

# UNIT 10: FINANCIAL ACCOUNTING AND REPORTING



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- LEARNING OUTCOME 1: UNDERSTAND THE REGULATORY FRAMEWORK FOR FINANCIAL REPORTING

# THE BASIC SYLLABUS



- 1. Understand the regulatory framework for financial reporting.
- 2. Be able to prepare financial statements from complete or incomplete records.
- 3. Be able to present financial information in accepted formats for publication.
- 4. Be able to interpret financial statements.

# LEARNING OUTCOMES



- Understand the regulatory framework for financial reporting.



- At the end of the class the students should be able to:
- 1.1 Describe the different users of financial statements and their needs.

# OVERVIEW



- The primary objective of accounting is to provide information useful for decision making. To provide information that supports this objective, accountants must consider the intended users, the types of decisions users make with financial statement information, and available means of analyzing the information.

# OWNERS



- Owners (or investors) need financial information relating to the entity to assess how effectively the managers are running it and to make judgements about likely levels of risk and return in the future. Shareholders need information to assess the ability of the entity to pay them a return (dividend). The same applies to potential shareholders.

# MANAGERS



- Managers require Financial Statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions.

# EMPLOYEES



- It is encouraging to note that some companies produce a separate employees report.
- Employees and their representatives require information on business performance for two principal reasons:
  - wage and salary negotiation
  - assessment of current and forward opportunity in terms of employment

# EMPLOYEES



- They would be interested in both the current financial stability and the longer-term financial viability of the business.
- They need information in a clear, simple and understandable form.
- I have seen some employee reports which include a value added approach rather than a profit and loss account view of performance.

# SUPPLIERS



- This group comprises the trade creditors an important element in the supply of a business's working capital. They would be interested in the financial stability of the business in terms of cash flow and the firm's ability to meet its short-term liabilities.
- They would consider current and future cash flow together with current and future profitability.
- An interest in the company's future strategy is also likely as they would need to consider how they, as suppliers, fit with the strategy.

# CUSTOMERS



- Customers need to know that a company can continue to supply them into the future. This is especially true if the customer is dependent on a company for specialised supplies
- They may also have an interest in the environmental policy of the business.

# LENDERS



- This is often referred to as the loan creditor group. It would include the long, medium and short term lenders of money.
- The concern of the existing and/or potential loan creditor is "will they get their money back?"
- A short term loan creditor will immediately consider cash flow Statements based on FRS1, will be of particular interest here. The Banks make up much of this grouping and would also have an interest in the (NRV) net realisable value of the assets.

# LENDERS



- Medium and long term creditor groups will review the future cash flow potential of the business.
- A further consideration would be on the priority of claims on the business's resources.
- They would have interest in current and future profitability and growth prospects of the entity.

# GOVERNMENT



- Information is need information in order to regulate the activities of entities, to assess whether they comply with agreed pricing policies, whether financial support is needed, and how much tax they should pay. They also require information in order to determine taxation policies and as the basis for national income and statistics.
- The government are decision makers and their forward economic plans are influenced by the performance of all business within various sectors in the economy.
- The current financial report will be used as a base in their economic models for assessing future performance.

# POTENTIAL INVESTORS



- Investors and potential investors are interested in their potential profits and the security of their investment. Future profits may be estimated from the target company's past performance as shown in the income statement. The security of their investment will be revealed by the financial strength and solvency of the company as shown in the statement of financial position. The largest and most sophisticated groups of investors are the institutional investors, such as pension funds and unit trusts.

# REVIEW QUESTIONS



- 1. Parts Insurance Company (PI) is a large motor insurance business. Taking the user groups identified in above, suggest, for each group, the sorts of decisions likely to be made about PI and the factors to be taken into account when making these decisions.
- 2. Can you think of other examples where accounting information may be used to monitor potential conflicts of interest between the various user groups identified?

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