Introduction to Accounting

- Accounting is a Process – it's the process of identifying, measuring and communicating economic information about an entity to a variety of stakeholders for decision making purposes
- **Identifying** transactions and reliably + accurately recorded.
  - Business Transactions
  - External exchange of something of value between 2 parties
  - Affects assets, liabilities and equity these are recorded.
- **Measuring** – Analysis recording and classifying transaction's
- **Communicating** – Income statements, balance sheets, cash flow statements
- **Decision Making** – how can we allocate scarce resources efficiently
  - Accounting information helps internal management and external stakeholders make decisions. External stakeholders include investors, suppliers, banks, employees and government authorities.
  - Accounting helps make:
    - Decisions about an entities operation
    - Evaluate business success → determine if objectives were met
    - Weighing up various alternative uses of resources
- Financial Accounting and Management accounting
  - **Financial accounting –** is the preparation and presentation of financial statements → Stakeholders to make economic decisions about an entity.
    - **General purpose financial statements** (GPFS) are reports prepared to meet common information needs. Governed by GAAP standards
    - **Financial Statements**
      - Statement of Cash Flow- inflows and outflows
      - Balance Sheets – Liabilities and assets at a specific date
      - Income Statements – profits for a specific time period (Companies prepare a statement of comprehensive income and statement of changes in equity).
      - Profit = revenue - expenses
  - **Management Accounting** – Provides economic information for internal users that is then reflected in financial accounting statements for external users. This could be formulating plans and budgets or providing information to be used in monitoring and control within the equity.
    - Internal reporting that's not regulates by rules like in financial accounting
    - Prepared to suit the needs of management → whatever level of detail
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	Financial accounting	Management accounting
Regulations	Bound by GAAP, Corp Act, ASX, etc	Less formal and without prescribed rules
Timeliness	Historical picture of past operations	Can be both a historical record and a projection
Level of detail	Quantitative in nature, concern the whole entity	Both quantitative and qualitative, more detailed
Main users	External: ATO, investors suppliers, consumers, banks, employees, interested groups	Internal: managers in the entity

- **Sources of Regulation**
- ASX listing rules (If on the stock exchange)

- Accounting principles, standards, ethics as upheld by accounting professional bodies:
  - ICAA, CPA Australia, NIA (compliance regulations)
- <u>ASIC</u> acts as the company watchdog by enforcing company and financial service laws to protect consumers, investors and creditors. Their role:
  - Uphold the law uniformly, effectively and quickly
  - Promote confident and informed participation by investors and consumers
  - Make info about companies available to the public
  - Improve performance of financial system and entities within it
  - ASIC administers and enforces 7 commonwealth laws covering corporations, superannuation industry, insurance, medical indemnity, retirement savings.
- <u>Corporations Act (2001)</u> – enforced by ASIC and is the main source. This protects different stakeholders (Investors, consumers and lender) and promotes a strong and vibrant economy.
  - Provides guidance for corporations and is based on legislative powers of the Australian Constitution
  - A national scheme of legislation that deals with the regulation of companies, securities and future industries in Australia.
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The Conceptual Framework

- Original Conceptual framework contained statements of Accounting Concepts (SAC's)
  - Assisted in preparation and presentation of financial statements
  - Assisted standard setters in developing future accounting statements
- Since 2005 have adopted IASB framework
  - Applies to all disclosing entities (**important**)
  - Users rely on general purpose financial statements (generic reports for most people)
  - Special purpose finance statements are reports prepared to suit a specific purpose rather than a general that caters for a large portion of users.
- <u>Components of the Conceptual Framework</u>
- Objective – Provides information about financial position, performance and cash flow that help to make economic decisions (external users wanting to invest).
- Qualitative characteristics of financial statements:
  - Relevance – provides value for decision making (don't hide/ remove info)
  - Faithful Representation- complete, free from error and neutral
  - Comparability – Compare aspects from one time and over a period of time.
  - Verifiability – Faithfully represents what it suggests its representing
  - Timeliness – Information is available to all stakeholders in time for decision making
  - Understand ability - easy to understand manner without sacrificing relevance or reliability.

Definition and Recognition of elements of financial statements

- <u>Asset</u>: A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity
- <u>Liability</u>: A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits