Accounting 101

Accounting	the information system that identifies, records, and communicates the economic events of an organisation to interested users.
Financial Accounting	the field of accounting that provides economic and financial information for investors, creditors, and other external users.
Managerial Accounting	the field of accounting that provides internal reports to help users make decisions about their companies/organisations.

3 Accounting Activities

Accounting consists of three basic activities:

1. Identification (identifying economic events/transactions).
2. Recording (record, classify, and summarise).
3. Communication (preparing accounting reports, analysing & interpreting for users).

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Bookkeeping	a part of accounting that involves only the recording of economic events.

Accounting Users

There are two broad groups of users of financial information: internal users & external users.

1. Internal Users	individuals inside a company/organisation who plan, organise, and run the business.

Accounting Users (cont)

Examples:	Marketing Managers, Production Supervisors, Finance Directors, Company Officers.
2. External Users	individuals and organisations outside a company/organisation who want financial information about the company/organisation.

Type	**Example**	**Purpose of using accounting information**
a. Investors	Owners	use accounting information to decide to buy, hold, or sell ownership shares of a company/organisation.
b. Creditors	Suppliers & Bankers	use accounting information to evaluate the risks of granting credit or lending money.
c. Taxing Authorities	-	use accounting info to know whether the company complies with tax law.

Accounting Users (cont)

d. Regulatory Agencies	-	use accounting info to know whether the company is operating within prescribed rules.
e. Customers	-	-
f. Labour Unions	-	use accounting info to know whether the company can pay increased wages and benefits to union members.

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Ethics	the standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not.

Steps in analysing ethics cases and situations

1. Recognising an ethical situation and the ethical issues involved.
2. Identifying and analysing the principal elements of the situation.
3. Identifying the alternatives, and weighing the impact of each alternative on various stakeholders.

Accounting Standards

Accounting Standards ensure high-quality financial reporting.

There are two primary accounting-standard-setting bodies:

Accounting Standards (cont)

1. **IASB** - International Accounting Standards Board	Determines International Financial Reporting Standards (**IFRS**).
	Used in 130 countries.

2. **FASB** - Financial Accounting Standards Board	Determines Generally Accepted Accounting Principles (**GAAP**).
	Used by most companies in the USA.

The two standard-setting bodies have made efforts to reduce the difference between IFRS & U.S. GAAP.

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Convergence	the process of reducing the difference between IFRS and GAAP.

Measurement Principles

IFRS generally uses one of two measuring principles, the **cost principle** or the **fair value principle**.

The selection of which principle to follow generally relates to **trade-offs** between **relevance** and **faithful representation**.

1. Cost Principle (historical cost principle)	- Companies record assets at their cost.
	- Not only at the time the asset is purchased but also over the time the asset is held.

Measurement Principles (cont)

2. Fair Value Principle	- Assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

In determining which measurement principle to use, companies weighs the **factual nature of cost figures** vs. the **relevance of fair value**.

Assumptions

Assumptions provide the foundation for the accounting process. The two main assumptions are:

1. Monetary Unit Assumption	an assumption stating that companies include in the accounting records only transaction data that can be expressed in terms of money.	
	- enables accounting to quantify (measure) economic events.	- vital to applying the measurement principles.

Assumptions (cont)

2. Economic Entity Assumption	an assumption that requires that the activities of an entity be kept separate from the activities of its owner and all other economic entities.