

XYZ



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1.0 Introduction

The main idea behind financial reporting is the process of documenting and communicating different financial-based activities including performances that occur within a specific period. Based on this idea, the assessment will discuss two essential branches of economics and how they influence business performance. Aside from this consideration, accounting conventions will be explained and their principles used for the preparation of financial statements. Then, the calculation and interpretation of different ratios from XYZ plc for the years 2019 and 2020 will be evaluated in a later section. The assessment will also shed light on the administration of management accounting, and how its implementation for planning, controlling, and decision-making becomes essential. Each assertion within the assessment will be backed up with scholarly claims.

2.0 Defining the two branches of economics and discuss how they influence business performance

The microeconomic concept usually involves a study of decisions related to individuals situated internally within the organisation. Their concerns for allocating adequate resources for simplifying the production process, enabling better means of consumption, and thereby ensuring smoother exchange (Marek, 2008). As a result, factors like individual supply and demand, along with government-imposed taxes and regulatory schemes, apart from the gross domestic product which is dependent on inflationary influence and interest rates allow a company to understand its stance on controlling its capital. In short, understanding the pricing of specific goods and services is the primary lookout of microeconomic branches. As it tries to dwell in the market of a country and compare human decisions and the offers available in the market to back their decisions.

Any market-related anomalies encountered are also accounted for under microeconomic evaluations. As it looks to determine how productivity might grow or come down to influence individual companies and customers.

Contrastingly, macroeconomic analysis is the study of overall behaviour that presents itself within a country. Including how the country's policies tend to impact the economy as a whole, and by economy the different markets involved rather than a single market. Microeconomics deals with a bottom-down approach that looks into individual factors like-interest rates for loans, inflation rates, GNP or gross national product, and others (Halíř, 2015). The

macroeconomic factors deal with a top-down approach, to factors like monetary policies, fiscal policies, unemployment rates prevailing within the market, and how overall gross domestic product becomes affected.

Microeconomics can favourably impact business performance or indicate the faults they might be experiencing in their current functions. Some of these can be discussed below.

Firstly, businesses depend on labour, and the latter's demand is heavily influenced by wages. In that case, as a key rule if wages increase within the economy there is bound to be less demand for more labour. For instance, a machinery part might be produced for \$10 per hour, but if wages grow to \$15 businesses will bring about a lesser number of labour hours demanded (Ons.gov.uk, 2018). This can create dissatisfaction among labours who are trying to enter the firm.

Secondly, productivity is also influenced by microeconomics especially in the form of output represented by a good or service, depending upon time spent can bring about over a period through inputs. It involves a relationship between inputs and outputs, given the available technology on hand (Halır, 2015). If productivity for a product or service grows, then naturally other products and services will have to lose their productivity. For instance, 5000 toothbrushes produced in half an hour, might be increased to 1 hour. If the demand suddenly changes for the toothbrushes.

Thirdly, levels of competition affecting an organisation might also influence the level of income that customers are willing to allocate through spending on specific goods, services, and others (Kimmel et al., 2009, p 435). For instance, Nestle has lesser demand for coffee, due to the number of competitors existing within the market. They are likely to switch to a substitute product that can be flavoured tea or chocolate.

Similarly, macroeconomic factors might impact the country in which the business performance is affected either in a favourable manner, or unfavourable manner. Some of the explanations can be mentioned below.

Firstly, national income levels normally refer to the total monetary value involving all forms of goods and services, as produced by a nation during a specific period (Kimmel et al., 2009, p 325). This is influenced by macroeconomics, especially by affecting the household income earned by consumers that takes them to a level where they might afford a product or service. For instance, recently median income of at least a fifth of the UK populace, increased by 1.5% during the FY or financial year of 2020 and 2021. This might put them in a better position to afford products (Dey Chowdhury et al., 2022).

Secondly, trading is essential for commerce, but most importantly it affects businesses of a similar category that can be either retail, manufacturing, or technology. For instance, the value of imports decreased by £0.7 billion or 1.4% up till February of 2023. Whereas, the export volumes for countries like ⁵Canada (19.0%), France (31.3%), and to Germany (23.0%), showed a level of elevation in the volume and thereby influenced businesses from all the categories like retail, manufacturing, and technology positively (Dey Chowdhury et al., 2022).

Thirdly, fiscal policy is another factor that requires debt management, and the latter's ratio with the GDP forecasts the assistance of a government in mending operations that a business joins in the country (Fusfeld, 1977). For instance, the UK managed to keep a 3% reduction on the GDP-to-debt ratio which indicated certain difficulties for many organisations in optimising their credit limits (Pope and Hourston, 2020).

