

CHAPTER ONE

- . **1.1 Explain the process of accounting.**
- . The process of accounting is one of identifying, measuring and communicating economic information about an entity for decision making by a variety of users.

- . **1.2 Outline the importance of accounting and its role in decision making by various users.**
- . Accounting information is an important part of the information used by individuals and entities in decision making regarding investment and other business opportunities. The internal users (i.e. management) use accounting information to make decisions concerning sales mix, which products to make or buy, and opportunities for expansion. Stakeholders (e.g. suppliers, consumers, banks, shareholders and regulatory bodies) require accounting information to help decide whether to lend money to the entity, whether to invest in the entity and whether to purchase goods from the entity.

- . **1.3 Explain the differences between financial accounting and management accounting.**
- . Management accounting concerns the creation of reports for use by management in internal planning and decision making. The management accounting reports are much less formal than financial accounting reports as they are not bound by regulatory requirements. The reports can also be tailored to suit the needs of management. There is no time lag with management reports, so they are up to date. Financial accounting provides information for the use of external parties so that they can make economic decisions about the entity. Financial accounting is bound by generally accepted accounting principles (GAAP). There is usually a time lag from the date of the report to when it is distributed to the various users. The financial accounting information is concise as unnecessary detail is disclosed in the notes to the financial statements. The users of financial statements include suppliers, consumers, banks, investors and regulatory bodies.

- . **1.4 Explain the role of accounting information in the business planning process.**
- . Accounting plays a major role in the business planning process. Accounting information assists owner(s)/managers in determining the type of business structure that would be appropriate for the business and in establishing goals for the business entity to achieve. Accounting information provides feedback for the owner(s)/managers on the daily operations of the business. It allows entities to determine the correct mix of goods to sell and the right prices at which to market the products. It also assists the business in making decisions relating to assets to purchase to help the business achieve its goals. Finally, accounting information assists the business in evaluating its business plan. Budgeted plans will be compared to actual performance. Tools such as analysis and interpretation will assist management in determining if the business entity is on track with its goals.

- . **1.5 Discuss the globalisation of financial reporting.**
- . In recent years, entities have become larger, more diversified and multinational. Currently, two-thirds of US investors own shares in foreign entities that report their financial information using IFRS. Over 120 countries worldwide have now adopted IFRS and, in years to come, the rest of the world will most likely adopt a single set of high-quality accounting standards that will meet the needs of all users.

- . **1.6 Identify the sources of company regulation in Australia.**
- . The main source of company regulation is the Corporations Act, administered by the Australian Securities and Investments Commission (ASIC). The other important sources of regulation are the Listing Rules of the Australian Securities Exchange (ASX) and the accounting principles, standards, ethics and disciplinary procedures of the professional accounting associations.

- . **1.7 Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process.**
- . Prior to 2005, Australian Accounting Standards were largely developed by the Australian Accounting Standards Board (AASB). However, since 1 January 2005, Australian entities have complied with International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). The Australian Accounting Standards Board (AASB) is responsible for developing and maintaining high-quality financial reporting standards in Australia and contributing to the ongoing development of international accounting standards by the IASB. In Australia, there are two main professional associations: CPA Australia and Chartered Accountants Australia and New Zealand (CAANZ). The professional associations provide feedback on exposure drafts and forward any comments to the AASB. They also inform their members of any developments in accounting standards through newsletters and by conducting continuing professional education (CPE) sessions.