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Nature, principles and scope of financial reporting

- Financial accounting: report the financial performance and financial position of a business
- Management accounting: management information system for planning and controlling the resources of the business, plan for the future

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Users' and stakeholders' needs

External Users

Shareholders:
Investment decision

Customer:
Trading security

Supplier:
Trading security

Tax Authority:
Tax assessment

Banks:
Solvency

Management:
planning
control and forecast

INTERNAL USERS

Director

Employees
employee reports

Government Authority :
Regulatory

Financial Analysts:
Profitability
Liquidity
forecast

The Public:
Social responsibility

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Users' and stakeholders' needs

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Legal responsibilities of directors

Directors have a duty of care to show reasonable competence; Directors are also said to be in a fiduciary position in relation to the company

Responsibility for the financial statements

Directors are responsible for the preparation of the financial statements of the company. Specifically, the preparation of the financial statements of the company in accordance with the applicable IFRSs

The internal controls necessary to enable the preparation of financial statements that are free from material error the prevention and detection of fraud

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The main elements of financial reports

Statement of financial position

- Assets: resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- Equity is the residual interest in the assets of the entity after deducting all its liabilities.

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The main elements of financial reports

Example of Balance Sheet

A TRADER
STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL 20X7

	$	$
Assets		
Plant and machinery		55,000
Inventory	5,000	
Receivables (from customers)	1,500	
Bank	500	
		7,000
Total assets		62,000
Capital		
Balance brought forward		25,000
Profit for the year		10,400
Balance carried forward		35,400
Liabilities		
Bank loan		25,000
Payables (to suppliers)		1,600
Total capital plus liabilities		62,000

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The main elements of financial reports

Statement of profit or loss

- Income is increasing in economic benefits during the accounting period (other than those relating to contributions from equity participants)
- Expenses are decreases in economic benefits during the accounting period (other than those relating to distributions to equity participants)

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The main elements of financial reports

Example of statement of profit or loss

A TRADER
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 APRIL 20X7

	$
Revenue	150,000
Cost of sales	75,000
Gross profit	75,000
Other expenses	64,600
Profit for the year	10,400

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Conclusion

- Introduction to Accounting
- Types of business
- Nature, principles and scope of financial reporting
- Users' and stakeholders' needs
- The main elements of financial reports

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Question

Which of the following is an example of a liability?

A Inventory

B Receivables

C Plant and machinery

D Loan

ANSWER: D

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Question

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A business entity is owned and run by Alpha, Beta and Gamma.

What type of business is this an example of?

A Sole trader

B Partnership

C Limited liability company

D None of the above

ANSWER: B

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