

Chapter Review

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Company Accounts

Objectives...

- 1 distinguish between financial accounting and management accounting
- 2 describe the principal statements of accounts
- 3 explain how society assures financial statements are reported fairly

Key Terms

Accounting	is the recording of financial or money transactions. Accounting is the systematic recording, reporting, and analysis of financial transactions of a business
Accounting standards	Rules for preparing financial statements
Annual Report	Document detailing the business activity of a company over the previous year, and containing the three main financial statements: Income Statement Cash Flow Statement Balance Sheet
Balance Sheet	A statement that lists the assets of a business or other organization, at some specified point in time, together with the claims against those assets.
Financial accounting	reporting of the financial position and performance of a firm through financial statements issued to external users on a periodic basis
Management accounting	the process of identifying, measuring, analyzing, interpreting, and communicating information for the pursuit of an organization's goals
Profit and Loss account	a statement that sets the total revenues (sales) for a period against the expenses matched with those revenues to derive a profit or loss for the period

23. The system for recording and summarizing business transactions and activities designed to accumulate, measure, and communicate financial information about economic entities for decision-making purposes is termed accounting. Accounting refers to the overall process of identifying, measuring, recording, interpreting, and communicating the results of economic activity; tracking business income and expenses and using these measurements to answer specific questions about the financial and tax status of the business i.e. it is a system providing quantitative information about finances. Whereas financial accounting is the use of accounting information for reporting to parties outside the organisation, management accounting is concerned with the provisions and use of accounting information to managers within organisations, to provide them with the basis for making informed business decisions that will allow them to be better equipped in their management and control functions.

24. We need accounting and its products such as an organisation's annual report as a platform upon which to build many decisions and activities. Organisations must follow specific rules and formats of presentation for their annual reports and financial statements. The key accounting event for any organisation is the publication of the annual report which records the organisation's (financial) performance over a book year. Whilst the Balance Sheet tends to remain somewhat of a mystery to those who are not accountants, the Profit & Loss Account and the Cash Flow Statement can be useful for many people in management as an indication of how well a business is progressing over the course of a year. Most managers, however, are more accustomed to dealing with finance at an operational level, i.e. At the level of department and section budgets, and it is to these aspects of finance that we turn in the next chapter.