

## **FORM 6 ACCOUNTING NOTES**

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*(Please be advice that this notes is required for the form 6 students to read for understanding and be able to master each accounting concepts provided within 1 week. For the following week will provided a quiz review to ensure that you already have a fair ideas of understanding the knowledge based on a definition of Accounting, its purposes, natures, functions, users and qualitative characteristic of a good accounting information.*

*Please do so, if there's any question regard of this notes please call me on the number 7202061.*

*THANK YOU.)*

### **STRAND 1. Conceptual basis of accounting**

*(Sub-Strand.11.1.1&2&3: Definition, nature, scope, functions and qualitative characteristics of a good accounting information.)*

#### **A. Definition of accounting:**

The definition of accounting reflects all the duties or roles of an accountant. It:

- Is a discipline or a body of knowledge
- Records, process, report and interpret financial and other information about an entity
- Provides information to users so that they make appropriate decisions.

#### **Book keeping:**

A book keeping is the process of looking after the books of a business.

The person who look after the books of the business is a book keeper.

**Note: the book keeper's tasks is limited to the recording and processing of financial records for the business only.**

#### **B. The purpose of accounting:**

Since accounting is discipline or a body of knowledge, it can be seen that the purpose of accounting is to:

*Provide skills and knowledge for the individuals, business entities, government and other organizations recording and reporting of their financial transactions so that appropriate decisions are made.*

Financial transactions are all the events that have monetary values depending on whether it is an individual, a business entity or a government.

Individuals may need records of his/her belongings as well as his/her future obligations, his/her tax records etc. The same goes to the business entities and other organizations.

### *C. The nature of accounting*

Accounting affects the lives of everyone in a modern society. Most people need some simple form of accounting to deal with their personal financial matters such as budgeting, paying taxes and so on. Business firms need accounting systems to enable them to operate efficiently. Government need accounting systems to allow them to account for the very large amount of money they receive and spend.

### *D. Functions of accounting:*

#### **1. Means of communication**

*Any entity require the decision makers to make appropriate decisions and the decision makers need accurate information so that they can make appropriate decisions.*

Accounting is a language that allows the communication between the business entity and the users of accounting information (decision makers).

*That is, accounting provides the type of information as well as the wording of information so that the users of accounting information fully understand the needs, the performance and all requirements about the entity.*

#### **2. Aids decision making**

For the decision making to be appropriate for the entity, accounting provides the better and more accurate information to assist in the decision making.

#### **3. Means of establishing accountability**

*Accountability means being held responsible to a higher authority for actions carried out. That is, employees are accountable to the management, management are accountable to the owner(s) or individuals or groups from outside, the business entity is accountable to the government and the society.*

Accounting provides the information to enable the assessment of performance of either the employee (timesheet, performance measurement), management and the business entity to be made.

#### **4. Control device**

All employees and managers perform their duties according to the directions provided in their job descriptions as well as the format and requirements for every records and reports that they are entitle to produce.

Through these required records and reports, the employees, managers and the entity at large are being controlled to follow and abide by those rules and therefore controlling them in their performance.

#### **5. Aid to interested parties**

Interested parties are also the users of accounting information who wants to use the accounting information from the business to make appropriate decisions.

#### **6. Stewardship**

Accounting looks after all the aspects of the business through its communication, aids to decision making, establishing accountability, and control device functions.

*E. Users of accounting information:*

<i>User</i>	<i>Information required</i>
Customer	<ul style="list-style-type: none"> <li>• The goods and services available in the business</li> <li>• The price for each good or service</li> <li>• Whether they are allowed to buy on credit</li> <li>• Any discount if they buy in bulk</li> <li>• Other services provided by the business</li> </ul>
Debtors	<ul style="list-style-type: none"> <li>• The terms for the debt</li> <li>• Any discount if the debt is paid on time</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• The wage rate</li> <li>• If there is a possibility for a pay rise</li> <li>• The security of the job like uniform if the job requires protection</li> </ul>
Managers	<ul style="list-style-type: none"> <li>• Whether the decisions they made is acceptable and profitable for the business</li> <li>• How are they going to improve their decision making</li> </ul>
Owner(s)	<ul style="list-style-type: none"> <li>• Whether the capital they invested is profitable or not.</li> <li>• Whether to continue on their investment or not</li> <li>• What return/reward they receive from their investment</li> </ul>
Investors	<ul style="list-style-type: none"> <li>• Whether the business is profitable for their investment or not</li> </ul>
Government (Inland Revenue department)	<ul style="list-style-type: none"> <li>• Whether the business provides the required report or not</li> <li>• Whether the tax charged is correct or not</li> </ul>

*Users of accounting information:*

- a) **Internal users** – they are the users of accounting information from within the business entity such as the employees, managers and the owners
- b) **External users** – they are the users of accounting information from outside the business entity such as the customers, debtors investors and government

*Two types of investors:*

- a) Current or existing investors – they are the owners of the business
- b) Potential investors – they are the investors who are still looking for a business to invest their money at.

#### *F. Qualitative characteristics of a good accounting information:*

*These are the qualities that a good accounting information should have so that a good decision making is taken place.*

##### ***Relevance***

If something is relevant to you like you studying, then it is important to be considered in your daily decision making therefore the degree of relevancy depends on its impact on your life.

Therefore, for the accounting information to be relevant, it must be useful for the user's decision making. That is, it must have an impact on the user's decision making.

For example: the government's inland revenue department is interested on the tax to be charged based on the business's profit, therefore all information on the revenues and expenses of the business are relevant

##### ***Reliability***

If you provide a reliable idea to you parents, then that idea must be trust worthy, free from bias and also based on a hard evident.

The same idea goes to the accounting information if it is to be reliable the information must be faithfully represent events, it must be trust worthy, free from bias and pack up by a source document as evident.

##### ***Understandability***

Accountants should present information in the most understandable manner. General purpose report should be prepared with the interest of users in mind. In order for the users to understand the accounting information, it must be presented in a manner to be readable and simple to understand the message it presented. Therefore the format that the accounting information is presented must be easily understandable

##### ***Comparability***

You can only compare two or more variables or ideas if they are similar or consistent if the comparison is done for a point in time or for a period of time.

The business is needed to be compared with other businesses or the industry averages so that a better decision is made for the benefits of the business. In order for the accounting information to be comparable, the method of valuation (e.g. assets), method of measurement must be consistent from time to time to allow a better comparison.

If the method of valuation and measurement of monetary values is changed, comparison is more difficult and therefore the changes are needed to be disclosed so that a better decision making is available.

##### ***Timeliness***

The accounting information should be provided in a timely manner (such as on time as the accounting period is ended) so that the information is still relevant for decision making.

***Neutrality***

*Information could be prepared from different point of view such as the preparer of the information or a specific user of the information.*

The accounting information should be prepared from the point of view of the business entity and not from any other point of view. That is, the accounting information must be free from bias.

*When the information is free from bias, a more accurate and better decision is made for the business.*

***Verifiability***

When another accountant use the same accounting data and produce a the same result as the business's accountant then the accounting information is verifiable.

***Objectivity***

When the accounting information is based on facts (witness with a source document) and not an opinion (subjective) then the information is objective.