

PRI-AIN721 #FL

by Plagi Check

Submission date: 13-Apr-2023 09:48AM (UTC-0700)

Submission ID: 2063608993

File name: PRI-AIN721_FL.docx (38.92K)

Word count: 3079

Character count: 17986

1 **BUSINESS FINANCE AND ECONOMICS**

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“Task 1: Define the two major branches of economics and discuss how they influence business performance”

Microeconomics

Microeconomics is analysed to be a study of decisions made by businesses or different individuals regarding allocation of resources. Microeconomics focuses on the supply process within an organisation that derives the price level of the economy. In reference to the study of Sibirskaya *et al.* (2019), use of bottom up strategy to determine economy is made within the microeconomics process. On the other hand it is also determined that microeconomics helps in understanding human choices for allocating specific resources in terms of satisfying consumer needs. Based on the recent business organisation changes are taking place in the market which are specifically explained in order to make appropriate decisions. Similarly the key role of microeconomics is to make an examination about how a company can maximise its production and capacity in order to lower the price level. There are certain factors that are involved in microeconomics process including

- Cost of production
- Production theory
- Demand, supply and equilibrium
- Labour economics

Microeconomics is determined to be a branch of economics that studies individual household and business decisions in order to use appropriate resources. According to the study of Melkani and Pathak (2023), it is analysed that study of microeconomics factors enables an individual or organisation to understand concepts such as how price is determined. Decision making related to allocation of resources is reasonably made by an organisation based on the bottom up approach. Implementation of microeconomic processes is analysed to be effective in order to design and formulate appropriate public policies for the government. However it can be argued from the study of Hommes (2021), implementation of microeconomic factors helps in understanding the working of the economy in totality. Control in economic fluctuation can also be determined along with the use of microeconomics analysis. Productivity of an organisation can be effectively enhanced along with the use of microeconomics factors. Perfect determination for the needs of resources can be effectively highlighted that leads to appropriate production. Microeconomic principle also tells different individuals about the highest level of economic efficiency obtained

from a specific production process. Increase in market awareness of a company can be effectively highlighted based on the analysis of microeconomic factors.

Macroeconomics

Macroeconomics is a branch of economics that helps in depicting a substantial picture. In the research process it is observed that there are various issues confronted by the economy. The study of macroeconomics is related to various countries regarding the policy of one nation that has an upshot on another. In the research made by Chodorow-Reich (2020), identification of success and failure of a government strategy is effectively made along with the help of the microeconomics process. The important concept covered under microeconomics is

- Capitalist nation
- Investment expenditure
- Revenue

Behaviour of the economy is totally derived under microeconomics process which helps in identifying economic situations in different market segments. Determination of various issues is highlighted related to distribution, employment, national income and others. Determination of environmental and external issues is effectively highlighted along with the use of macroeconomics factors. As per the views of Syverson (2019), determination related to the external environment over the economy which can impact on the production process is effectively highlighted along with macroeconomics. Implementation of macroeconomic factors affects the national economy including Geopolitical problems and physical. In a business organisation there are different factors affecting business which can be effectively determined along with the help of matrix economic analysis including inflation rate, unemployment rate, economic output and interest. Different external factors are effectively derived within an organisation that helps in making accurate decisions along with the help of macroeconomic analysis. In reference to the study of Mercure *et al.* (2019), determination of efficiency as per the influence of government policies are effectively highlighting it within an organisation as per the determination of macroeconomics. Positive impact of business in a specific scenario can be effectively highlighted that helps in making different decisions related to uses of resources. Investment opportunity within an organisation can be effectively highlighted along with the use of macroeconomic factors. Political situations can be effectively derived along with macroeconomic analysis. Decision making can be enhanced within an organisation based on

different external matters. Development of a competitive situation can be achieved by business organisation along with the accurate consideration of macroeconomic determination.

“Task 2: Explain accounting conventions and evaluate how important are they in the preparation of the three major financial statements”

Accounting plays a vital role within an organisation in terms of running business successfully along with tracking income and expenditure. Statutory compliance can be effectively ensured within an organisation along with the use of accounting procedures. ⁸ As per the views of Almagtome *et al.* (2020), ⁹ it is analysed that implementation of accounting processes helps in identifying financial information of a company that helps in initiating business decisions. Accounting process of an organisation is involved with preparation of ⁹ three different statements including income statement balance sheet and cash flow statement. Crucial business data and statistics is effectively recorded within an organisation along with the help of accounting procedure. Accounting process is concerned with recording of financial transactions which further helps in identifying business performance effectively.

