Sample/Preview of MAA103 Exam Revision Notes

<u>TOPIC 1: The Accounting Environment</u>

Concept 1: Accounting and its role in society

What is accounting?

Accounting is an information system of recording and reporting transactions by collecting input (data) and giving an output. Accounting identifies (categorises), records (in journals) and communicates (in reports) the economic events of an entity to interested users.

Why is accounting important?

Accounting assists people/users either internal and external to the entity by giving them insight in order to make informed decisions. Without reliable financial information, managers would not be able to evaluate how well their business is going or to make decisions about the best way to make their business grow in the future.

- **Internal users:** employees within the entity such as managers
- **External users:** people outside the entity such as investors, creditors (e.g. suppliers), banks or regulatory bodies (e.g. ATO, ASIC).

Accounting process:

1. Identify - identify events that are considered evidence of economic activity and relevant to particular business entity.
2. Record - Once identified and measured the events are recorded to provide a permanent history of the financial activities of the entity. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner.
3. Communicate - The information is communicated through the preparation and distribution of accounting reports the most common of which are called financial reports. A vital element in the communication process is the accountant's ability to analyse and interpret the reported information.

What is the difference between bookkeeping and accounting?

Bookkeeping usually involves only the recording of economic events (transactions)…which is only one part of the accounting process. Accounting involves the entire process of ‘identifying, recording and communicating’ economic events…PLUS it involves the use of considerable judgment.

Corporate Social Responsibility Reporting & Triple bottom line reporting

Triple bottom line reporting includes the social, environmental and economic components of business activities. Triple bottom line reporting focuses not only on the determination of profit, but also information regarding social and environmental costs resulting from business activity. Sustainability reporting is the reporting and management of non-financial performance. This is also known as **Corporate Social Responsibility Reporting**. *Being socially responsible may create value for the entity in a number of ways; including increased loyalty from employees, customers and investors through brand and reputation; increased investment by socially responsible investors; and reduced risk of backlash from consumers for not acting responsibly.* Not being socially responsible may cause damage for which the entity is required to pay for such as restoration costs or fines for environmental damage.

Sustainability reporting is reporting on matters of a non-financial nature. It focuses on the impact the operations of the entity have on society and the environment. Sustainability is being able to meet current needs without causing detriment to the ability of future generations to meet their needs.

Sustainability means meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Socially responsible investors are stakeholders want more than just financial statements. They want to know how the entity is impacting society at large. Many users of this information want to know that the business activities being conducted do not cause cause harm or disadvantage to the community. There are a growing number of investors that will investigate the social and environmental impacts before they invest and will only invest on an ethical basis.

Steps to solve an ethical dilemma

Ethics are the standards of conduct by which your actions are judged as right or wrong, honest or dishonest, fair or not fair.

1. Recognise an ethical issue
2. Identify the stakeholders (people that will be directly affected) and how the issue affects them
3. Identify the alternatives and judge the impact they will have on the stakeholders.