BUS7C2 Finance and Accounting for Business

Taofik Adeosun
taofik.adeosun@wrexham.ac.uk

Prifysgol Wrecsam
Wrexham University

Getting to know you . . .

Taofik Adeosun

taofik.adeosun@wrexham.ac.uk

a. *Background*
b. *Interests, fun facts etc.*
c. *Why this module? Your expectations*

Module Objectives

The overall objectives of this module, based on its learning objectives are:

1. **Understand foundational principles** of finance and accounting, exploring their role in decision-making and corporate performance.
2. **Critically assess financial reporting frameworks** and their application in evaluating corporate performance.
3. **Apply financial analysis techniques** to interpret financial performance, including cash flows, within national and international financial markets.
4. **Engage with academic literature** to develop a critical discussion on the accounting cycle and financial statement preparation.

Learning Outcomes

By the end of the course, you should be able to:

- **Critically analyse** the nature of financial accounting, the users of accounting information, and the conceptual framework of accounting.
- **Applying relevant academic literature**, present a critical discussion on the accounting cycle and the preparation of financial statements.
- **Critically analyse and interpret** financial figures including cash flows.
- **Critically appraise the conceptual frameworks of financial reporting** for companies for evaluating international corporate performance.
- **Critically examine the principles of finance** and the structure of national and international financial markets.

Organisation of the Module

- **Lectures and tutorials**
    i. 20 hours (10 two-hour sessions weekly)
    ii. Tutorials: 1 hour every 2 weeks.
- **Mode of delivery**: In person
- **Announcements** of important information (e.g. slides for the course, tutorial questions and solutions and reading materials etc.) will be posted on Moodle
- *See module handbook for more details*

Assessment

- **2 Assignments;** 2.000 word and 2,500 word.
- Electronic copy submission through Turnitin in Moodle
- Submit on time or can be awarded 0 mark without a valid reason
- **Pass: 40%**
- See individual assignment brief in assessment folder
- Take advantage of the extenuating circumstances (EC) procedure if required

Assessment Number	Weighting (%)	Deadline	Word Count
1	50	31st July 2025	2,000
2	50	16th September 2025	2,500

Reading Lists

Essential Reading

Thomas, A. and Ward, A.M., 2019. eBook: ***Introduction to Financial Accounting***, 9e. McGraw Hill.

Atrill, P. and McLaney, E. (2015) ***Accounting and Finance for Non-Specialists***, 9th edition, Harlow: Person Education

Additional Readings

See module handbook and Moodle update

Academic Support

- Academic Skills
- Add citations in a Word document
- Reference Management Tools
    - Zotero
    - Endnote
    - Mendeley
- The Wrexham University Guide
  ..\..\Harvard WU January 2024 v2 2.docx

- Check out Learning Skills
  learningskills@wrexham.ac.uk

Lecture 1: Introduction to Financial Accounting

Prifysgol Wrecsam
Wrexham University

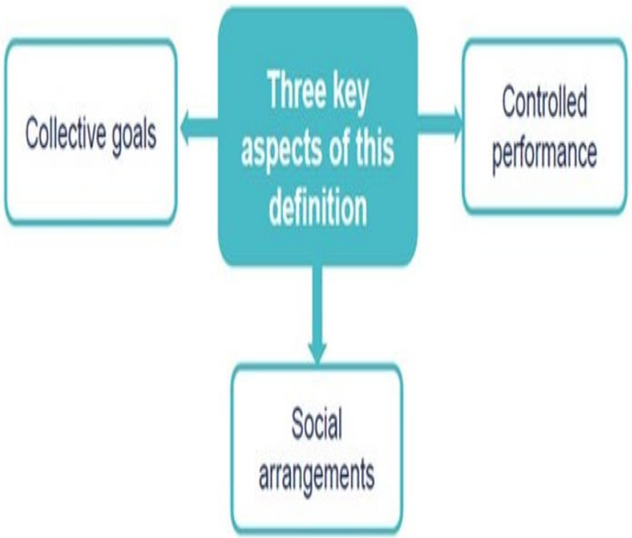
Learning Objective

At the end of this lecture; students will:

1. **Critically evaluate** the concept of business organisations
2. **Assess** the different forms of business organisations
3. **Formulate** a structured understanding of fundamental accounting
4. **Justify** the importance of regulatory frameworks in accounting

Business organisations

- Organisations are social arrangements for the controlled performance of collective goals.' *(Buchanan and Huczynski)*



