

UNIT ONE

THEORY

ACCOUNTING
RIHAB FAISAL

Unit 1 | Accounting and its need

- Importance of accounting for stakeholders
- Accounting environment
- Accounting as a process

1.1 | Importance of providing accounting information to stakeholders

- Introduction to accounting
- Objectives of accounting
- Stakeholders of a business and their information needs
- Classification of accounting and their differences

Introduction to accounting

Definitions by different accounting bodies	<p>American Accounting Association (AAA) Accounting is the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by the users of the information</p> <p>American Institute of Certified Public Accountants (AICPA) Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions, and events, which are in part at least, of a financial character, and interpreting the results thereof</p>
Common definition	Accounting is the process of providing relevant economic information to the concerned stakeholders to enable them to make appropriate decisions

Objectives to accounting

Primary objective	<p>Communicating economic information about the entity that will enable interested stakeholders to take decisions based on such information</p> <ul style="list-style-type: none"> • The accounting entity can be an individual, organization, government, business, or any other unit • The information could also not be financial in nature, but may still be important to the stakeholders for decision making
Examples	<ul style="list-style-type: none"> • Financial information <ul style="list-style-type: none"> ○ Apple Inc net profit for FY18: USD 60bn ○ Apple Inc total assets as at FY18: USD 366bn • Non-financial information <ul style="list-style-type: none"> ○ Number of employees in a company ○ Business reputation and brand image

Stakeholders and their information needs

Owners	<ul style="list-style-type: none"> • Earning a sufficient profit • Risk/rewards of investment
Managers	<ul style="list-style-type: none"> • Decision making to achieve objectives • Promotions and bonuses
Employees	<ul style="list-style-type: none"> • Salaries • Job security
Government	<ul style="list-style-type: none"> • Payment of taxes • Increasing domestic production

Customers	<ul style="list-style-type: none"> • Quality product at a reasonable price • Reputation of the company
Creditors	<ul style="list-style-type: none"> • Recovery of money lent • Feasibility to provide more loans in future

Types of accounting

Types	<ul style="list-style-type: none"> • Financial accounting: Preparation of information about the past transactions of an entity in a manner that will enable external persons to make economic decisions • Management accounting: Provision of relevant information that will assist and support all levels of management to plan, control, and make decisions, in order to fulfil their responsibilities
--------------	--

Processes	Input	Process	Output
Financial accounting	<ul style="list-style-type: none"> • Transactions and events 	<ul style="list-style-type: none"> • Recognition & Measurement • Recording • Classifying • Summarising • Interpreting 	<ul style="list-style-type: none"> • Financial statements
Management accounting	<ul style="list-style-type: none"> • Historical information • Budgeted information 	<ul style="list-style-type: none"> • Planning • Budgeting • Controlling 	<ul style="list-style-type: none"> • Budget statements • Accounting ratios • Marginal cost info • Information for investment decisions

Financial accounting	Differences	Management accounting
Historical information only	Type of info	Historical and budgeted information
Both internal and external users	Users	Internal users only
Information for a specific time period	Time period	Information as and when required by management
Follows accounting concepts, standards, and rules	Accounting concepts	Not relevant