Estimation process can be effectively initiated within an organisation along with the help of the accounting process. In reference to the study of Dewi *et al.* (2019), an income statement is prepared for an organisation that helps in identifying profitability that can be earned at the end of the financial year. Income statement preparation also derived expenses involved within the organisation to deliver Quality Services. Balance sheet is highlighted to be another financial statement that is prepared within an organisation in terms of knowing business. Balance sheet of an organisation is covered with acid and liabilities which can be effectively highlighted in terms of depicting financial efficiency. Availability of liquid money within an organisation is effectively derived along with the use of cash flow statements. Based on the research made by Barker *et al.* (2022), positive closing balance of cash statement is analysed to be an effective factor which helps in knowing appropriate knowledge about business ability to pay off liabilities. Accounting process is derived to be necessary within an organisation in order to create estimations and other future predictions. Fashionable use of expenditure can be effectively highlighted along with the use of accounting terms.

Accounting conventions are analysed to be the basic standard that is applied within an organisation in terms of identifying recording of particular transactions. Efficiency maintenance is determined to be an appropriate target within an organisation which can be effectively derived

along with the maintenance of consistency along with accounting conventions. In reference to the study of Chychyla *et al.* (2019), accounting conventions require accountants to use different practices in terms of determining effective comparability. Proper determination of economic function is highlighted where **consistency** is analysed to be an effective factor which enables accurate preparation of economic or financial statements. Accounting cycle can be effectively highlighted along with the use of proper consistency over that recording of transactions. **Full disclosure convention** primarily focuses on transparency and accountability maintenance. Identification of full disclosure is analysed in order to reveal potential business situation understanding of financial statements.

Convention of materiality is determined to be a factor referred to as significant fact analysis to derive dollar value of asset. Proper determination of materials within an organisation can be made along with active standards maintenance in recording transactions. In reference to the words of Alsharari and Al-Shboul (2019), a commercial organisation plays safe both with accounting principle and accounting convention can be effective. However it can be analysed that **conservatism** refers to being prudent and pragmatic in dealing with uncertain cities in financial situations. Proper conservatism can be effectively analysed along with the identification of the estimation process. Over estimation processes can be reduced within an organisation along with the use of this solution. Cost estimation process is derived as a necessary aspect within an organisation that helps in obtaining accurate results. **Cost benefit** determination is necessary in order to identify relevance and dependability. Using an accurate financial framework is necessary within an organisation in terms of preparing a structured financial report. Organisational performance can have to be recorded that helps in knowing business health.

“Task 3: interpret the following ratios for XYZ Plc for the years ended March 31 2019 and 2020”

a) Operating Profit Margin

Operating Profit Margin		
Facts	2019 "Million"	2020 "Million"
"Operating profit"	£ 240	£ 35
Divide: "Sales or Revenue"	£ 2,500	£ 2,750
"Operating profit margin"	10 %	1 %

Operating profit margin is calculated to help in identifying business situations to earn profit after detecting operational expenses (Bharucha and Lacy, 2020). In the above calculation for operating profit margin valuation in the year of 2019 was 10% which is analysed to be quite high as compared to that of 2020. Reduction in the profitability valuation for the year of 2020 is derived to be the only reason for the situation.

b) Inventory days

Inventory days		
Facts	2019 "Million"	2020 "Million"
"Average stock" * 365	£ 350	£ 410
Divide: "Cost of goods sold"	£ 1,850	£ 2,375
"Inventory days"	69	63

Inventories day calculation helps in knowing the number of days required by an organisation in terms of clearing stock. In the XYZ Plc, inventory valuation for the year of 2019 is 69 days and 63 days in 2020. In the current year of operation less than is required by the organisation in terms of clearing the stock.

c) Payable period

Payable period		
Facts	2019 "Million"	2020 "Million"
"Average trade Creditors" * 365	£ 165	£ 200
Divide: "Cost of goods sold"	£ 1,850	£ 2,375
"Payable period"	33	31

Payable period is observed to be the situation where money is provided to the suppliers in exchange of raw materials which is needed in the initial period. In XYZ Plc, table period is analysed to be reducing for the year of 2020 as compared to that of 2019. This helps in identifying efficiency in maintaining relationships with suppliers.

