




# Accounting I


Degrees in Management, Finance, Economics and Applied Maths

# Accounting I

**1<sup>ST</sup> CLASS**  
**GOALS AND MAIN CONCEPTS ON  
FINANCIAL ACCOUNTING**




# Accounting

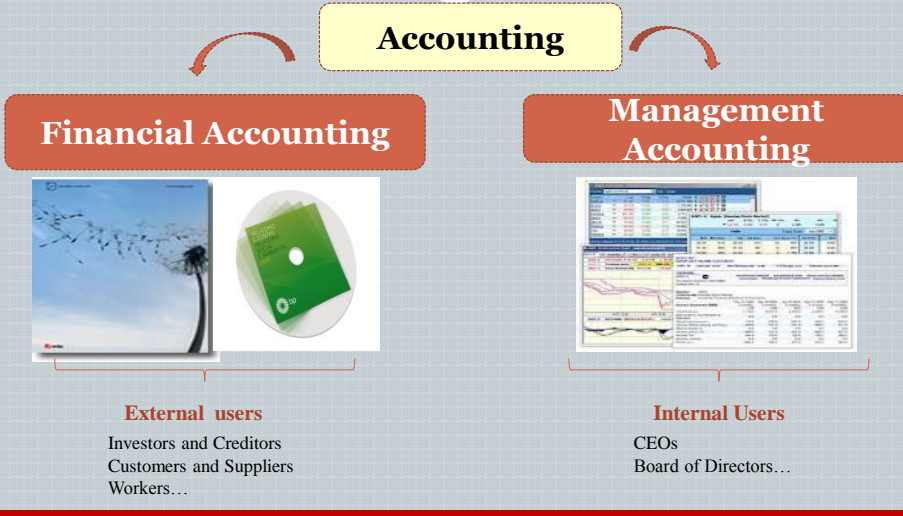


**Accounting:** system of *collecting, processing* and *reporting* financial information for decision makers

1. a statement of financial position (balance sheet) at the end of the period
2. a statement of comprehensive income for the period (or an income statement and a statement of comprehensive income)
3. a statement of changes in equity for the period
4. a statement of cash flows for the period
5. notes, comprising a summary of accounting policies and other explanatory notes




