

# ACCT1000: Introduction to Accounting

## Chapter One: Introduction To Accounting

- Accounting – process of identifying, measuring and communicating economic information about an entity to a variety of users for decision-making purposes
  - All decisions centred around money
- Business transactions – effect the financial position of a company
- Bookkeeping – is simply the recording and summarising of financial transactions
  - Represents first two stages of accounting but overlooks the communicating of information to internal and external parties for decision making purposes

### The accounting process

1. Identifying –recognising business transactions which alter financial position of a company
2. Measuring – analysis, recording and classifying business transactions
3. Communication – presenting of how recorded business transactions alter a company's position e.g. statements and balance sheets
4. Decision making – use of above information by internal and external parties to pursue or cease ventures

### Accounting information and its role in decision making

**Internal users** (managers) use accounting information to:

- Assist in making decisions concerning operations e.g. do we need to hire more people? Do we need to expand a products exposure or increase our product mix?
- Assist in the evaluation of a businesses success e.g. did we perform well against budget? Where KPI's meet?

**External users** use accounting information in a number of ways for instance;

- Current investors – help evaluate managements stewardship
- Prospective investors – basis for future probability and thus return
- Suppliers and banks – gauge ability to repay debt and risk associated with further lending
- Employees – indication of job security, likelihood of promotion

- Regulatory bodies – determine amount of tax payable or refundable, and whether complied with regulatory requirements
- Community and special interest groups – use information to see whether company positively contributing to welfare and economic growth of society or if social and environment aspects overlooked

### Financial accounting and management accounting

**Financial Accounting** – preparation and presentation financial information for all types of users

- Based on historical figures – original amount paid for an asset

Financial statements consist of:

- **Statements of cash flows** show an entity's cash inflows and outflows, and classifies these transactions into operating, investing and financial activities
- **Income statement** shows profit of a company for a specified time
- **Balance sheet** shows entity's assets and liabilities

**Management Accounting** – specifically for internal users

- More specific, less formal and can be tailored to suit the needs of management

There is an interaction between financial and management accounting, as many large and diversified companies, such as Qantas, must disclose segmented information. Segmented information falls under the management approach to accounting

	Financial	Management
<b>Regulations</b>	Bound by Generally Accepted Accounting Principals, which includes legislation under the Corporations Act, accounting association of Aust. and ASX	Less formal and without any prescribed rules
<b>Timeliness</b>	Out-dated by time statements are distributed to users	Can be historical, projection and as of that day
<b>Level of detail</b>	Represent entity as a whole and consolidate segments of the business	Often segment specific. Detailed
<b>Main users</b>	Variety of stakeholders	Management of a company