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Assignment

PRINCIPLES OF ACCOUNTING

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Introduction

This booklet introduces accounting principles, for accounting helps to gather information in the financial aspects and shows in report done such as workforce performance, financial position and cash flows of a business. Accounting entails information to assist with decision making, business management and investment or lending choices. For accounting obtaining and retaining information are done by standardized business transactions such as customer invoicing, suppliers invoices or receipts and other transaction methods.

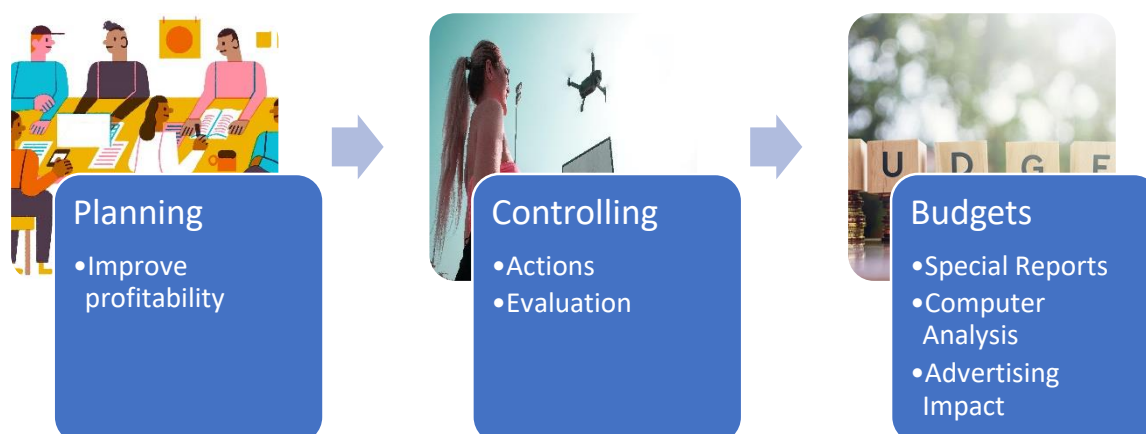
The types of financial information are retained and stored are as such: income statement, balance sheet, statement of cash flows, statement of retained earnings and disclosures.

Managerial Accounting and The Business Organization

‘Accounting principles are the rules and guidelines that companies must follow when reporting financial data.’ (Tuovila, 2021) The users of accounting information are internal managers, investors and selected government authorities.

Accounting System is a formal mechanism for gathering, organizing and communicating information about an organization. The purpose of accounting is to gather information for day to day operation and long term strategic decisions.

Nature of Planning and Control



Introduction to Cost Behaviour and Cost Volume Relationship

Cost Behaviour is how the activities of an organization affect its cost. Cost driver is any output measure that causes the use of costly resources.

Comparing variable and fixed cost, variable Cost is changes in direct proportion to changes in the cost-driver level. Fixed cost is not immediately affected by changes in the cost-driver level.

Step and Mixed-cost behaviour patterns, mixed costs contain elements of both fixed-and-variable cost behaviour. Fixed cost element is unchanged over a range of cost-driver activity.

Variable cost element varies proportionately with cost-driver activity.

Cost Management Systems and Activity Based Costing

Purpose for Cost Management System:

- It is for strategic management decisions
- For operational control
- To aggregate measure of inventory value and cost of goods manufactured

Direct and Indirect Cost

Direct costs can be identified specifically and exclusively with a given cost objective in economically feasible way while indirect cost cannot be identified as such.

Job-costing and Process-cost System

Job Order costing allocates costs the products that are identified by individual units or batches. *Process costing* averages costs over large numbers of nearly identical products.

Basic records of Job order are: material requisition, labour time cords and job-cost records.

Value and non-value is added to costs in an activity center. Process costings is more efficient for companies that produce, in a continuous process, large quantities of homogenous products.