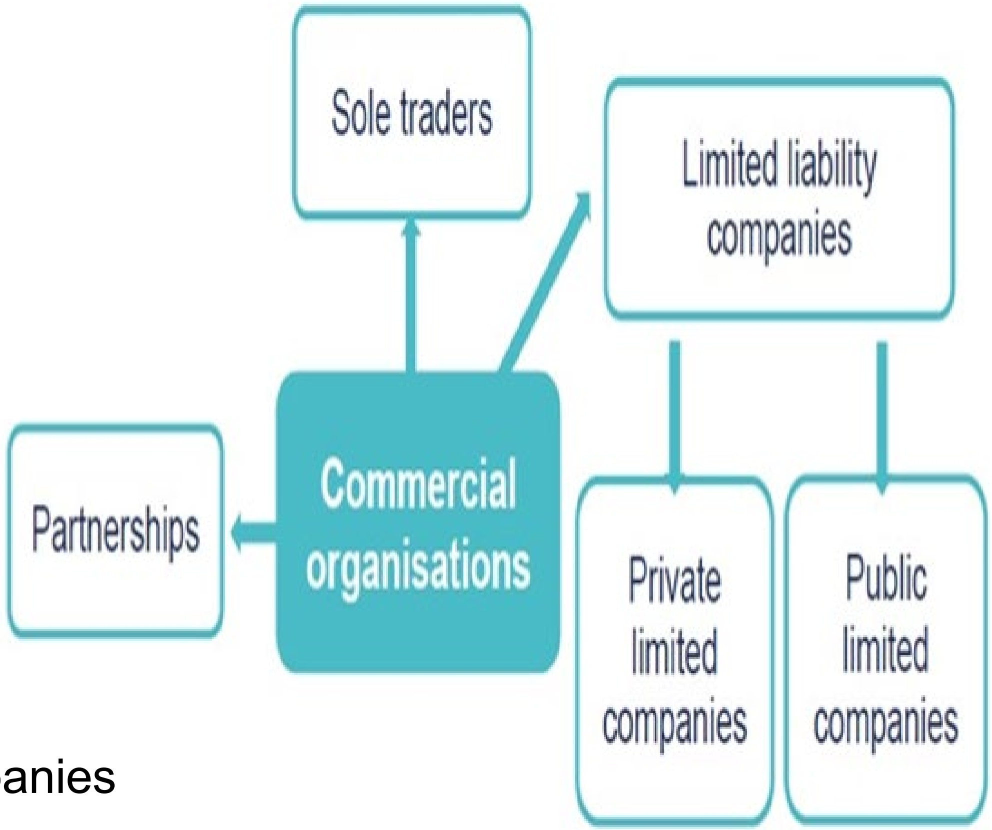
The following table shows how this definition applies to two examples of organisations: a car manufacturer and an army.

Characteristic	Car manufacturer (eg, Ford)	Army
Social arrangement: individuals gathered together for a purpose	People work in different divisions, making different cars	Soldiers are in different regiments, and there is a chain of command from the top to the bottom
Controlled performance: performance is monitored against the goals and adjusted if necessary to ensure the goals are accomplished	Costs and quality are reviewed and controlled. Standards are constantly improved	Strict disciplinary procedures, training
Collective goals: the organisation has goals over and above the goals of the people within it	Sell cars, make money	Defend the country, defeat the enemy, international peace keeping
Boundary: the organisation is distinct from its environment	Physical: factory gates Social: employment status	Physical: barracks Social: different rules than for civilians

Kaplan Publishing (2023); *ICAEW (2023)*

Forms of Business Organization

- **Types of business organizations**
  - Sole proprietorships
  - Partnerships
  - Corporations / Companies
  - Limited liability options
    - i. Limited liability partnerships
    - ii. Limited liability companies
    - iii. Professional limited liability companies



- **Limited liability:**
  - The owners of a corporation are not personally liable for its obligations.

Q. What are the implications of limited liability for a business?

Sole Proprietorship

- ❖The most common form of business structure
- ❖Owned by one person
- ❖All profits of the business are taxed as individual income
- ❖The owner IS the business, unlimited liability for business debts and obligations.
- ❖The only money invested in the firm is the proprietor's
- ➢**Cash raised is limited to the proprietor's own personal wealth**

Sole Proprietorship

- **Advantages**
  - Easiest to start
  - Least regulated
  - Single owner keeps all the profits
  - Taxed once as personal income
- **Disadvantages**
  - Limited to life of owner
  - Equity capital limited to owner's personal wealth
  - Unlimited liability
  - Difficult to sell ownership interest

Partnership

- **Partnership is formed by more than one person**
  - *General Partnership (GP)*
    - Partners share the work and profits/losses.
    - *GPs have unlimited liability for all debts*
  - *Limited partnership (LP)*
    - Permit the liability of some of the partners to be limited to the amount of cash each has contributed
    - LPs do not participate in managing the business
    - Equity contributions are usually limited to a partner’s ability and desire to contribute to the partnership

Partnership : Pros and Cons

Advantages	Disadvantages
Two or more owners	Unlimited liability
Higher capital	Partnership dissolves on death or if a partner wishes to sell
Easy to setup	Difficult to transfer ownership
Tax advantages	Hard to value partners share

Types of Companies (UK):Public Limited Company (PLC)

- can sell shares or debentures to the general public, usually through a stock exchange
- must have **share capital of £50,000** or more, of which at least 25% must have been paid up before the company can begin trading.
- required to have **at least two directors** and **a company secretary**.
- Shareholders have limited liability

Types of Companies (UK):Private Company Limited By Shares

- private companies limited by shares are the most frequently-used type of company in the UK.
- must have the word ‘Limited’ or the abbreviated suffix ‘Ltd.’ at the end of their name.
- there is **no minimum capital requirement** for a private company limited by shares
- Around 9 in 10 private limited companies in the UK are classified as small or medium sized. This qualifies their directors to submit a **simplified set of accounts** to Companies House.

Types of Companies (UK):Private Company Limited By Guarantee

- Liability is limited to pre-agreed amount that shareholders must pay in the event that the company is wound up.
- Non-profit organisations such as charities, clubs, student unions, societies and social enterprises are typical entities that use this type of company to set a low limit to the amount that members (owners) must pay if something goes wrong.
- There is **no share capital**, and therefore **no shareholders**, in a private company limited by guarantee

Types of Companies (UK):Private Unlimited Company

- There are not that many private unlimited companies, compared to the other types.
- There is no cap to the amount that its members are required to pay if the company is wound up, so they tend to be used for companies where insolvency is a very low risk.
- they are **not required by law to submit annual accounts** to Companies House. This makes unlimited companies attractive to businesses that wish to maintain a level of secrecy about their financial status.

The purpose of accounting

The purpose of accounting is to record and classify business transactions.

What is Accounting?

- ❑ Accounting is a way of recording, analysing and summarising the transactions of an entity

- ❑ This is done using Financial Statements

The Objectives of an Appropriate Accounting System

- To record and control business transactions
- To maintain accuracy in recording
- To present final financial statements to the owners of the business
- To present other financial reports and analyses
- To facilitate the efficient allocation of resources

The Objective of Financial Statements

Why do businesses need to produce accounting information in the form of financial statements?