3.0 Explain the accounting conventions and explain how important financial statements are in preparation for three major

Accounting defines assists a business to track revenue generated through income and stemming the leak of the latter as a form of expenditure. This prevails when accounting looks too systematically and with a detailed record of financial transactions in the business. The primary functions of accounting include the likes of the income statement that provides information related to profits and losses that a business encountered within a period (Cheng et al., 2014). Aside from this, there is the balance sheet which records assets and liabilities and provides a comparison to enable an organisation to understand its financial positioning. Finally, cash management involving the distribution of cash inflow and outflow is regulated through a cash flow statement. These are the key facets due to which accounting ensures that a business seldom sacrifices its operational capability.

There are five principles related to accounting conventions, and these can be explained in the below manner.

Revenue recognition principle: This principle deals with a particular period, whereby revenues are recognised from the income statement of the organisation. Thus revenue recognition occurred during a period through services provided in the period are recognised on an accrual basis (Wahlen et al., 2011, p 385). Whereas, if the revenue was received in cash then it might be recorded on a cash basis.

Cost principle: Assets can be recorded when a product is purchased or services delivered through the same, which can help manage business expenses in an orderly fashion (Wahlen et

al., 2011, p 412). That allows the recording of acquisition and depreciation related to asset management.

Matching principle: Expenses need to be matched to the revenues recognised during the same accounting period. This provides a comparison between revenues and overall expenditure, thereby allowing better recognition of which factors might be increasing and which factors might be going down over the period (Wahlen et al., 2011, p 356).

Full disclosure principle: Normally, a company might declare its financial statements including the income statement, balance sheet, and cash flow respectively. Without compromising the merit on which it is posted in the annual reports. That does not compromise the actual information transferred to the public eye, resulting in misleading knowledge (Dillard and Vinnari, 2018). Therefore, this principle ensures that the appropriate information is disclosed in the annual reports furnished by the organisation.

Objectivity principle: Any form of accounting data should stay consistent and accurate, as well as free from personal opinions. The data needs to be backed by evidence including vouchers, invoices, and receipts that can be relied upon for analysis before final publication (Dillard and Vinnari, 2018). From an objective viewpoint, the above considerations help build client and company relationships and nurture their development as well.

4.0 Calculation and interpretation of ratios from XYZ plc for the years 2019 and 2020 respectively

4.1 Operating profit margin

<u>Operating Profit Margin</u>	<u>Formula</u>	<u>2019 (£) million</u>	<u>2020 (£) million</u>
Operating Profit Margin	Operating Profit/Net Sales*100	240/2500*100=9.6%	35/2750*100=1.27%

Operating profit margins are a good indicator of how well sales can be managed, and how efficient it is towards generating profits from revenue. In the above context, for the year 2019, XYZ plc displayed a 9.6% operating profit margin. That showed that operating profit is increasing aggressively which announces a greater competitive advantage for XYZ plc.

However, the operating profit was reduced further by £205 million which resulted in lower operating profit margins of 1.27% for 2020. This shows that XYZ plc lost its competitive advantage by 2020 (Devi et al., 2020).

¹ 4.2 Inventory days

<u>Inventory Days</u>	<u>Formula</u>	<u>2019 (£) million</u>	<u>2020 (£) million</u>
Days sale of inventory	Average inventory/Cost of goods sold*365	$380/1850*365=74.97$ days	$380/2375*365=58.4$ days

Inventory days generally show how many days' worth of revenue in a business can be kept as a form of inventory. The above consideration shows how many days it takes to clear out inventory. From the above table, it is clear that inventory days for the year 2019 the inventory days is around 74.9 days. That is more than the optimal days of 60 which shows it takes a longer time to release their inventory to create revenue (Devi et al., 2020). Whereas, in the year 2020 the inventory days were reduced by approximately 16 days. This also shows the better distribution of inventory for converting sales for XYZ Ltd.

