5TH EDITION

Accounting

BUSINESS REPORTING FOR DECISION MAKING

BIRT CHALMERS BYRNE BROOKS OLIVER

WILEY

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Fifth edition published 2014 by
John Wiley & Sons Australia, Ltd
42 McDougall Street, Milton Qld 4064
First edition published 2005
Second edition published 2008
Third edition published 2010
Fourth edition published 2012

National Library of Australia Cataloguing-in-Publication entry

Title:	Accounting : business reporting for decision making/Jacqueline Birt, Keryn Chalmers, Suzanne Maloney, Albie Brooks, Judy Oliver.
Edition:	5nd ed.
ISBN:	9781118624180 (pbk.)
Notes:	Includes index.
Subjects:	Accounting. Accounting — Decision making. Accounting — Study and teaching.
Other Authors/ Contributors:	Birt, Jacqueline, 1966– author. Chalmers, Keryn, 1961– author. Maloney, Suzanne author. Brooks, Albie author. Oliver, Judy author.
Dewey Number:	657

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preface

While this new edition of *Accounting: business reporting for decision making* covers both preparer and user issues of business reporting, it predominantly explores and reinforces the principles of financial and management accounting from a user perspective. Accounting is presented as a decision-making tool rather than a record-keeping function. Accounting information is constantly being used by stakeholders such as investors, lobby groups, environmental consultants and government bodies, and accordingly the emphasis of this text is on *business reporting for decision making*.

In developing this new edition of the text, we have carefully considered the positioning of the chapters and the flow of the learning objectives and we believe that the order of the chapters will suit the sequence of topics covered in most accounting courses. In the majority of chapters, we have used JB Hi-Fi Ltd either as an illustrative case or as a basis for the chapter's exercises or problems, which provides students with interesting real-world examples to which they can relate and understand. Key changes in standard setting resulting from the Australian adoption of International Financial Reporting Standards (IFRSs) are discussed and an overview of the new *Conceptual Framework* is provided. We have introduced a chapter on business sustainability and discussed the challenges for the accounting profession in relation to this topical subject.

Key features

This text is most suitable for introductory accounting units that focus on decision making and the different users of business reports, rather than the preparer of reports. It is also highly suited to first units in accounting in business degrees, MBA introductory accounting units and accounting service units.

The text has several unique features.

- References to JB Hi-Fi Ltd's annual report enhance the understanding of the concepts covered in the chapters. Each of the chapters on financial reporting provides a step-by-step illustration of the components of the financial statements and how to prepare and use the financial statements.
- Relevant, interesting and contemporary articles and reality checks enhance coverage of concepts in the chapters.
- The interrelationship between accounting information, business decisions and sustainable business practices is considered in increased detail.
- A glossary containing definitions of key terms is provided at the end of the text.

Learning toolkit

Each chapter contains the following pedagogical tools to support you with your studies.

- *Learning objectives* at the start of each chapter highlight the learning targets for the chapter.
- A *chapter preview* introduces the major topics to be covered in each chapter.
- *Value to business* vignettes positioned at the end of each main section in the text reiterate key issues and processes presented in the chapter.
- *Illustrative examples* located throughout the chapter aid in the conceptual understanding of the content. Examples provide a worked solution and explain the process.
- *Decision-making examples* located throughout the chapter emphasise the decision-making process rather than computation and provide students with experience in financial decision making.
- *Reality check* vignettes apply concepts to real-world business events.
- A *summary* of the key points covered in the chapter is provided at the end of each chapter. Phrased as a question, they provide a short summary under each question.
- A list of *key terms* is provided in alphabetical order at the end of each chapter.
- *Comprehension questions* review the chapter content and help students understand the key concepts. Questions include multiple-choice questions, fill-in-the-blanks and review.
- *Self-evaluation activities* provide a worked solution as a model for the workings of the exercises that follow.
- *Exercises* test student knowledge of the concepts presented in the chapter and develop analytical, comparative, communication and reporting skills. They are graded according to difficulty: ■□□ basic, ■■□ moderate and ■■■ challenging.
- *Problems* build knowledge and skill development and are graded according to difficulty: ■□□ basic, ■■□ moderate and ■■■ challenging.
- *Decision-making activities* focus on developing awareness of accounting information and various generic professional skills. They cover a range of scenarios such as communication, preparing presentations, teamwork, financial interpretation, internet-based research and ethical issues.

Executive summary — key features of each chapter

Chapter	Key features
Chapter 1 Introduction to accounting	• Introduces the process of accounting and illustrates the difference between bookkeeping and accounting. • Outlines the role of accounting for various decision makers. • Provides examples of the differences between financial and management accounting.
Chapter 2 Business sustainability	• Discusses business sustainability, its key drivers and principles. • Outlines the GRI reporting framework and the dimensions of triple bottom line reporting. • Examines corporate governance guidelines and practices.
Chapter 3 Business structures	• Defines the four different forms of business structure (sole trader, partnership, company and trust). • Outlines the advantages and disadvantages of each of the business structures.
Chapter 4 Business transactions	• Explains the differences between business transactions, personal transactions and business events. • Describes the concept of duality and illustrates the impact of the application of duality to the accounting equation and worksheet. • Provides examples of common errors on the worksheet.
Chapter 5 Balance sheet	• Explains the nature and purpose of the balance sheet. • Outlines the criteria for identifying assets and liabilities. • Illustrates the classification and format of the balance sheet. • Describes possible limitations of the balance sheet.
Chapter 6 Income statement and statement of changes in equity	• Explains the reporting period concept and the differences between accrual accounting and cash accounting. • Outlines the criteria for identifying income and expenses. • Illustrates the classification of items in the income statement. • States the relationship between the income statement, the balance sheet, the statement of comprehensive income and the statement of changes in equity.
Chapter 7 Statement of cash flows	• Explains the purpose of a statement of cash flows. • Illustrates the direct method of preparing a statement of cash flows and explains the purpose of reconciling profit with cash flows from operating activities. • Provides the steps to analyse the statement of cash flows.