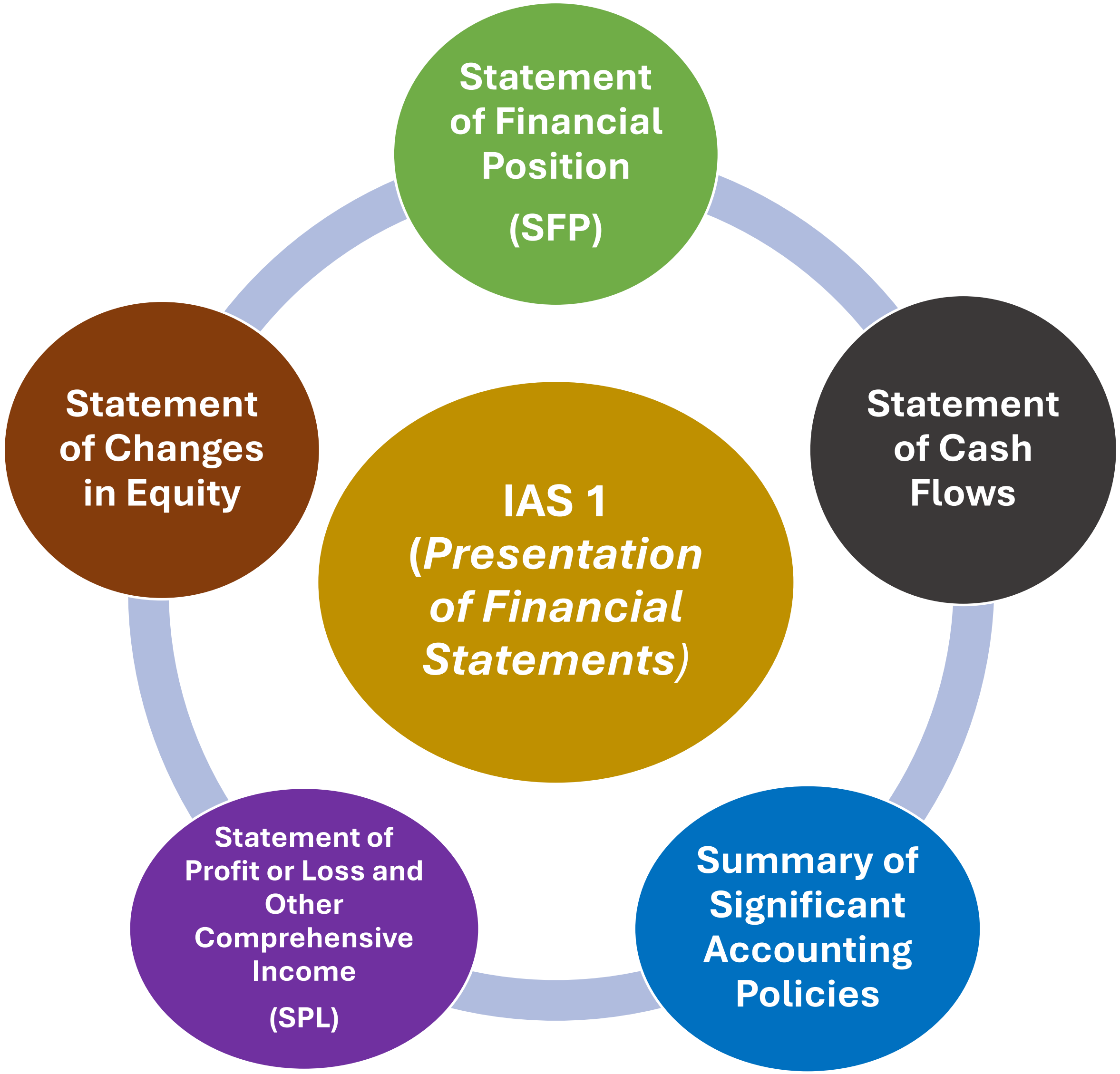
- According to the IFRS Foundation's *Conceptual Framework for Financial Reporting*, the objective of financial reporting is to

'provide information about the reporting entity that is useful to existing and potential investors,
lenders and other creditors in making decisions relating to providing resources to the entity'. (Conceptual Framework: para. 1.2)

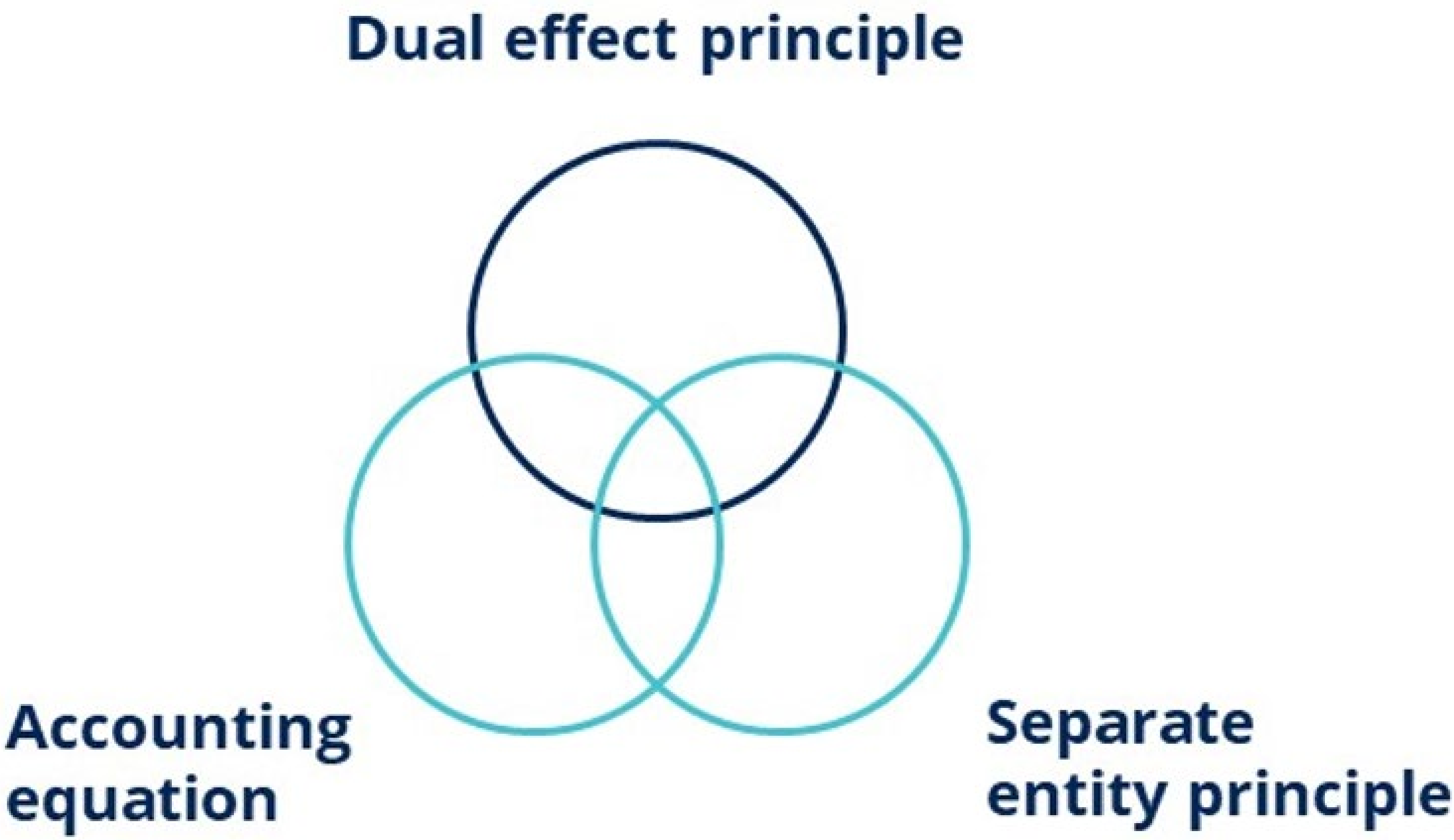
- **Existing and potential investors, lenders and other creditors are known as the primary users of the financial statements.**