Cost Allocation

Cost allocation supports a company's management system; with the purpose of the ability to predict and control effects, to receive the desired motivation and to justify cost. Physical units

(which is expressed in terms of a finished unit. For example, ten units in process that are 30% complete equate to three equivalent units of output. None of the ten units is complete) and Relative sales value (which is a technique used to allocate joint costs based on the prices at which products will be sold) are conventional ways of allocating joint costs. Allocation helps with strategic decision making, operational control and external reporting.

Unit Reconciliation:			
	Quantity Schedule	Equivalent Units Calculations:	
Beginning Work in Process	300,000		
Started into Production	600,000		
Total Units into Production	900,000		
		Direct Materials	Conversion
			Direct Labor Factory Overhead
Transferred to Skim/Alloy	650,000	650,000	650,000 650,000
Ending Work in Process	250,000	125,000	100,000 100,000
Total Units Reconciled	900,000	775,000	750,000 750,000

Ending WIP Completion Status:
Materials = 50% and Conversion = 40%

For example, a production process incurs \$100 of costs in order to create two products, one of which (Product A) will sell for \$400 and the other (Product B) for \$100. Under this method, 80% of the \$100 joint cost is assigned to Product A. The calculation is:

$$\text{\$100 joint cost} \times (\text{\$400} \div (\text{\$400} + \text{\$100})) = \text{\$80}$$

The remaining 20% of the \$100 joint cost is assigned to Product B. The calculation is:

$$\text{\$100 joint cost} \times (\text{\$100} \div (\text{\$400} + \text{\$100})) = \text{\$20}$$

Relative Sales Value Method

Master Budget

A budget is an estimate of expenditure or income for a period of time which could be a short, medium or long term. A budget allows systematic rather than chaotic reaction to changes.

Advantages of budgets are that it encourages managers to think ahead, provides a more definite expectation that are the best framework for performance evaluation and helps managers in coordinating their efforts.

Types of Budget:

- Strategic Plan
- Capital Budget
- Long-range plan
- Master budget
- Continuous budget

Master budget is the aggregation of all lower-level budgets produced by a company's various functional areas, and also includes budgeted financial statements, a cash forecast, and a financing plan (Master budget, 2021). Preparing Master Budget includes sales budget, cash collection from customers, purchase budget, disbursements for purchases, operating expense budget and disbursement for operating expenses.

Cash Budget has the following major sections:

- Available cash balance
- Cash receipts disbursements
- Cash needed or used for financing
- Ending cash balance

For Example:

Alpha Intergalactic Corporation
Cash Budget
For the Year Ended December 31, 20XX

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Beginning cash	\$100,000	\$98,000	\$95,000	\$38,000
+/- Net profit (loss)	+25,000	+12,000	+40,000	+23,000
+ Depreciation	+15,000	+15,000	+22,000	+24,000
- Capital expenditures	-28,000	0	-80,000	-35,000
+/- Working capital changes	-14,000	-30,000	-39,000	-21,000
= Ending cash	\$98,000	\$95,000	\$38,000	\$29,000

Flexible Budgets and Variance Analysis

Static budget is prepared for only one level of a given type of activity. *Flexible budget* also called variable budget is a budget that adjusts for changes in sales volume and other cost-driver activities.

Evaluation of financial performance results may differ from the master budget due to sales and other cost-driver activities are not what was originally predicted. Revenue or variable cost per unit of activity and fixed costs per period were not as expected.

Management control Systems and Responsibility Accounting

Management control systems is a logical integration of techniques for gathering and using information, which helps in planning and control, motivating and evaluating products and services. Responsibility center is a set of activities assigned to a manager, a group of managers or other employees and is to identify what part the organization has responsibility for each action.



Management Control in Decentralized Organization

Decentralization is the delegation of freedom to make decisions. The lower in the organization that this freedom exists, the greater the decentralization.

Benefits of decentralization are that the lower-level managers have the best information concerning local conditions, it aids in the promotion of management skills which in turn helps ensure leadership continuity and managers enjoy higher status from being independent and therefore they are better motivated.

Transfer Price is that one segment charges another segment of the same organization for a product or service. The purpose of transfer price is for management wants to create performance measurement price and for decisions that maximize a segment's profit should also maximize the profits of the entire company.

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