

## Week 1 – Accounting for Decision Making

### Questions

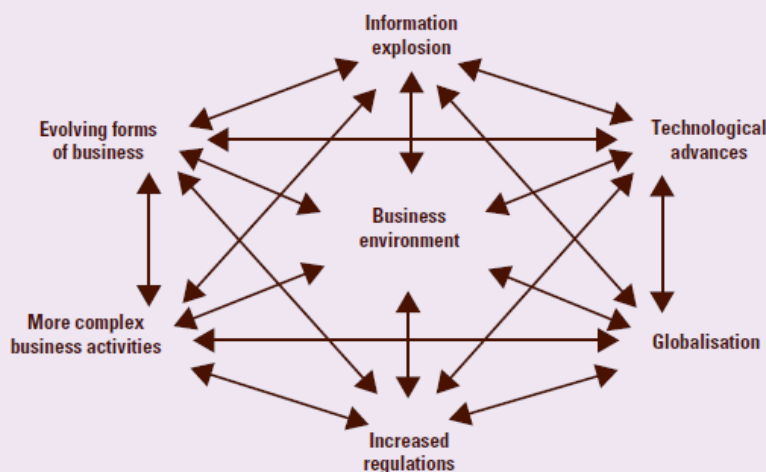
- Why is it necessary to have an understanding of business before trying to learn about accounting?
- What factors are causing the business environment to change?
- What are the three most common forms of business organisations and their basic characteristics?
- What types of regulations do business face?
- How does accounting provide support and information to people making decisions who are external to the business?
- What skills do accountants of the 21st century require?

### The changing business environment

- Inside the business: manage costs, selling prices, control operations e.g. managers, dep. heads
- Outside the business: investment + credit decisions e.g. shareholders, potential investors, suppliers, lenders, consumer groups

EXHIBIT 1.2

Factors affecting the complexity of the business environment



### Changes

EFTPOS, operating worldwide (cultural expectations), email, environmental regulation,

**Private enterprise** – economic system whereby individuals own business' that produce + sell services/goofs for profit

- Service – perform activities that benefit individuals/business customers e.g. accounting, law and medicine (QANTAS, LJ Hooker)
- Merchandising – purchase goods for resale to customers or wholesalers – reselling goods to retailers/commercial users e.g. Woolworths
- Manufacturing – make products + sell products to customers e.g. Ford

### Entrepreneurship + sources of capital

- Can raise capital in 2 ways:
  - Invest – own money or other investors (equity finance)
  - Borrow – from bank or other sources

### Difference forms that business' take

- Sole proprietorship/sole trader –owned by one person who is sole investor of capital \*unlimited liability – personally responsible for debts
- Partnership – owned by two or more individuals who each invest capital into business
- Company/corporation – separate legal entity independent of owners + run by board of directors

EXHIBIT 1.4 General characteristics of each form of business organisation			
Characteristics	Sole proprietorships	Partnerships	Companies/corporations
Number of owner(s)	Single owner	Two or more owners (partners)	Usually many owners (stockholders)
Size of businesses	Small	Most are small; some professional partnerships (for example, law firms) have several hundred partners	Many are very large; some may have stock traded on an exchange
Examples of businesses that typically have this legal form	Small retail shops; local service or repair shops; single practitioners such as accountants, lawyers, doctors	Law firms; accounting firms; real estate agencies; family-owned businesses	Manufacturing companies; multinational companies; retail store chains; fast-food chains
Who makes business decisions	Owner	Depends on partnership agreement; small partnerships will have all partners involved in business decisions; large partnerships will have managing partners. Partners are agents	Decided by board of directors; large company/corporations are managed by business professionals who often own little or no stock
Liability of owner(s)	Unlimited	Unlimited	Limited
Life of organisation	Limited	Limited	Continuous