Main Elements of Financial Statement

IAS 1 (*Presentation of Financial Statements*)



The Basic Principles of Accounting



Kaplan Publishing (2023)

The Basic Principles of Accounting

Dual Effect Principle

- Every transaction has two financial effect

Accounting Equation

- Assets = Capital + Liabilities

Separate Entity Principle

- The owner of the business is, for accounting purposes, (not necessarily legal purposes) a separate entity from the business itself

The Rules of Accounting : DEAD CLIC

DEAD

Debit increases:

- Expense

- Assets

- Drawings

CLIC

Credits increases:

- Liabilities

- Income

- Capital

DEAD CLIC is a mnemonic used in accounting to help remember how debits and credits work in **double-entry bookkeeping**. It stands for:

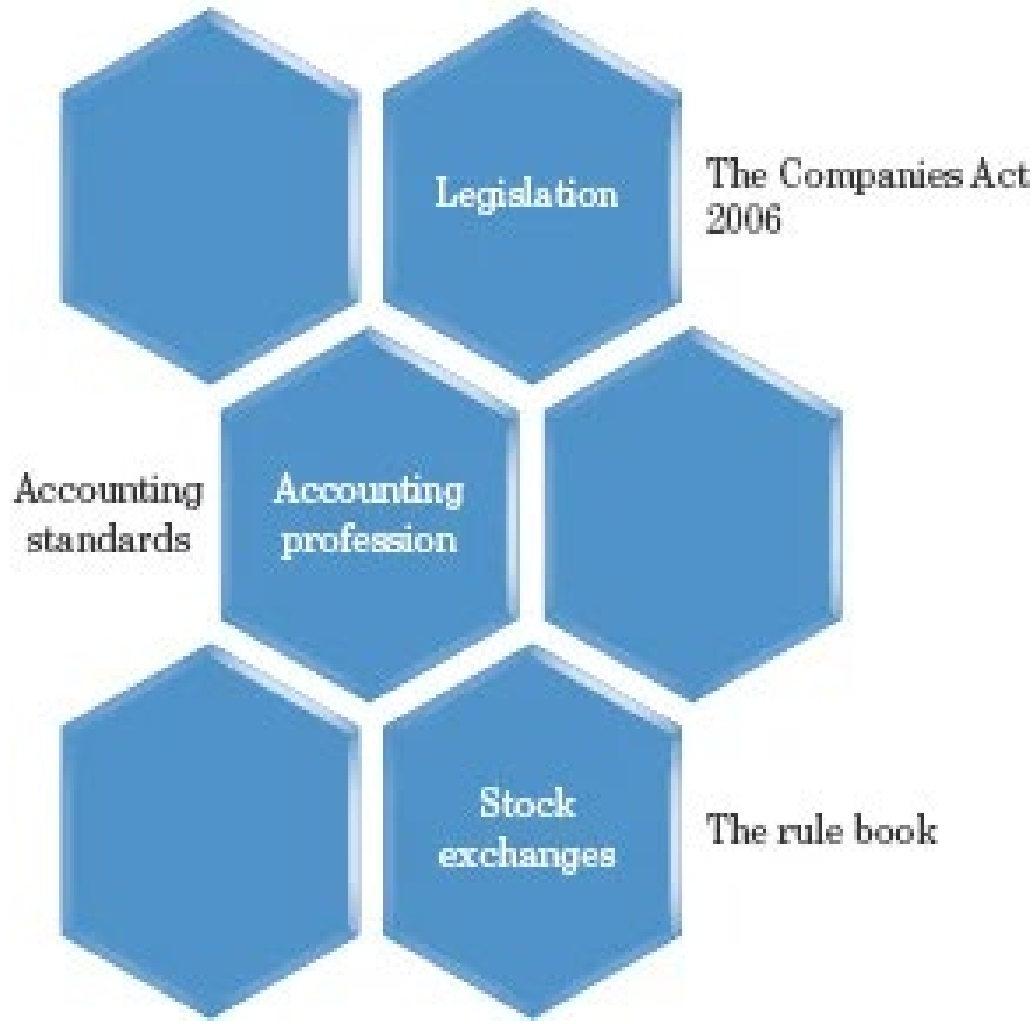
- **D**ebit **E**xpenses **A**ssets **D**rawings
- **C**redit **L**iabilities **I**ncome **C**apital

