

CA BUSINESS SCHOOL
EXECUTIVE DIPLOMA IN BUSINESS AND ACCOUNTING

SEMESTER 1 : Preparation of Financial Statements

Introduction to Accounting

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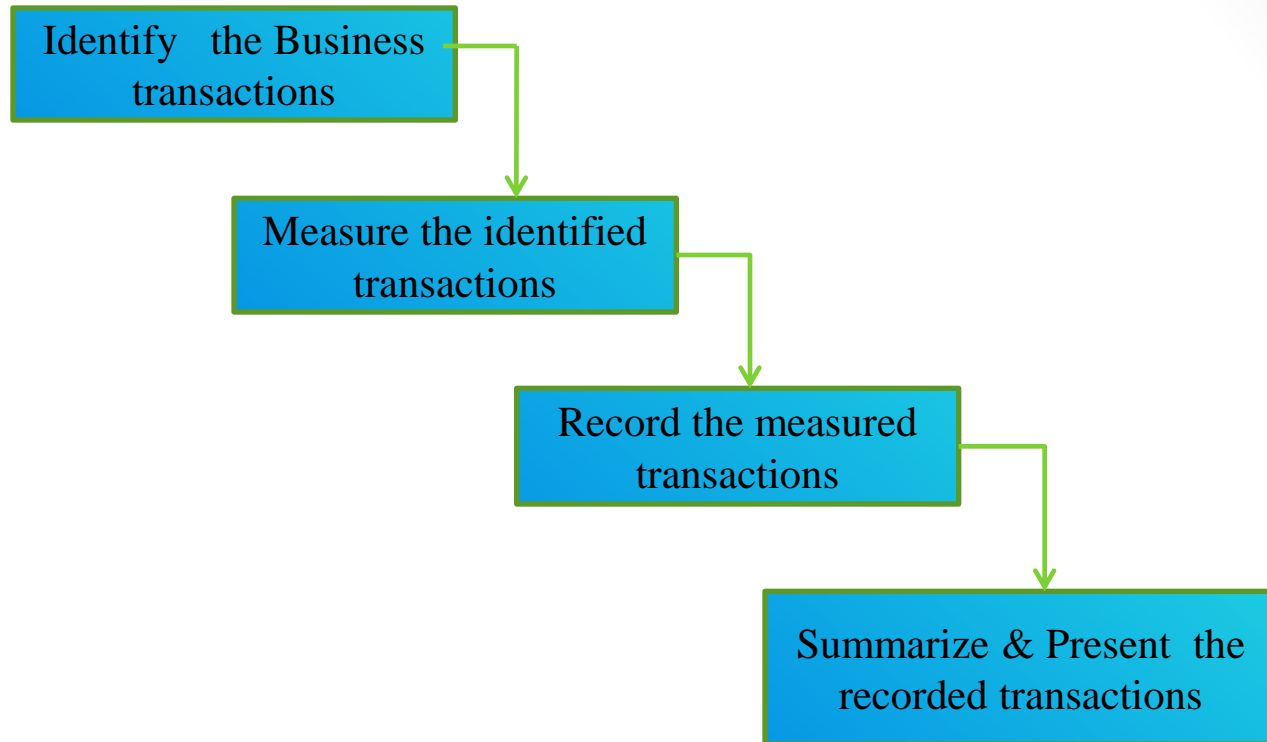
Introduction

Accounting is a well established formal process which basically analyzes both financial & non-financial information attached to the given entity and present them in a formal manner in order to take (economic) decision(s).

Accounting is also treated as a structured system which entails series of activities such as identifying, measuring, recording, summarizing & presenting (communicating) the various business transactions/events.

Accounting is purely a **business language** which essentially communicates financial performance & position of the entity to all stakeholders.

Stakeholders are the Individuals/group of people/parties who are interested in company's affairs/results/position and get affected on their economic decisions accordingly.



Discussion: Every entity essentially includes an Accounting system as a key component of its internal control system. (level of importance)

- Control environment
 - Control procedures
 - Accounting system

Accounting Information and Decision Making

As we have identified in above, main duty of the Accountant is to produce information for the users (prospective) to make their decisions. (mostly economic decisions)

Types of users

Internal

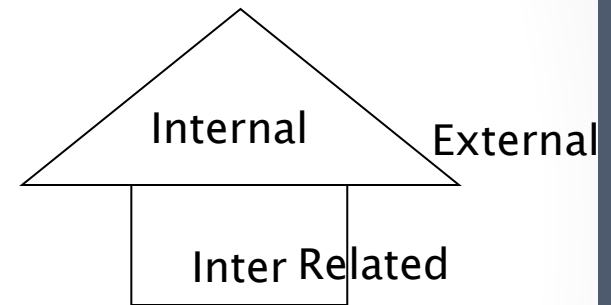
- Key management/owners

Inter-related

- Financial Institutions (Banks)
- Key customers
- Key suppliers
- Employees (Unions)

External

- Shareholders (sometimes internal)
- Government
- Public at large



Discussion:

All of the above parties are commonly identified as “Stakeholders”.

Stakeholder	Expected Information and Type of Decision Making
Investor	Information to determine the future profitability of the entity, to assess the future cash flows for dividends and the possibility of capital growth of investment.
Banks	Information to determine whether entity has the ability to repay a loan along with interests
Suppliers	Information to determine an entity's ability to repay debt associated with purchase.
Employees	Information concerning job security, the potential to pay or awards and bonuses, and promotional opportunities down the track.
Customers	Information regarding the continuity of the entity and the ability to provide the appropriate goods and services.
Government authorities	Information to determine the amount of tax that should be paid and any future taxation liabilities or taxation assets.
Regulatory bodies	Information to determine if the entity is abiding by regulations such as the Companies act and Inland Revenue act.
Community	Information to determine whether the entity is contributing positively to the general welfare and economic growth of the local community.
Special interest groups	Information to determine whether the entity has considered environmental, social or industrial aspects during its operations.

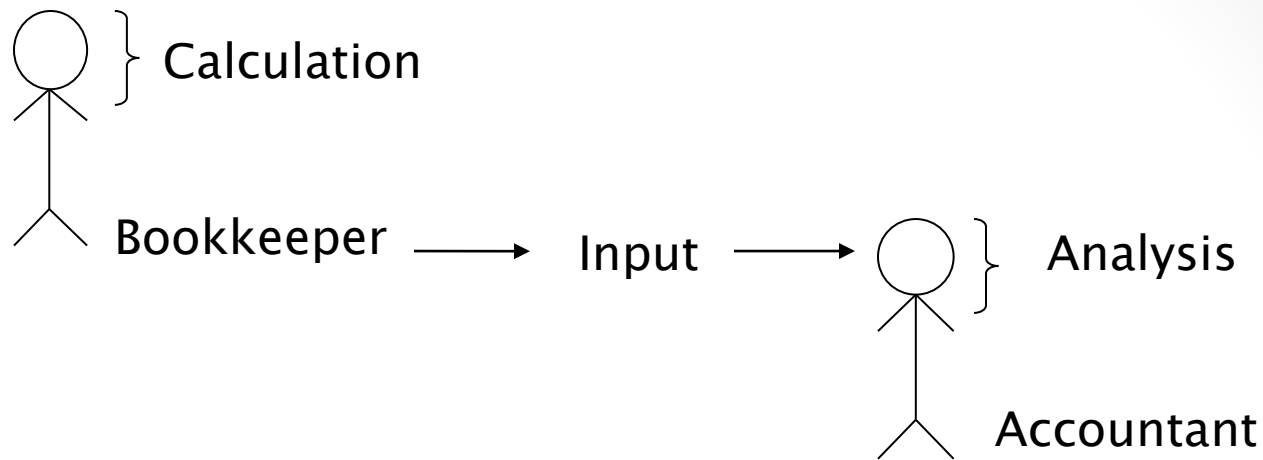
Bookkeeper Vs. Accountant

Conceptually, there might not be any significant difference of job duties between bookkeeper and accountant.

