,000
	Sales	15,862		17,862
	Purchase		13,142	4,720
	Payments		3,806	914

Bank Reconciliation

Bank Reconciliation Statement	
Month Ended October 2020	
Cash balance as per bank statement	893
Balance as per cash	914
Overdraft fees	(20)
Adjusted cash balance	893

Trial Balance

Trial Balance as at October	Debit (USD)	Credit (USD)
Sales		15,862
Purchase	13,142	
Cash	893	
Withdrawals	1,600	
Prepayment	500	
Capital		2,000
Suspense account	1,727	
	17,862	17,862

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Cash flow statement

Statement of Cash flows	
For the month of October	
Cash flows from operating activities	
Net income	15,862
Additions to cash	
Decrease in prepaid expenses	(500)
Subtractions from cash	
Increase in inventory	13,142
Net cash from operations	2,220
Cash flows from investing	
Office supplies	(416)
Cash flows from investing	(416)

Income statement

Income Statement for the period ending October 31, 2016	
Net sales	15,862
Cost of sales	13,142
Gross profit	2,720
Lease of computer equipment in advance	500
Purchase of office supplies on account from Bing's Office Supply	416
Payment on account (Bing's)	390
Payment of wages with cash	2,500
Payment for cleaning services with cash	74

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Net income	(1,160)

Balance sheet

Balance sheet	USD
Assets	
Cash	2,000
Office supplies	491
Prepayment (lease of computer)	500
Total assets	2,991
Liabilities	
Accounts payable	75
Owner's equity	2,000
Drawings	(1,600)
Retained earnings	(1,160)
Capital and liabilities	(685)

Problem 2

Question 1: Classification of Ratios

- Current Ratio – liquidity ratios
- Acid-Test Ratio – liquidity ratios
- Debt-Equity Ratio – leverage ratios
- Profit Margin – profitability ratios
- Return on Owners' Equity – profitability ratios

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Question 2: Calculation of Ratios

Debt-Equity Ratio

- The debt to equity ratio is computed by dividing total liabilities by total equity
- Debt-equity ratio = 3,940 / 9,260 = 0.42549

Profit Margin

- Profit margin is calculated by dividing net income by revenue * 100.
- Profit margin = (revenue – expenses) / revenue *100
- 3,260 / 37,763 * 100 = 8.633

Return on Owners' Equity

- Return on owner's equity is calculated by dividing earnings after tax by total shareholders' equity * 100
- 3,260 / 6,000 * 100 = 54.3333%

Question 3: Woody Train

WoodyTrain reported a gross profit of £ 19,387 and a net income of £ 3,260 hence showing that the company is profitable. The company's debt to equity ratio was 0.42549. A higher debt to equity ratio shows that the company under consideration has an increased risk as the projects are funded mostly through debt (Nuryani and Sunarsi 2020). The debt-equity ratio is considerably low hence showing that the company finances most of its projects through equity, not debt. The company, therefore, manages its debt level in a prudent manner. The company's return on owner's equity is 54.3333%. A high ROE demonstrates that a company is increasing its profit generation without needing as much capital. WoodyTrain's return on owner's equity is considerably high hence showing that the company's management deploys shareholder capital in an effective manner.

DOI 10.17605/OSF.IO/2D6FE
ORCID 0009-0009-2559-6676

Bibliography

- Azudin, A. and Mansor, N., 2018. Management accounting practices of SMEs: The impact of organizational DNA, business potential and operational technology. *Asia Pacific Management Review*, *23*(3), pp.222-226.
- Barker, R. and Eccles, R.G., 2018. Should FASB and IASB be responsible for setting standards for nonfinancial information?. *Available at SSRN 3272250*.
- Homburg, C., Theel, M. and Hohenberg, S., 2020. Marketing excellence: nature, measurement, and investor valuations. *Journal of Marketing*, *84*(4), pp.1-22.
- Mita, A.F., Utama, S., Fitriany, F. and Wulandari, E.R., 2018. The adoption of IFRS, comparability of financial statements and foreign investors' ownership. *Asian Review of Accounting*.
- Miyazhdenovna, N., Zhaslanovna, S., Anuarbekkyzy, G., Nurlanovna, L. and Tulegenovna, K., 2020. The role of management accounting techniques in determining the relationship between purchasing and supplier management: a case study of retail firms in Kazakhstan. *Uncertain Supply Chain Management*, *8*(1), pp.149-164.
- Muravskyi, V., Muravskyi, V. and Shevchuk, O., 2021. Classification of stakeholders (users) of accounting information for the enterprise cybersecurity purposes. *Herald of Economics*, (1 (99)), pp.83-96.
- Nuryani, Y. and Sunarsi, D., 2020. The Effect of Current Ratio and Debt to Equity Ratio on Deviding Growth. *JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)*, *4*(2), pp.304-312.
- Osei, E., 2017. THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB), AND THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) SINGS SIMILAR TUNE: COMPARING THE ACCOUNTING TREATMENT OF NEW IFRS 16 WITH THE IAS 17, AND THE NEW FASB MODEL ON LEASES. *Journal of Theoretical Accounting Research*, *13*(1).
- Rothman, T., 2020. Understanding the Basic Elements of Stockholder Statements and Their Use in Valuations. In *Valuations of Early-Stage Companies and Disruptive Technologies* (pp. 23-33). Palgrave Macmillan, Cham.
- Yu, T., Lin, Z. and Tang, Q., 2018. Blockchain: the introduction and its application in financial accounting. *Journal of Corporate Accounting & Finance*, *29*(4), pp.37-47.