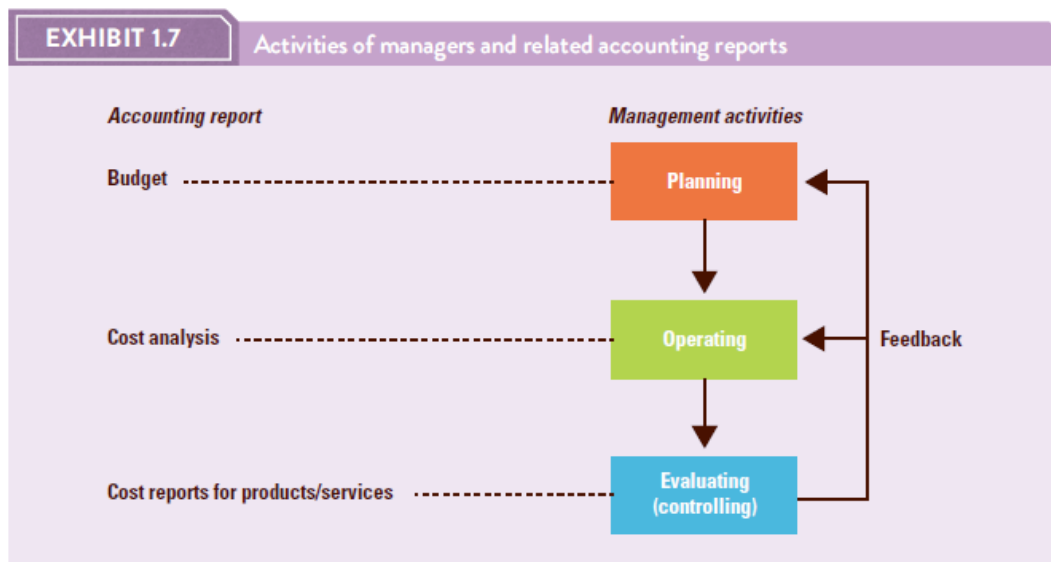
### Regulatory environment of business imposed local, state + federal and overseas within country it operates

- Consumer protection
- Environmental protection
- Employee safety
- Hiring practices
- Taxes – obligations to pay company tax

### The accounting system – allows users to identify, measure, record + summarise info about activities of a business

- Management accounting – using information in system to produce reports for internal users, very detailed
- Financial accounting –using information in accounting system to producer reports for external users e.g. more summarised - potential investor doesn't need sales per item

- Follows specific guidelines known as generally acceptance accounting principles (GAAP)



**Basic financial statements** – *communicate + summarise financial information to external users*

- Income statement – summarises results of operating activity for specific period of time, shows profit/revenue/expenses/net income
- Balance sheet – statement of financial position on a given date, shows assets, liabilities + OE
  - Supporting statement – **statement of changes in owners equity** – info about amount shown in OE section, shows beginning equity, net income increases and decreases in different accounts, owners contributions, withdrawals + ending equity
- Cash flow statement – summarises cash receipts, payments + net change in cash for specific time period, shows cash flow from operating, investing + financing activities e.g. obtained a bank loan, paying dividends

### Ethics in business and accounting

- Realistic picture
- Accountants must maintain high ethical standards – sustainability reports

**EXHIBIT 1.13** Threshold learning outcomes for accounting

Bachelor graduates in accounting will be able to:	
Judgement	Exercise judgement, under supervision, to solve routine accounting problems in straightforward contexts using social, ethical, economical, regulatory and global perspectives
Knowledge	Integrate theoretical and technical accounting knowledge, which includes a selection of auditing and assurance, finance, economics, quantitative methods, information systems, commercial law, corporation law and taxation law
Application skills	Critically apply theoretical and technical accounting knowledge and skills to solve routine accounting problems
Communication and teamwork	Justify and communicate accounting advice and ideas in straightforward collaborative contexts involving both accountants and non-accountants
Self-management	Reflect on performance feedback to identify and action learning opportunities and self-improvements

Source: Learning and Teaching Academic Standards Project, Business, Management and Economics; Learning and Teaching Academic Standards Statement for Accounting December 2010, Australian Learning and Teaching Council( p. 10, [www.altc.edu.au/system/files/altc\\_standards\\_ACCOUNTING\\_090211.pdf](http://www.altc.edu.au/system/files/altc_standards_ACCOUNTING_090211.pdf). Support for the project on which this material is based was provided by a predecessor agency of the Australian Government Office for Learning and Teaching. The views expressed in this material do not necessarily reflect the views of the Australian Government Office for Learning and Teaching.