# Accounting




**Accounting**

**Financial Accounting**



**External users**  
Investors and Creditors  
Customers and Suppliers  
Workers...

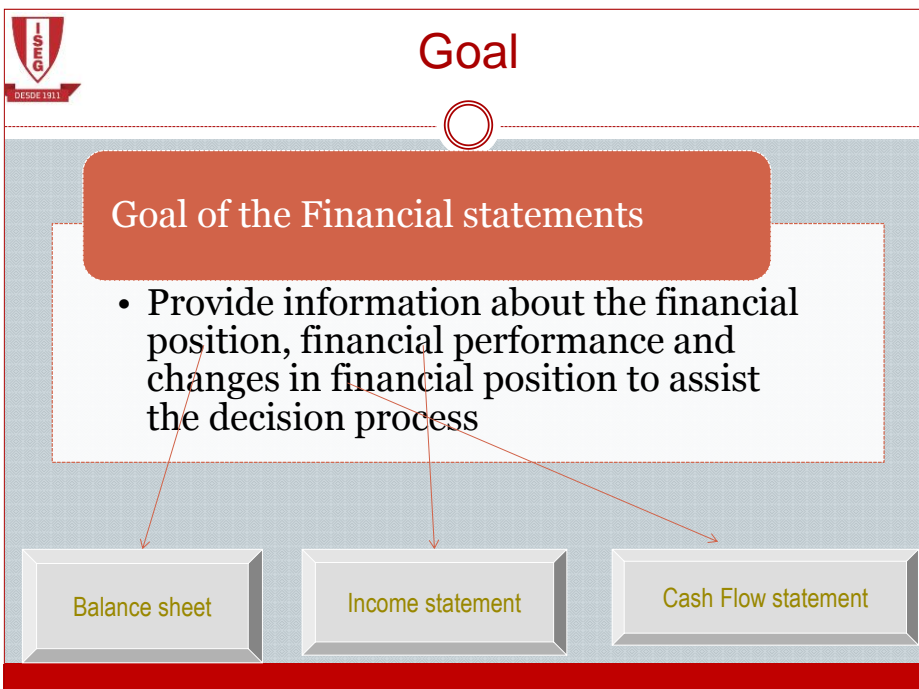
**Management Accounting**

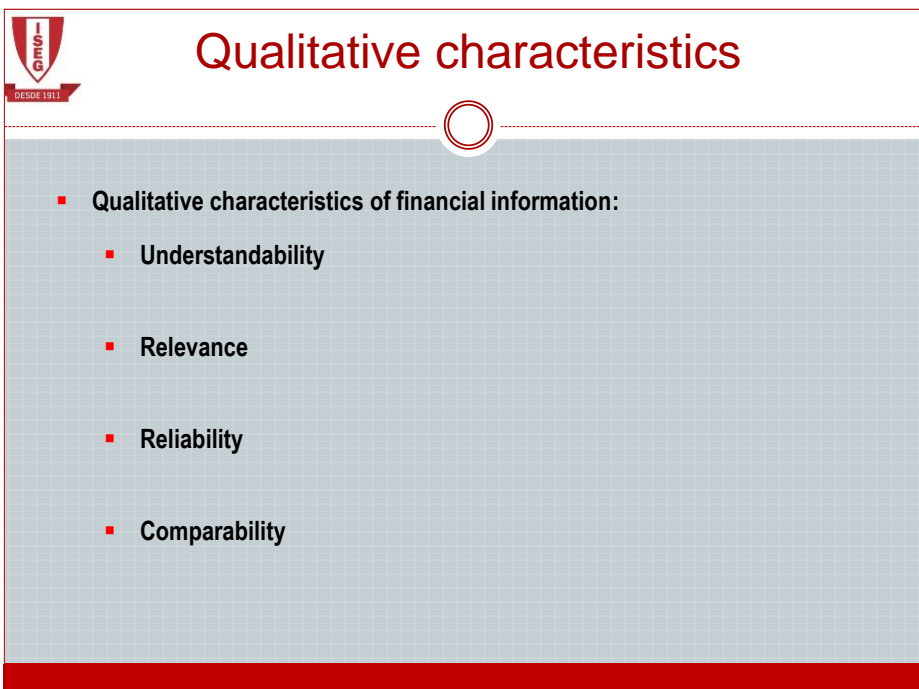
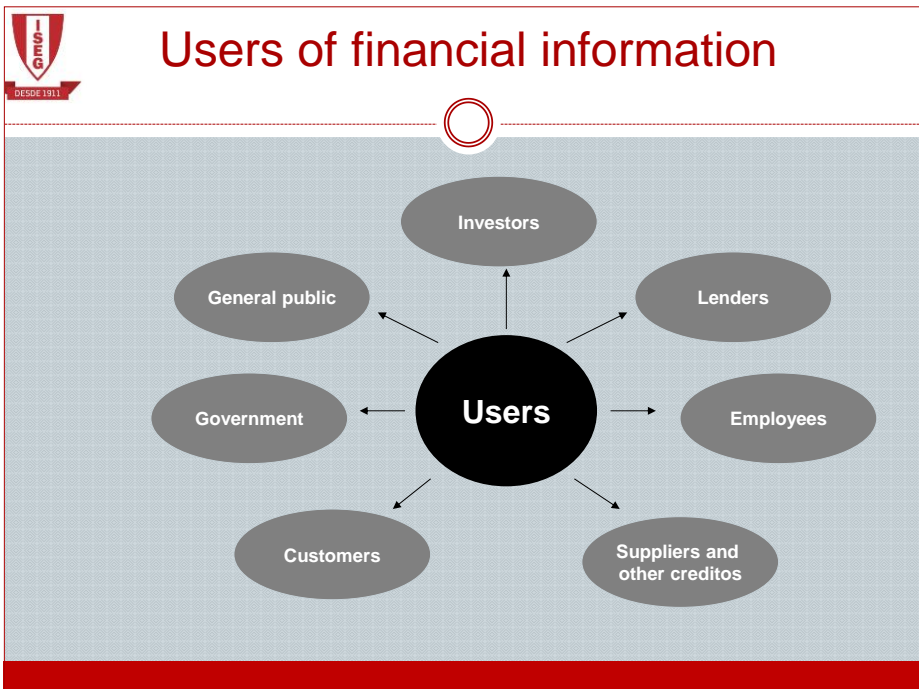