d) Receivable period

Receivable period		
Facts	2019 "Million"	2020 "Million"

"Average trade debtors" * 365	£ 240	£ 280
Divide: "Sales or revenue"	£ 2,500	£ 2,750
"Receivable period"	35	37

Receivable period ⁵ helps in identifying the number of days required by an organisation to obtain money that is due from consumers (Kourtis, 2019). In the present market situation less time period is always expected in terms of highlighting efficiency in the operational situation. In the above competition 37 days is required for the year of 2020 which is more as compared to that of 2019.

¹³
e) **Acid Test Ratio**

Acid test ratio		
Facts	2019 "Million"	2020 "Million"
"Current assets"	£ 595	£ 690
Less: "Inventories or Stock"	£ 350	£ 410
	£ 245	£ 280
Divide: "Current liabilities "	£ 190	£ 295
"Acid test ratio"	1.29	0.95

Acid test ratio helps in identifying efficiency of maintaining liquidity balance except using stock. In the company 0.95 balances is identified in the year of 2020 which is determined to be quite less as compared to that of 2019.

¹
f) **EPS (Earnings per Share)**

EPS		
Facts	2019 "Million"	2020 "Million"
"Net Income"	£ 167	£ 12
Divide: "Outstanding shares"	800	800
"EPS"	£ 0.21	£ 0.02

Earnings for share help in identifying money generated by the company from shares value. In XYZ Plc reduction in the earning is identified for the year of 2020 due to reducing friend in profitability earnings. Strategic analysis is necessary to be implemented within the organisation in terms of developing control ¹ in the expenditure.

“Task 4: Define management accounting and discuss why this is important for planning, control and decision making within an organisation”

Management accounting is analysed to be important within an organisation in terms of preparing and presenting financial reports. Financial report preparation ⁶ is analysed to be necessary within an organisation as the process helps in identifying business health. According to the study of Marrone and Hazelton (2019), Management accounting process is derived to be a necessary aspect as it helps in determining appropriate decisions related to business performance. Management accounting process includes various function including

- **Planning**

Proper planning is necessary within an organisation as the process helps in achieving the underline objective of an organisation. Management present within an organisation formulates business objectives which are needed to be devised with different activities that helps in increasing efficiency in decision making. According to the words of Moll and Yigitbasioglu (2019), Management accounting process helps leaders to make effective planning estimation for alternative action in order to achieve desired goal. Management accountant present within an organisation helps in setting alternative prices for selling goods and services efficiently. Initiating an appropriate planning process in management accounting is derived to be a necessary approach in order to have proper return.

- **Decision making**

Selecting among competitive alternatives in a business is determined to be decision making. In a commercial business organisation in terms of initiating best decisions different statistical data is necessary to be within the organisation. ¹² According to the study of Weygandt *et al.* (2020), accounting data of an organisation is necessary to be well furnished in order to make accurate decisions. Management Accounting applies analytical information regarding various alternatives in order to make necessary decisions. For instance use of variance analysis, comparative study in between actual and budgeting is derived to be an effective function for decision process. Market

competitive situations can be achieved by an organisation along with the inclusion of appropriate decision making.

- **Controlling**

Controlling can include monitoring and measuring of different operations in order to obtain a true or fair view. Analysis for efficiency of an organisation to achieve business goals can be derived along with the use of control structure. In reference to the study of Berdik *et al.* (2021), control and performance reports provided by the management accounting process can highlight actual and expected performance of a business. Therefore it can be analysed that different key components of business organisation are necessary to be managed in order to highlight different possible functions where wrong operations are made.

Management accounting is analysed to be highly important within an organisation in terms of making business decisions efficiently. Profitability process can be effectively achieved by an organisation along with the role of Management accountant. As per the views of Bharucha and Lacy (2020), necessary training process is important to be derived among the managers along with the change in standards in order to highlight efficiency. The arrangement of information can be effectively made by the Management accountant present with an organisation to derive effectiveness of using raw materials. Historical data is also used by management accountants present within an organisation in terms of making business decisions. Management accounting process involves proper estimation of resources that is required by an organisation in order to achieve competitive market structure. Appropriate use of standard is required to be initiated within an organisation in terms of interpreting information accurately.

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