# Unit 5: Accounting Principles

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| **Unit code** | **Y/618/5038** |
| **Unit type** | **Core** |
| **Unit level** | **4** |
| **Credit value** | **15** |

## Introduction

Management accounting is a profession that supports management decision making, planning and performance management systems. Management accountants provide expertise in financial reporting and control to assist management in the formulation and implementation of an organisation's strategy by providing appropriate financial information and undertaking related accounts administration.

The overall aim of this unit is to introduce fundamental accounting principles that underpin financial operations and support good and sustainable decision making in any organisation. Students will develop a theoretical and practical understanding of a range of financial and management accounting techniques.

On successful completion of this unit, students will be able to assist senior colleagues in producing and analysing budgets, drawing up simple financial statements and using financial ratios to interpret performance. Students will also explore wider aspects of accountancy, especially ethics, transparency and sustainability, and gain fundamental knowledge and skills that will enable them to progress to a higher level of study.

**Learning Outcomes**

By the end of this unit a student will be able to:

LO1 Examine the context and purpose of accounting

LO2 Prepare basic financial statements for unincorporated and small business organisations in accordance with accounting principles, conventions and standards

LO3 Interpret financial statements

LO4 Prepare budgets for planning, control and decision making using spreadsheets.

**Essential Content**

## LO1 Examine the context and purpose of accounting

*The accounting function in an organisation:*

Different branches of accounting, e.g. financial, management, auditing, tax and forensic accounting.

Career opportunities in accounting and roles and responsibilities, e.g. accounts clerk, accounts assistant, qualified accountant.

Roles in commercial finance, e.g. cost analyst, business controller, pricing professionals and the global business services, e.g. purchase to pay (P2P) professionals and report to report (R2R) professionals.

Skills required for positions in accountancy and finance, e.g. numerical skills, problem solving, integrity, negotiation, customer service.

Key skills and competences for accounting roles, e.g. managing the sale and purchase ledger, ensuring accounts are up to date, supplier reconciliations, inputting sales invoices on an accounts system and recording payments received.

Users and uses of financial information.

Interrelationships between the accounting and finance functions of other areas of the organisation and increasingly complex operating environments.

*Context and purpose of financial and management accounting:*

Purpose and scope of accounting, to include recording, reporting, and analysing information to inform decision making.

Role of supporting and new information technologies to support accounting and decision making.

Management accounting information, including systems, e.g. cost accounting, inventory management, job costing.

The benefits (streamline reporting, accuracy), risks and limitations (security threats, loss of data through power outages) of management accounting information.

Presenting financial information in a reliable, accurate, timely and persuasive way to satisfy needs of internal and external stakeholders.

Accounting in an increasingly complex and fast-changing business environment, e.g. increased regulation and accountability, role of International Financial Reporting Standards (IFRS), risk management, reputation, sustainability, governance.

Pros and cons of shared service centres and outsourcing accounting services.

## LO2 Prepare basic financial statements for unincorporated and small business organisations in accordance with accounting principles, conventions and standards

*The accounting concept:*

The accounting concept as the foundation for all financial statements.

*Capital and revenue items:*

Classifying revenue and capital income and expenditures.

*Producing basic financial statements:*

Preparation of a profit and loss statement (income statement) and balance sheet (statement of financial position) for unincorporated organisations from a given trial balance.

Different types of income statements for sole trader, partnership and not for profit organisations.

Adjustments required for accruals, prepayments, bad debts, depreciation.

Value of using digital software for accounting and preparing for financial statements, e.g. QuickBooks, Sage, Xero.

## LO3 Interpret financial statements

*Importance and purpose of analysing financial statements:*

To communicate financial positions and intentions with a range of stakeholders.

*Ratio analysis:*

Calculate profitability, liquidity, efficiency and investment ratios from given data.

Using calculated ratios to evaluate organisational performance.

Apply and critique relevant benchmarks, including time series, competitors, sector and internal.

*Limitations of ratio analysis:*

Ratio analysis as one means of measuring and evaluating the performance of an organisation, e.g. use of qualitative/non-financial measures.

Limitations of using ratios as a performance measurement tool.

The interrelationships between ratios.

*Importance and purpose of analysis of financial statements:*

The interpretation and analysis of financial statements in the business environment.

Interpreting the relationship between the elements of the financial statements, profitability, liquidity, efficient use of resources and financial position.

