

ACCOUNTING IN SOCIETY

Notes

S2 2018

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Week 1

Accounting, accountability and society

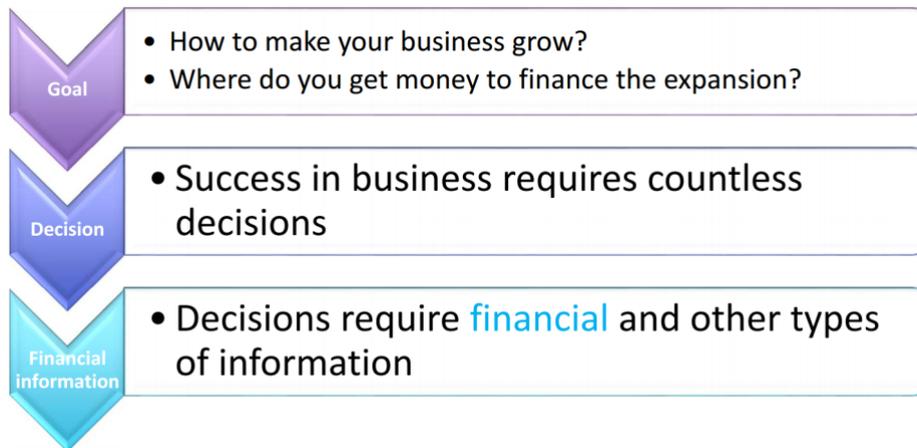
Accounting

What is accounting?

Accounting is everywhere!

Role: To provide useful financial information to users in order to make the right decisions in investing in businesses.

What is accounting in the business world?



Accounting

- Plays a key role in the provision of financial information for decision-making
- Is a “process of **identifying, measuring, recording** and **communicating** economic transactions and events of a business operation”.
 - Economic transaction => Economic benefit to the business.

Accountability

Accounting is a process constructed on the need to be ‘accountable’.

Accountability: “The duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible.”

Society

Accounting and its stakeholders:

- Society
- Customers/individuals
- Government
- Environment
 - **How accounting contributes to the environment?** Many businesses today are required to show a sustainability report to show how much they have done to help protect the environment.
- Suppliers/creditors
- Business
- Employees
- Shareholders.

Your role as an accountant

20 th Century Accounting	21 st Century Accounting
<ul style="list-style-type: none"> • Budgeting • Calculations • Comparisons • Preparing financials • Confined to a cubicle 	<ul style="list-style-type: none"> • Technical competency (financials, audit, regulation etc.) • Professional skills/judgement • Communication • Group work • Governance and ethics • Accountability • Sustainability • Leadership

The two main types of accounting

Management and Financial Accounting

MANAGEMENT ACCOUNTING	FINANCIAL ACCOUNTING
<ul style="list-style-type: none"> • <u>Internal</u> Focus <ul style="list-style-type: none"> ○ Planning ○ Controlling ○ Decision-making • Cost Behaviour/Break-even • Budgeting • Strategy 	<ul style="list-style-type: none"> • External Focus • Reporting Information <ul style="list-style-type: none"> ○ Performance ○ Position • Financing and Investing • Legal compliance • Highly regulated

Accounting for organisations

Various types of business organisations

- **Sole proprietorship (sole trader)**
 - Owned by own person (e.g. dentists)
- **Partnership**
 - Owned by more than one individual (e.g. accountants, solicitors)
- **Company**
 - Organised as a separate legal entity and owned by shareholders (e.g. BHP, Qantas)

Where do Accountants work?

Consultancy	Corporates – large and small
<ul style="list-style-type: none"> • Tax • Audit • Advisory • Strategy 	<ul style="list-style-type: none"> • Budgeting • Forecasting • Compliance • Risk management • Business processes & systems

Careers in accounting

Government, regulatory bodies, professional associations & Non-for-profit organisations.

- Research
- Policy setting
- Regulations and compliance
- Budgeting and forecasting
- Risk management
- Business sustainability.

Week 2

Ethics

What is ethics?

Institute of Global Ethics' definition of 'ethics':

"Ethics in its broader sense, deals with human conduct in relation to what is morally good and bad, right and wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion."

Ethics vs. Morals

	Ethics	Morals
What are they?	Principles of right conduct	Principles with respect to right or wrong conduct
Where do they come from?	Social system – External	Individual – Internal
Why we do it?	Because society say it is the right thing to do	Because we believe in something being right or wrong

Ethical theories

- Prescriptive principles or rules for determining right from wrong
 - Beliefs about how people 'should' behave
 - Principles and methods are used as a guide for avoiding and resolving ethical issues.

- Two classifications:
 - Teleological/Consequential ethics
 - Deontological/Non-Consequential ethics

- Teleological or Consequential Ethics
 - The consequences of decision or action is the **sole** determinant of what is right from wrong.
 - A morally correct action occurs when benefits **outweigh** costs.
 - How you get to the result is **less** important than the outcome itself.
 - E.g. telling a lie is OK if people benefit at the end of the day.
 - Limitation: tends to be a selfish approach to ethics. Emphasis is placed on the individual or majority which may be unfair to the minority or may abuse individual rights.