4.3 Payable period

<u>Purchases</u>	<u>Formula</u>	<u>2019 (£) million</u>	<u>2020 (£) million</u>
⁶ Total Purchases	Cost of Goods Sold+ Ending Inventory-Starting Inventory	$1850+410-350=1910$	$2375+410-350=2435$

Payable period	Formula	2019 (£) million	2020 (£) million
Payable period	Average accounts payable/Purchases*365 days	$187.5/1910*365=35.83$ days	$365/2435*365=54.71$ days

The average payable period normally indicates credit worthiness of any organisation. In the above case, the year 2019 showed approximately 35.83 days average time taken by XYZ Ltd to pay off their creditors. This however grew by the year 2020 which saw the payable period grow by 19 days. Taking the payable period to 54.7 days (Devi et al., 2020). Both were considered to be ideal because the company invested less time in disbursing their credit.

4.4 Receivable period

Receivable period	Formula	2019 (£) million	2020 (£) million
Receivable period	Average trade debtors/Net Sales*365	$245/2500*365$ days=35.77 days	$260/2750*365$ days=34.50 days

The time is taken to clear off their accounts receivables, which in short also refers to the time that an invoice will remain outstanding before it is collected. In the case of XYZ plc, the receivable period is ideal both for the years 2019 and 2020 (Garrett and James, 2019). This shows that it does not take much time to recover their outstanding debts from the debtors. In fact, in 2020 the days have been further reduced by 1 to justify the same.

4.5 Acid-Test ratio

Acid Test Ratio	Formula	2019 (£) million	2020 (£) million
Acid Test Ratio	Current Assets- Inventory/ Current Liabilities	$595-350/190=1.28$	$690-410/295=0.94$

The above ratio indicates that XYZ plc does have the necessary liquid assets to clear their short-term obligations for 2019, after adjusting for the inventories under the acid test ratio. However, for the year 2020, the ratio has slumped beyond 1 (Garrett and James, 2019). This shows that its ability to garner liquidity for clearing its short-term dues has weaned. Therefore, XYZ plc might experience a problem in clearing their dues for 2020.

4.6 Earning per share

Weighted average shares outstanding	Formula	2019 (£) million	2020 (£) million
Outstanding Shares	Beginning Equity+ Ending equity/2	$1550+1115/2=1332.5$	$1115+1290/2=1202.5$

Earnings per share	Formula	2019 (£) million	2020 (£) million
Earnings per share	Revenue-Preference Dividends/Weighted average number of shares	$2500-40/1332.5=1.84\%$	$2750-40/1202.5=2.25\%$

XYZ plc has shown their earning per share to grow over one year. That is resultant from the years 2019 and 2020, and thus by dividing profit based on outstanding shares. There exist better profits for the organisation within the year 2020. This is shown by an increase of 0.41% in profitability (Garrett and James, 2019).

5.0 Definition of ¹management accounting and discuss how it is important for planning, control, and decision-making for the organisation

Management accounting is another branch of finance that enables the identification, measuring, and analysis of financial information for managers towards pursuing their goals. Certain internal purposes within the organisation require the impact of key decisions, this is carried out

after modification of key needs for end users (Soin and Collier, 2013). In short, management accounting looks to create ways through which financial statements might be created, reports and documents prepared, that help the management to take decisions that might impact the business performance.

The purpose of management accounting is towards emphasising relative actions for ensuring outcomes. This means that consideration of resources and raw materials towards establishing a machinery, that assists in product making and rendering of specific services till a time when maintenance expenses might be incurred (Jiambalvo, 2004, p 410). The replacement charges will also be incurred. These figures are accounted for within the management accounting branch, for ensuring better financial planning for the company (Bhimani and Roberts, 2014).

Any failure that might arise while steering the company operations towards control, needs assistance from an organisation for ensuring control (Jiambalvo, 2004, p 256). For instance, the operating expenditure of an organisation like XYZ plc might continue to grow which requires better supervision of management accounting principles for ensuring the costs do not rise over the period.

The above elements become interrelated in the case of management accounting, and thus this branch of finances ensures that costs do not get out of hand, and whatever costs are applied as investments by the firm result in better profit margins, and the same profits are reinvested for organising asset management and others, and finally ensuring that this continues within the company (Jiambalvo, 2004, p 375).

6.0 Conclusion

The assessment concludes that financial reporting can vary through financial accounting and management accounting. Where financial accounting measures the financial transactions, in management accounting certain reports related to the recording and overall analysis of performance are distributed. Therefore, this assessment further concluded that consolidating financial accounting is a better branch of accounting, whereas, for cost management, principles of managerial accounting can be continuously applied. The study finally concludes, that through XYZ plc different ratio computations revealed the liquidity position of a firm, the cash holding capacity, debtor management, creditor management, and other factors. This allowed financial accounting-related considerations to be justified in the context of the company.

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