

Role of Accounting

What is the role of accounting?

Provide accounting information for stakeholders to make informed decisions for the performance of business

What is Decision-Making?

Prepare accounting information and provide both accounting and non-accounting information for decision-making

What is Stewardship?

Manage business resources on behalf of owner

Professional Ethics

Integrity Be straightforward and honest in the communication of financial information

Objectivity Information must be unbiased and not be influenced by personal feelings

Types Of Business

Trading Business - Exchanges goods for money, e.g supermarkets/furniture/clothing shops

Service Business - Exchanges services for money, e.g Dental/Tuition/-Salon

Stakeholders

Internal Stakeholders

Owner/-Manager - Measure & Evaluate performance of the business

Stakeholders (cont)

Employee - Whether they should work for the business

External Stakeholders

Shareholders - Invest into the business

Lenders and Suppliers - Whether to provide for the business

Competitors - Compare performance

Customers - Whether to buy from the business

Government - Assess whether business is abiding laws

Accounting Theories

Accounting Entity Only business transaction is recorded

Accounting Period Life of business is divided into regular time intervals

Going Concern Business to have indefinite economic life unless credible evidence is shown that it may close

Monetary Only things that can be recorded down in monetary terms

Historical Cost Transactions to be recorded at original cost

Accounting Theories (cont)

Accrual basis of accounting Business activities that have occurred should be recorded in relevant accounting period

Revenue Recognition Revenue earned when goods delivered is provided

Matching Expenses incurred must be matched against income earned in same period to determine profit earned

Objectivity Accounting information recorded must be supported by reliable and verifiable evidence

Prudence Least overstates assets and profits and understated liabilities and losses

Consistency Once method is chosen, it should be applied for all periods to ensure consistency

Materiality Transactions is considered material if it makes a difference in decision-making process