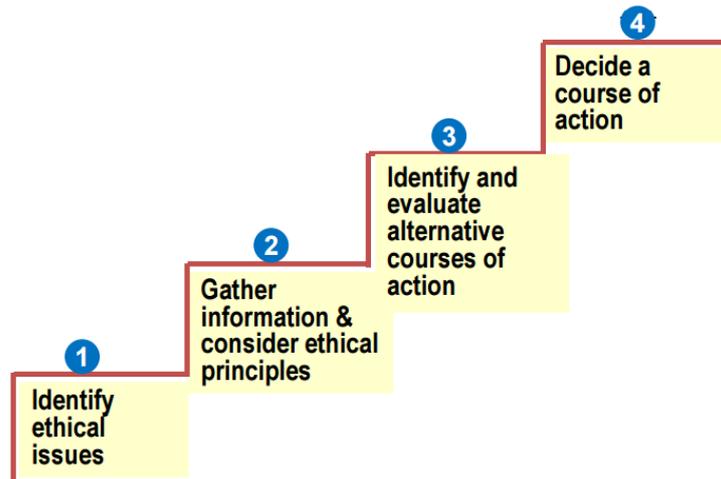
- Deontology or Non-Consequential Ethics
 - Consequences are **not** important.
 - The **intention** to do the right thing is more important than the final result.
 - One does the right thing because it is the "right thing to do"
 - E.g. telling a lie is never OK regardless of whether people are better off or not.

Ethics in business

For example:

- 7-Eleven underpaying workers
- Volkswagen Emissions Scandal
- Dick Smith Electronics failing as a business.

Role of ethics in accounting



Code of ethics for professional accountants

Professional codes of ethics

Many professional bodies have developed their own codes of ethics. These include:

- Counselling
- Teaching
- Nursing
- Law
- Accounting.

Code of ethics – Accounting

Accounting Professional and Ethical Standards Board (APESB)

http://www.apesb.org.au/uploads/standards/apesb_standards/standard1.pdf

APES 110 Code of Ethics for Professional Accountants

Fundamental Principles:

- a) Integrity
- b) Objectivity
- c) Professional competence and due care
- d) Confidentiality
- e) Professional behaviour

Integrity

- Be straightforward and honest in all professional and business relationships

Objectivity

- Professional or business judgements cannot be compromised because of bias, conflict of interest or the undue influence of others.

Professional competence and due care

- Must attain and maintain professional and technical knowledge for clients or employers.
- Requires diligence and appropriate training and supervision.

Confidentiality

- Must not disclose outside of the firm, confidential information acquired as a result of professional and business relationships, unless the client or employer authorises it or there is a legal duty to disclose it.

Professional behaviour

- Members must comply with relevant laws and regulations.
- Must avoid any action or omission which may discredit the image of profession.

Ethical requirements on independence (Section 290.6)

Independence of mind:

- A state of mind which permits the expression of a conclusion without being affected by influences that compromise your professional judgment.
- Don't think about unethical behaviour.

Independence in appearance: (how others view us)

- Avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude... Integrity, objectivity or professional scepticism had been impaired.
- Don't place yourself in uncompromising positions.

Week 3a

Sustainability

What is sustainability?

'Sustainable development is 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. (Brundtland, 1987)

Key drivers of sustainability:

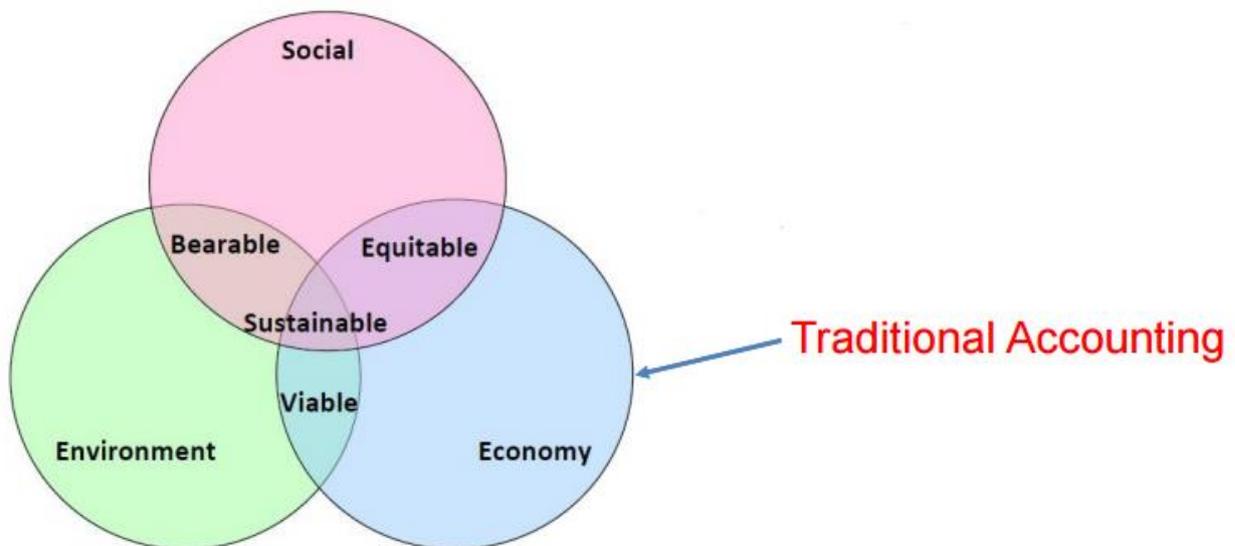
The need for a sustainability focus:

- Competition for resources
- Climate change
- Economic globalisation
- Connectivity and communication.

Sustainable development

It puts emphasis on three pillars:

1. **Environmental** protection;
2. **Social** equity; and
3. **Economic** performance



Limitations of traditional accounting

- Focus on economic performance (e.g. profit, wages)
- Remain silent on social and environmental issues (Pollution? Child labour? Social costs on communities?)
- How is success calculated?
 - Profitable business OR socially responsible business?

What do we try to do now?

Explore the unmarked and unreported voices in social and environmental issues, and the attributing consequences.