

# MAA103 – ACCOUNTING FOR DECISION MAKING

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## WEEK 1: THE ACCOUNTING ENVIRONMENT

### Concept 1: Accounting & Its Role in Society

It is the language of 'business'. While it does include the recording, and reporting of 'transactions', accounting is much more.

**Accounting** is an information system that:

- Identifies (select economic events (transactions));
- Records (records, classify and summarise); and
- Communicates (prepare accounting reports and analyse and interpret for users). The economic events of an organisation to interested users.

*\*Verification is not part of the accounting process.*

### Why is Accounting Important?

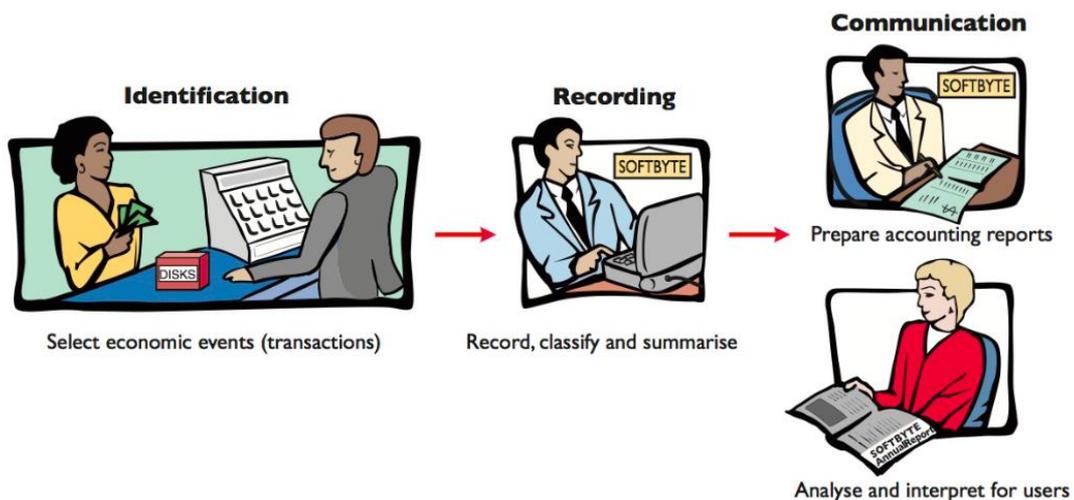
#### Corporate collapses:

- Can occur from aggressive expansion plan and underestimating liability expenses
- Misclassification of current and non-current liabilities can cause liquidation

#### Regulatory response:

- Government bodies will intervene to correct market inefficiencies
- Corporate Law Economic Reform Program came into effect on 1<sup>st</sup> July 2004 initiating major financial reporting and audit reform
- An operating and financial review (OFR) is a key part of annual reporting by listed entities. An OFR provides an overview that enables stakeholders to understand an entity's business performance and the factors underlying its results and financial position.

#### Enabler of capital allocation Credibility of corporate information



### The Role of Accounting

- Accounting provides the financial information required for making decisions with regards to money and business issues
- Accounting is a means of communication
- Accounting is a means of measuring business activity