It's a simple way to recall that:

- **Debits** increase **expenses, assets, and drawings**.
- **Credits** increase **liabilities, income, and capital**.

The Regulatory Framework of Accounting

- **The regulatory framework of accounting** is a general term used to ***describe the legislation and other rules that govern*** the content and format of company financial statements.
- There is no legislation covering the financial statements of sole traders and partnerships.
- However, it is generally accepted that their financial statements should closely follow the rules and regulations relating to companies since these are regarded as *'best practice'*.



Legislation and GAAP

- In the UK, **financial statements must be prepared in accordance with either the UK GAAP or IFRS** Accounting Standards.
- They must also give **a true and fair view** of the performance and position of the company.
- **GAAP is a term used to cover all the rules**, from whatever source, **which govern accounting** in various jurisdictions.
- Note that in the UK, GAAP refers to generally accepted accounting **practice.** Internationally, the term GAAP refers to generally accepted accounting **principles.**
- UK Generally Accepted Accounting Practice (UK GAAP) is the body of accounting standards **published by the UK's Financial Reporting Council (FRC).**
- In the UK, **all companies must comply** with the provisions of the Companies Act.
- Limited liability companies are required by the Companies Act 2006 to **prepare and publish financial statements annually**.
- Their form and content are **regulated by legislation** but must comply with accepted accounting and financial reporting standards.
- **For listed groups** this means compliance with IFRS Accounting Standards.
- **Non-listed companies** generally follow UK accounting standards which are substantially converged with international ones.
- Certain entities **are exempt from preparing financial statements** under s394 of the Companies Act.

Accounting Standards

- To deal with some of the subjectivity, and to achieve comparability between different organisations, accounting standards were developed.
- These are developed at both a national level (in most countries) and an international level.
- The International Accounting Standards Board (IASB) is an independent, privately funded body that develops and approves IFRSs.
- IASs' and IFRSs' are produced by the International Accounting Standards Board (IASB).

IFRS Foundation

- IAS and IFRS Accounting Standards have the same status, IASs are simply older standards;
- Those published since 2001 are called IFRS Accounting Standards.
- By 2025 : **132 jurisdictions** have required or permitted the use of IFRS. **IFRSs not permitted — 22 jurisdictions** (https://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs)

Users of Financial Statements

Investors / owners	Management and other internal users
Lenders and suppliers	Customers
Employee	Government

Kaplan Publishing (2023)

Match the following statements to the appropriate users :

a. *to make loan or credit supply decisions*

b. *to assist in the performance of duties*

c. *to calculate tax liabilities*

d. *to assess ability to pay wages and pensions on a continuing basis*

e. *to make decisions regarding investments*

f. *To assess ability to provide goods and/or services requested and to continue to provide similar services in the future.*

Underlying Accounting Principles for Financial Statement Preparation

Going Concern

An assumption that a business will remain operational for the foreseeable future, with no necessity or intention to liquidate or significantly reduce the scope of its activities

Accrual Basis

Transactions should be recorded in the financial statements for the period they occur, with income recognized when earned and expenses when incurred, regardless of cash flow timing.