Interpreting financial statements for meeting key performance indicators (KPIs) and sustainable performance.

Application of financial statements in different business contexts and value of presenting to end user of the financial statements.

LO4 **Prepare budgets for planning, control and decision making using spreadsheets**

*Nature and purpose of budgeting:*

Budgets as a key management accounting tool.

Definitions and reasons organisations use budgets.

Stages in the budgeting process, master and functional budgets.

Corrective action to inform resource allocation and decision making.

*Budget preparation and budgetary control:*

Importance, role and limitations of budgets in controlling activity.

The principal budget factor and budget types, including fixed, flexible, zero based, incremental, rolling, activity based, value proposition.

Variance analysis.

The steps for the preparation of a cash budget.

*Producing a spreadsheet:*

The numerical and other information requirements for a spreadsheet and how it should be structured to meet user needs.

Using a spreadsheet and techniques to enter, edit and organise numerical and other data.

How to format spreadsheet cells, rows, columns and worksheets effectively using appropriate tools and techniques

Use of formulas and filters to enter, edit and present numerical data.

Visual representation of data and data analysis using pie charts, bar charts and graphs.

Inserting spreadsheet data into Word® documents.

## Learning Outcomes and Assessment Criteria

| Pass | Merit | Distinction |
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| **LO1** Examine the context and purpose of accounting | | |
| **P1** Examine the purpose of the accounting function within an organisation.<br><br>**P2** Assess the accounting function within the organisation in the context of regulatory and ethical constraints. | **M1** Evaluate the context and purpose of the accounting function in meeting organisational, stakeholder and societal needs and expectations. | **D1** Critically evaluate the role of accounting in informing decision-making to meet organisational, stakeholder and societal needs within complex operating environments. |
| **LO2** Prepare basic financial statements for unincorporated and small business organisations in accordance with accounting principles, conventions and standards. | | **LO2 and LO3**<br><br>**D2** Critically evaluate financial statements to assess organisational performance using a range of measures and benchmarks to make justified conclusions. |
| **P3** Prepare financial statements from a given trial balance for sole traders, partnerships and not-for-profit organisations, to meet accounting principles, conventions and standards. | **M2** Produce financial statements from a given trial balance, making appropriate adjustments. | |
| **LO3** Interpret financial statements | | |
| **P4** Calculate and present financial ratios from a set of final accounts.<br><br>**P5** Compare the performance of an organisation over time using financial ratios. | **M3** Evaluate the performance of an organisation over time. using financial ratios with reference to relevant benchmarks. | |

| Pass | Merit | Distinction |
|---|---|---|
| **LO4** Prepare budgets for planning, control and decision making using spreadsheets. | | |
| **P6** Prepare a cash budget from given data for an organisation using a spreadsheet.<br><br>**P7** Discuss the benefits and limitations of budgets and budgetary planning, and control for an organisation. | **M4** Identify corrective actions to problems revealed by budgetary planning and control for effective organisational decision making. | **D3** Justify budgetary control solutions and their impact on organisational decision making to ensure efficient and effective deployment of resources. |

## Recommended Resources

### Textbooks

ATRILL, P. and McLANEY, E. (2018) *Accounting and Finance for Non-Specialists.* 11th Ed. Harlow: Pearson.

DRURY, C. (2015) *Management and Cost Accounting*. 9th Ed. Cengage Learning.

SEAL, W. et al (2018) *Management Accounting.* 6th Ed. Maidenhead: McGraw-Hill.

WEETMAN, P. (2019). *Financial and Management Accounting: An Introduction*. Harlow: Pearson.

### Websites

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| www.accountingcoach.com | Accounting Coach |
| | Online free courses |
| | (General reference) |
| www.accaglobal.com | Association of Chartered Certified Accountants |
| | (General reference) |
| | Chartered Institute of Management Accountants |
| www.cimaglobal.com | Tutor Resource Hub |
| | Corporate Finance Institute |
| | Resources |
| www.corporatefinanceinstitute.com | Knowledge |
| | (General reference) |

### Links

This unit links to the following related units:

*Unit 10: Recording Financial Transactions*

*Unit 21: Financial Reporting*

*Unit 22: Management Accounting*

*Unit 23: Financial Management*

*Unit 29: Managing and Running a Small Business*