**Internal Users**  
CEOs  
Board of Directors...

**Accounting**

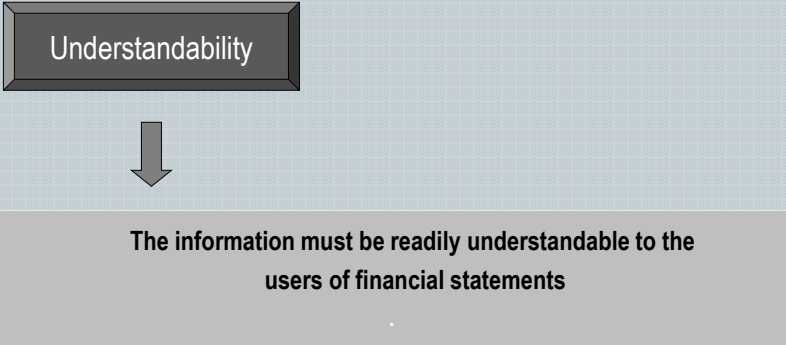
Financial Accounting	Management Accounting
<b>Mandatory</b>	
It is imposed by law and supports the accountability process	Not mandatory by law; it is the management process and managers that justifies its existence
<b>Periodicity</b>	
The financial statements are published annually. In some situations, e.g., for listed firms, the report can be trimestral or other.	Internal reports. The frequency and periodicity is defined by the managements.
<b>Standards</b>	
It is subject to national standards (SNC) and international standards (IAS/IFRS)	It is not subject to any national or international standards.
<b>Nature of data</b>	
The data shown is usually objective and verifiable	The data shown is usually subjective








## Qualitative characteristics



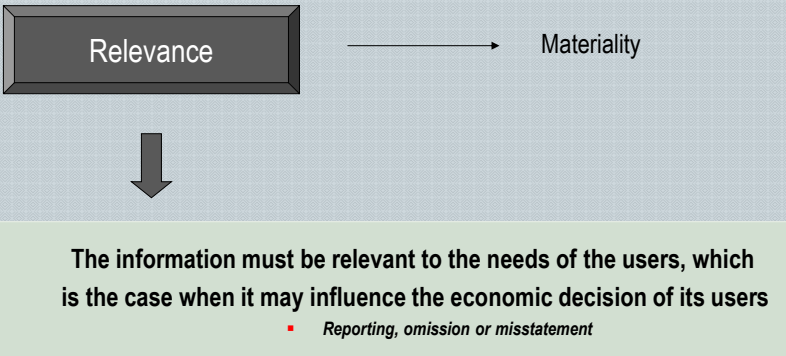
Understandability

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The information must be readily understandable to the users of financial statements



## Qualitative characteristics




Relevance

→ Materiality

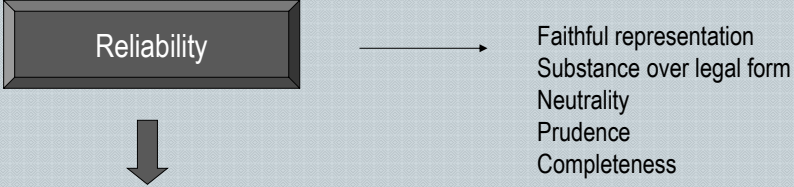
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The information must be relevant to the needs of the users, which is the case when it may influence the economic decision of its users

- *Reporting, omission or misstatement*




## Qualitative characteristics



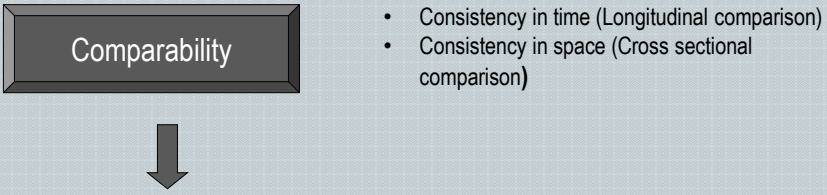
**Reliability**

- Faithful representation
- Substance over legal form
- Neutrality
- Prudence
- Completeness

**The information must be free of material errors and bias, and not misleading. It must faithfully represent the transactions and events that affect the firm.**




## Qualitative characteristics



**Comparability**


- Consistency in time (Longitudinal comparison)
- Consistency in space (Cross sectional comparison)

**The information must be comparable to the financial information presented for other accounting periods, so that the users can identify trends in the performance and financial position of the firm. Users must also be able to compare the financial reports of different entities in order to evaluate their relative financial position, financial performance and cash flows.**



## Qualitative characteristics

- **Constraints on Relevant and Reliable Information**
  - **Timeliness** - If there is undue delay in the reporting of information it may lose its relevance.
  - **Balance between Benefit and Cost** - The benefits derived from information should exceed the cost of providing it.
  - **Balance between Qualitative Characteristics** - the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial reports
  - **True and Fair View/Fair Presentation** - the application (...) of appropriate accounting standards normally results in financial reports that convey what is generally understood as a true and fair view of, or as presenting fairly such information.



## Accounting Assumptions

### Accrual assumption

- Transactions are recorded using the accrual basis of accounting, where the recognition of revenues and expenses arises when earned or used, respectively. If this assumption is not true, a business should instead use the cash basis of accounting to develop financial statements that are based on cash flows.

### Going concern

- A business will continue to operate for the foreseeable future. If this assumption is not true (such as when bankruptcy appears probable), deferred expenses should be recognized at once.