Consistency

items should be presented and classified consistently across periods, unless circumstances change or a new accounting standard requires modification

Business Entity

business are separate from its owner(s) from an accounting perspective.

Materiality

significance of transactions, balances and errors that may be within the financial statements

Money Measurement

transaction should only be recorded if it can be expressed in terms of money.

Prudence

degree of caution in the adoption of accounting policies and estimates. Ensures that profits and assets are not overstated, while losses and liabilities are recognized as soon as they are likely

Example : Going Concern Failure

Carillion was a large construction company in Britain. In July 2017 it issued a profit warning, wrote down the value of its contracts by £845 million and within 6 months was insolvent. This was despite being given a clean bill of health by external auditors KPMG in March 2017 for its 2016 financial statements.

The Joint Parliamentary Committee could not believe that both internal auditors, Deloitte, and external auditors, KPMG, failed to realize that the company was not a going concern. An investigation into Carrillion's financial affairs revealed that they were using aggressive accounting for revenue recognition and valuation of investments and they had a pension deficit of about £1 billion.

Auditor Failings

Carillion's auditor, **KPMG**, was heavily criticized for failing to flag financial risks.

Reports found that KPMG had **signed off misleading financial statements** and did not challenge Carillion's accounting practices effectively

Regulatory Conclusions

The **Financial Reporting Council (FRC)** fined KPMG **£21 million** for its audit failures, stating that the firm had **failed to exercise professional scepticism** and had overlooked serious financial red flags.

The UK government also proposed **audit reforms** to prevent similar failures, including stricter regulations and increased accountability for auditors

Example : Application of Accrual Basis

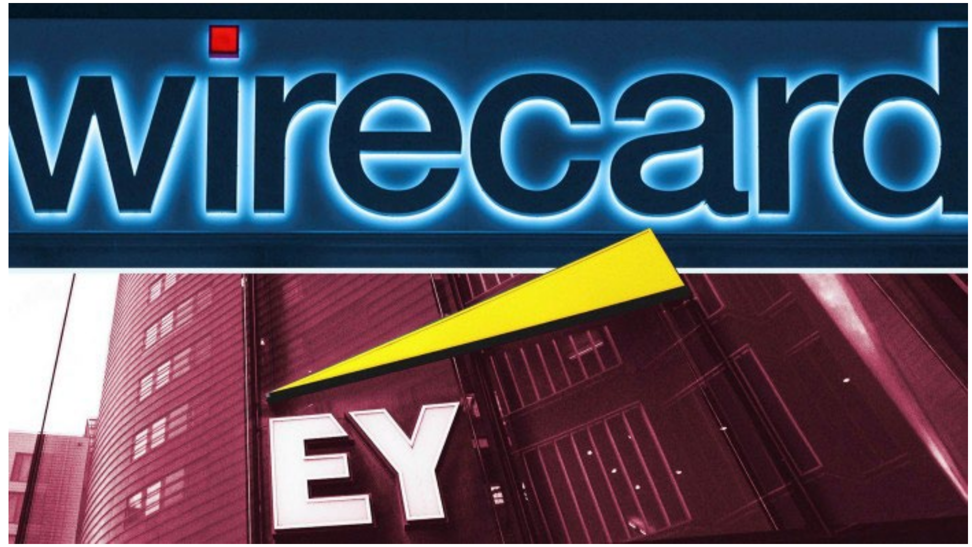
Credit Sales	• We recognise the income when it is earned
Credit Purchase	• we recognise the expense of a purchase when it is incurred
Accrued Expenses	• if we incur an expense we recognise the liability of paying it
Prepaid expenses	• Advance payments for goods or services are recorded as assets and allocated as expenses in the relevant accounting period.

Example : Consistency

- Imagine you have a **monthly grocery budget**.
- Every month, you track your spending using the same method—writing down purchases in a notebook.
- Now, let's say in **January**, you record expenses **as soon as you buy something**.
- But in **February**, you decide to only write them down **when you pay your credit card bill**.
- This change makes it harder to compare your spending from month to month.
- The **consistency principle** means you should stick to the same method unless there's a valid reason to change—like a new budgeting tool or a better way to track expenses.
- This helps you and others (like accountants or financial advisors) understand your financial records clearly over time.

Example : Materiality

A notable corporate failure due to **misapplication of materiality** was the **Wirecard scandal** in Germany.



Wirecard, a financial services company, collapsed in **2020** after it was revealed that **€1.9 billion** in assets were missing from its balance sheet.

Materiality Issues
Wirecard's auditors, **EY**, failed to properly assess the material impact of missing funds, signing off financial statements despite red flags. The company overstated its revenues and assets, misleading investors and regulators.

