

1. Nature and Role of Accounting

Accounting-the process of collecting, analysing and reporting economic information to allow the stakeholders to make informed decisions

Roles of Accounting

Stewardship-providing reports on the status of transactions for that financial period

Decision-usefulness-assisting a variety of users to make informed judgments

Accounting as a service function

These are the fundamental qualities:

- Relevance-accounting information must have the ability to influence decisions, therefore it must be relevant to predicting future events and confirming past events
-To be relevant, info must have materiality (gives the potential to alter user's decisions)
- Faithful representation-a quality that says accounting information should represent what it is meant to, be complete, neutral and free from error

Further qualities include:

- Comparability-identify similarities and differences between sections of information,
- Verifiability-something that can be checked or verified, capable of objective measurement
- Timeliness-Being available early enough to be of use to others, communicated efficiently
- Understandability-clearly set out to facilitate understanding

Financial and management accounting

Financial accounting-provides general purpose financial information for a variety of users, with the info being of a general purpose nature

Management accounting-an approach which aims to provide managers with the information they require to run the organisation

	Financial	Management
Nature of reports	General purpose	Specific purpose
Level of detail	Broad overview of position, performance, cash flows for a period	Detailed analysis for particular decision
Restrictions	Many legal and Acc. regulations	No restrictions-internal use only
Reporting interval	Annual or half yearly	Produced when required
Time horizon	Performance and position of business to date	Can include info on future expected performance
Range of info	Quantifiable in monetary terms	Money as well as non-financial quantities such as stock

Financial objective of a business

The normal perceived objective of a business is to create wealth and profits for the owners.

Balancing risk and return

Risk-the likelihood and extent that what is projected to occur will not actually occur

Return-The gain that results from a particular event or occurrence

The main financial reports

These reports are designed to provide insight into the overall financial position and performance of the business.

1. Statement of cash flows-the inflow and outflow of cash within the business over a particular period-flow report for the period
 - provides info about three types of business activities, operating, investing and financial
 2. Statement of financial performance (income statement)-the increase of wealth from operating and other activities minus the expenses incurred by the running of the business, e.g. the profits generated from its overall Activities-Flow report for the period
For limited companies, it is called a statement of comprehensive income
 3. Statement of financial position (balance sheet)-shows the assets of the business and the claim on those assets at a point in time-static report at the end of the period
 - lists all the entity's assets, liabilities and owners' equity as at a specific date
 - valuable information to financial statement users about the economic resources the company owns as well as the debts the company owes
- **The Statement of comprehensive income**-summary of entity's income and expenses and all changes in equity, other than new owner investments and drawings, for a specific period of time - provides information about profitability for a particular period
 - **The statement of Changes in equity**- shows changes in owners' equity during a specific time period
 - informs users about how much of the earnings were kept and reinvested in the company
 - Each statement should have a heading showing the name of the business, name of the financial statement, date or time period covered by the statement