

Week 1

L01 Explain the nature and role of accounting

- Accounting is the collection, analysis and communication of economic information
- Fundamental Qualities of accounting information
 - Relevance: The accounting information must be useful in making business decisions
 - Faithful representation: The accounting information should be complete, unbiased and error free
- Other Important qualities
 - Comparability: helps users identify similarities and differences across items of information
 - Verifiability: Assurance that accounting information faithfully represents what it is supposed to.
 - Timeliness: Should be available in time for users to make informed decisions
 - Understandability: Clearly set out to facilitate understanding
- The value of information must be established such that a particular piece of accounting information if the cost of sourcing the information is less than the benefits or value which may be derived from it.

L02 List the main groups that use the accounting reports of a business entity, and summarize the different uses that can be made of accounting information

Financial reports are ultimately produced to satisfy stakeholders

Stakeholder Theory

- Argues that organisations have a variety of interested parties and that these interests need to be considered and incorporated in a harmonised manner, in order to achieve the best overall outcomes.

L03 compare and contrast financial and management accounting

Financial Accounting

- Prepares information for external users
- Involves reports such as income statement, balance sheet and cash flow statement
- Used by those external to the business such as shareholders/investors
- Reports generally produced annually
- Reports tend to be reflective on past performance
- Reports based on quantifiable and verifiable evidence

Management Accounting

- Prepares information for internal users
- Involves plans and budgets, costings and pricing
- Used by those within the business such as managers and executives
- Reports produced frequently to ensure managers can make informed decisions
- Reports tend to be more predictive/forward-looking
- Reports are less objective, such as inventory stock

L04 Identify the main purpose of a business (while recognizing other influences) and explain the traditional risk-return relationship

- Main objective: enhancing wealth of the business owner
- Need to balance desired return with associated risk - Else you have disaster such as the GFC

L05 Provide an overview of the main financial reports prepared by a business

Statement Of Cash Flows

- Sources and uses of cash over a period - *Income and expenditure*
- Static report (at end of period)
- Encompasses all accounts
- Cash based report
- Shows change in assets (cash or cash equivalent) for a period

Statement Of Financial Performance (Income Statement)

- Measures and reports wealth (profit) generation over a period *income, expenditure and profit, i.e.; sales, cost of goods sold, then calculate profit*
- Flow report (for the period)
- Concerned with income and expenditure
- Accrual based report
- Measures change in Owner's equity (profit/loss) over a period

Statement Of Financial Position (Balance Sheet)

- Assets and claims of a business at a set point in time, assets must equal claims. *Total of assets and liabilities*
- Static report (at end of period)
- Encompasses all accounts
- Accrual based report
- Shows financial position or wealth at a given point in time

Accounting Time Period Concept

- The period of time for which accounting reports are prepared
- For example; the Australian financial year (1st July to 30th June)

L06 Outline the main types of business ownership, describe the way in which a business is typically organized and managed, and explain the importance of accounting in a business context

Entity Principle

- From an accounting perspective, owners and business must be considered separate entities, with business and personal assets and transactions required to be kept separate
- From a legal perspective:
 - A company and it's owner(s) (or shareholders) are considered separate entities, with the company granted the status of 'legal person' – *limited liability*
 - A partnership or sole proprietorship and their owner(s) are considered the same entity – *unlimited liability*

Sole Proprietorship (Sole Trader)

- + Total authority to yourself
- + No restriction on business type
- + Easy to establish
- Unlimited liability
- Limitations on size and fundraising ability

Partnership

- + Pooled resources with partner(s)
- + More capital
- + Simple to form
- Mutual agency: partners responsible for other's actions
- Unlimited liability
- Possible problems with disagreement

Company

Useful for high risk businesses such as mining companies

- + Separate legal entity
- + Limited liability
- + Ease of ownership transfer
- + Ownership and control are separate
- + Fixed company tax rate (30%)
- Expensive and complex to establish
- Extensive government regulation

L07 Identify ways in which business and accounting have been changing, together with some current issues confronting businesses/reporting

- Globalization of accounting – global standards such that financial information can be compared across financial environments
- Digitalization of accounting – rather than the old time-consuming methods of manual accounting, accounting software such as MYOB is becoming increasingly popular
- Customers are increasingly sophisticated and demanding
- National frontiers are less important in a global economy
- Technology is advancing rapidly
- Domestic markets are becoming more deregulated
- Shareholders are increasing pressure for competitive returns
- Financial markets are becoming more and more volatile
- Increasing awareness of environmental and societal effects of business decisions

L08 Explain why accounting information is generally considered to be useful, and why you need to know the basics of accounting

- Accounting information helps both internal and external users make informed decisions and judgements regarding a business
- A basic knowledge of accounting is required in order to interpret such reports, which must maintain some level of complexity in order to remain true to the information they present

L09 Identify the learning outcomes associated with the Australian Learning and Teaching Council's Academic Standards Statement for Accounting: namely judgement; knowledge; application skills; communication and teamwork; and self-management; and examine how these compare with characteristics of successful business people.

- Professional accounting organizations require strict ethics for members
 - Integrity
 - Objectivity
 - Competence and due care
 - Confidentiality
 - Professional behavior
- Conceptual Frameworks are used to define the content and general nature of financial reports
 - Late 1970s saw the introduction of the Global accounting standards (GAAP)