

- Accounting can be defined as the process of identifying, measuring and communicating economic information about an entity to a variety of users for decision making purposes
- Users of Accounting Information
  - Resource providers (investors, lenders, suppliers, employees, members, donor)
  - Recipients of goods and service (customers, beneficiaries e.g. taxpayers, community)
  - Parties performing a review or oversight function (regulatory agencies like ASIC, ASX, ATO, advisors, analysts, unions, media, community groups)
  - Management and governing bodies
- Process of accounting involves
  - Identifying
    - Transactions that affect the entity's financial position are taken into consideration. They must be able to be reliably measured and recorded.
  - Measuring
    - This stage includes the analysis, recording and classifying of business transactions
  - Communicating
    - Accounting information is communicated through various reports such as statements of profit or loss, balance sheets and statements of cash flows.
  - Decision making
    - Accounting information is used for a range of decisions by external and internal users.
- General purpose financial reports set
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
  - Statement of Changes in Equity
  - Notes
- Business structures
  - Sole trader
    - Can be set up easily
    - Limited to life and desire of owner
    - Legal status is not separate to owner
    - Unlimited liability
    - Owners declare profit as income
  - Partnership
    - Can be set up relatively easily
    - Limited to life and desire of individual partners
    - Legal status is not separate to owner
    - Unlimited liability
    - Partners declare profit as income
  - Company
    - Complex to set up
    - Indefinite life
    - Legal status is separate to owner
    - Limited liability
    - Entity taxed on profit, shareholder declare dividends as income
- The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.