In fact, some entities attempt to place both in a same job category.

Practically, Bookkeeper is doing routine calculation (task) without using much of judgmental skills while accountant use his/her judgmental skills and analytical skills in order to present financial information more meaningful manner which are already prepared by the bookkeeper.

It should be a blend of both bookkeeping and accounting function in attaining success rather than functioning either bookkeeping or accounting separately.



Relationship Between Accounting & Auditing

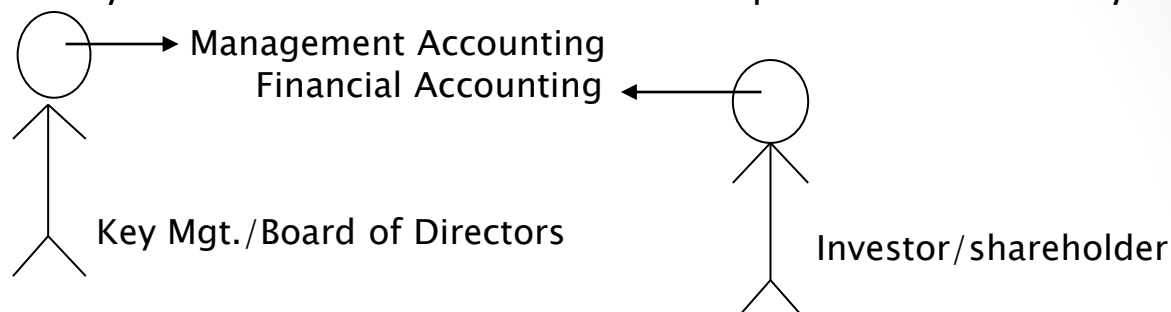
Auditing (external) is basically provides an assurance (reliability) on financial statement prepared by the entity. (not 100%, but true & fair view)

Discussion: External Audit is not a mandatory requirement except for public corporations. But tend to conduct annually for various reasons/purposes.

Discussion: Difference(s) between external & internal auditing.

Financial Accounting Vs. Management Accounting

Scope of the Financial accounting defines from the view point of the external (third) party while management accounting analyzes information from the view point of the entity's key management (internal).



	Financial Accounting	Management Accounting
Regulations	Bound by GAAP. GAAP are represented by accounting standards, the Companies Act, and relevant rules of the accounting association and other organizations such as the SEC.	Much less formal and without any prescribed rules. The reports are constructed to be use of the managers.
Timeliness	Information is often outdated by the time the report is distributed to the users. The financial reports present a historical picture of the past operations of the entity.	Management reports can be both a historical record and a projection, e.g. A budget.
Level of detail	Most financial reports are of a quantitative nature. The reports represent the entity as a whole, consolidating income and expenses from different segments of the business.	Much more detailed and can be tailored to suit the needs of management. Both quantitative and qualitative in nature.
Main users	Prepared to suit a variety of users including investors and prospective investors, management, suppliers, consumers, employees, banks, taxation authorities and interested groups.	Main users are the key management of the entity. Hence it called as management accounting.

Limitations of Accounting Information

A particular user should consider the limitations surrounding accounting information prior to use and make a decision on such information.

- Time lag
- Use historical information
- Subjectivity of information
- Potential costs
 - Information cost
 - Release information to competitors

Apart from above, it is also to be noted that the profession of accounting widely broadened with the concepts of Corporate Governance, Code of Ethics and Corporate Social Responsibility.

With rapid changes in the recent past, following new career opportunities are also emerged within the profession.

- Fund Accountant
- Internal Auditor
- Forensic Accountant
- Payroll Manager/Accountant

Profession of accounting (as a whole) in each country governed by rules, regulations, acts, customs. Most of the rules & regulations are established by the government authorities.

- CA Sri Lanka
- The National Institute of Accountants

Profession of accounting and some of its key attributes are evolving due to following factors.

- Globalization
- Technological change
- Demographic change
- Social impact