Consequences
The scandal led to **Wirecard's insolvency**, criminal investigations, and stricter financial regulations in Germany. EY faced lawsuits and reputational damage for its audit failures.

Example : Money Measurement

The **money measurement principle** in accounting states that only transactions that can be expressed in monetary terms are recorded in financial statements.

Example:

- Imagine a company has **highly skilled employees** who contribute significantly to its success.
- While their expertise is valuable, it **cannot be measured in monetary terms**, so it **is not recorded** as an asset in the financial statements.
- However, the company's **salary expenses** for these employees **can be measured in money**, so they **are recorded**.
- This principle ensures that financial statements remain objective and quantifiable.

The Conceptual Framework

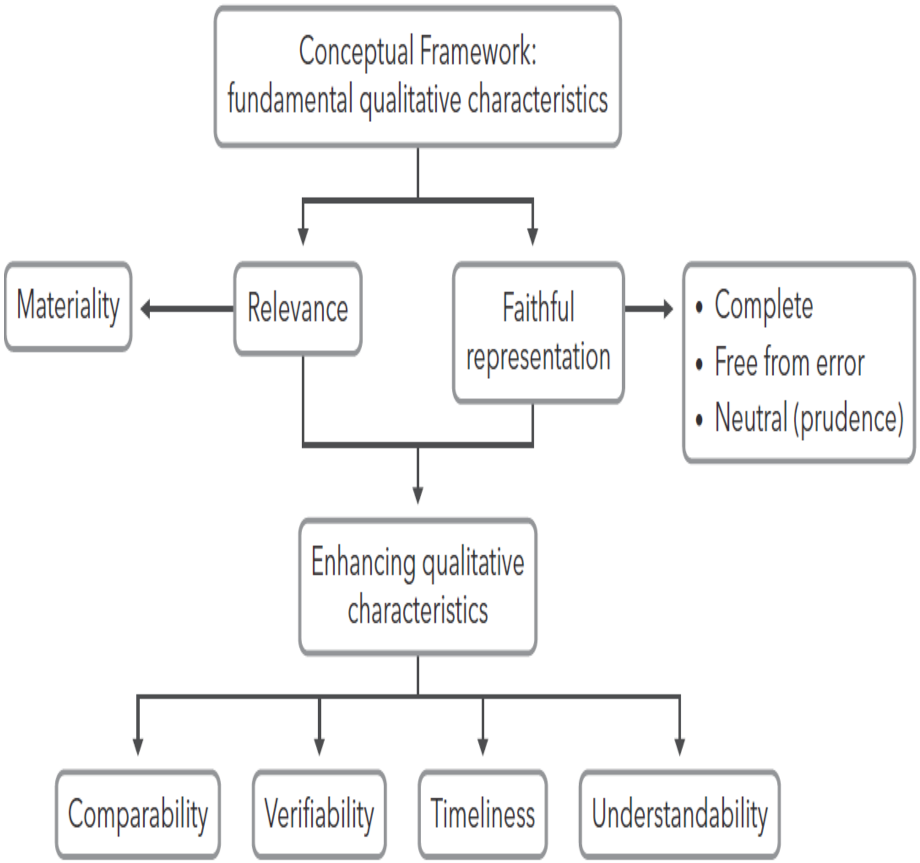
The **Conceptual Framework** in accounting is a set of principles that guide the development and application of financial reporting standards.

It provides a foundation for consistent and transparent financial statements by defining key concepts such as:

- **Objective of Financial Reporting** – Helping investors, lenders, and stakeholders make informed decisions.
- **Qualitative Characteristics** – Ensuring financial information is **relevant** and **faithfully represented**.
- **Elements of Financial Statements** – Defining assets, liabilities, equity, income, and expenses.
- **Recognition and Measurement** – Establishing criteria for recording and valuing financial transactions.
- The **International Accounting Standards Board (IASB)** developed the framework to support **IFRS Accounting Standards**, ensuring global consistency in financial reporting.

The Conceptual Framework : History

April 1989	*Framework for the Preparation and Presentation of Financial Statements* (the Framework) was approved by the IASC Board
July 1989	Framework was published
April 2001	Framework adopted by the IASB.
September 2010	*Conceptual Framework for Financial Reporting 2010* approved by the IASB
March 2018	*Conceptual Framework for Financial Reporting 2018* (the Framework) published



https://www.iasplus.com/en/standards/other/framework

Thank you, very much!

Any questions?

Prifysgol Wrecsam
Wrexham University

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