BUSS1030: Accounting, Business and Society – Notes

Chapter 1 – The Role of Accounting In Business

Accounting – accounting encompasses the information system that measures business activity, processes the data into reports and communicates the results to decision makers, often in the form of financial statements.

2 Types of Accounting

Financial accounting provides information for internal decision makers.

Managerial accounting focuses on information for internal decision makers.

Services Offered By Accounting Firms

- Auditing; independent examination of accounting reports to ensure reliability.
- Tax accounting; compliance to tax laws while also minimising tax.
- Management consulting; external advice from accountants to managers.
- Insolvency; liquidators are appointed to manage the business of a firm that is in financial distress.
- Budgeting
- Information systems design

Accounting Regulation

In Australia, accounting standards are formulated by the **Australian Accounting Standards Board (AASB)**, which in turn is overseen by the **Financial Reporting Council (FRC).**

In 2001, Australia adopted the **International Financial Reporting Standards** (IFRSs).

Types of Business Organisations

Characteristics	**Sole Trader/Proprietorship**	**Partnership**	**Company**
Owner/s	1	2+	1+ (oft. many)
Life of organisation	Limited by owner's health and choice.	Limited by owner's health and choice.	Limited by owner's health and choice.
Personal liability	Unlimited	Unlimited	Limited
Accounting Status	Separate from proprietor.	Separate from partners.	Separate from shareholders.

Generally Accepted Accounting Principles ←(relevance, validity, reliability)

The Entity Concept
The entity concept defines the entity for which accounting data is collected, in order to not confuse one entities affair with another. This ensures only information about transactions relating to the entity is included in its financial statements.

The Accounting Period Concept
The accounting period concept defines the unit of time for which accounting data are collected. Since it is not possible to create a continuous report, businesses need periodic reports on their progress.

The Cost Principle
The cost principle states that accounting measures are based upon transaction costs. Goods and services should be recorded at their actual purchase cost and sales should be recorded at their price sold, irrelevant of appreciation, depreciation or inflation.

The Matching Principle
Since all businesses have inputs and outputs of goods and services, the matching principle relates these inputs and outputs to each other. Haziness can arise when there is debate over whether a good has been consumed, forcing the accountant to make a decision on whether to capitalise (carry over to next period) or write it off as an expense.

The Profit Recognition Principle
Profit should be recognised when the sales and any other revenues or gains relating the relevant activity are 'earned' and can be reliably measured. Profit is 'earned' when goods and services are sold and all the expenses to be matched with them can be identified. Losses on the other hand are recognised immediately, irrelevant of expectation of a future sale.

The Conservatism Principle
Anticipate no profits, but anticipate all losses.

The Going Concern Assumption
It is assumed that the business as a whole will continue operating for the foreseeable future and if this assumption cannot be sustained by evidence, financial statements should make this clear and value assets and liabilities accordingly.

*All of the above principles constitute what is called the **accrual basis of accounting**.*