Chapter 8 Analysis and interpretation of financial statements	• Explains the nature and purpose of financial analysis. • Describes ratios relative to profitability, asset efficiency, liquidity, capital structure and market performance. • Explains the limitations of ratio analysis.
Chapter 9 Budgeting	• Illustrates the key steps in the budgeting process. • Links the budgeting process to strategic planning • Describes the different types of budgets and outlines the components of a production and cash budget.
Chapter 10 Cost–volume–profit analysis	• Looks at cost behaviour and its impact on profit planning. • Illustrates the concept of CVP analysis and outlines the key assumptions underlying CVP analysis. • Explains how to analyse make or buy decisions and special orders.
Chapter 11 Costing and pricing in an entity	• Defines and classifies cost objects into direct and indirect costs. • Provides illustrations of the allocation process for indirect costs. • Explains pricing issues for products and services.
Chapter 12 Capital investment	• Describes the different techniques to use when analysing capital investment decisions. • Explains the advantages and disadvantages of each of the capital investment techniques.
Chapter 13 Financing the business	• Explains and illustrates the different sources of finance for entities. • Discusses issues of managing debtors and inventories.
Chapter 14 Performance measurement	• Presents performance measurement techniques for an organisation. • Discusses characteristics of contemporary measurement systems.

Acknowledgments

The authors would like to extend a special thanks to the following academics who invested time and energy in reviewing the developing chapter drafts. Their comments were valued and have been incorporated into the final version of the manuscript. The textbook has improved with each edition and we acknowledge the advice and guidance provided by our colleagues: Graeme Mitchell and Penny Janson, UWS; Peta Stevenson-Clarke, RMIT; Nicola Beatson, the University of Otago.

acknowledgments

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E-Text

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1 Introduction to Accounting

learning objectives

After studying this chapter, you should be able to:

1. explain the process of accounting and the differences between accounting and bookkeeping
2. outline the role of accounting in decision making by various users
3. explain the differences between financial accounting and management accounting
4. discuss the globalisation of financial reporting
5. identify the sources of company regulation in Australia
6. explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process
7. evaluate the role of the *Conceptual Framework* and illustrate the qualitative characteristics of financial statements
8. give examples of the limitations of accounting information
9. provide examples of new and exciting opportunities in the accounting discipline.

Chapter 1 preview

What is accounting? How important is accounting to society? What do accountants do? These questions and more will be answered in this first chapter of this book. People in all walks of life rely on accounting information to make daily decisions concerning the allocation of scarce resources. For example, a retired rugby player may rely on accounting information to help guide investment decision making on the allocation of his earnings as a professional sportsman; a student might use budgeting tools to help fund an overseas trip to Vietnam at the end of the university year; and knowledge of expected costs could help a construction company quote for a job on a large-scale, multimillion-dollar building project. All of these scenarios would benefit from the input of accounting information to help reach the best decision based on the available resources.

In recent years, the responsibilities of the accounting profession have changed dramatically. The Enron Corporation and Arthur Andersen financial scandal at the start of the millennium resulted in major changes to public expectations of the accountant and reiterated the importance of good accounting practices in companies. Recent collapses of well-known companies such as ABC Learning, Lehmann Brothers Holdings, Storm Financial, Opes Prime Group and Borders Group, Inc. have again raised questions about accounting processes and systems, and the integrity of the financial reporting in these companies.

Changes in the structure of business entities, including the growth of the multinational and diversified entity, have also had consequences for the accounting profession. The role of the accountant is continually evolving and comprises a lot more than just the rudimentary preparation of financial statements, and the traditional work areas of management and financial accounting. Accountants can work in exciting new growth areas such as forensic accounting, carbon accounting, water accounting, sustainability accounting, procurement and insolvency.

In addition to explaining the importance of accounting information to the users' decisions, this chapter outlines the globalisation of financial reporting, the sources of company regulation in Australia, the role of professional accounting associations, the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*), the limitations of accounting information, and new careers in accounting.

« acknowledgments

Introduction ›

1 Introduction to Accounting

Introduction

Many students about to embark on a first course in accounting not only have the wrong idea about what the course content is going to be, but also a misconception of what an accountant actually does! Some anticipate that the course is going to be about recording transactions in journals and ledgers; others think that the course is all about balancing books. Some people associate accountants with repetitive tasks such as data entry and see the role as being rather dull. There is, however, a lot more to accounting and the role of an accountant than this. In accounting, we learn not only how to record and report transactions but also the purpose for the information created and the many uses of accounting information in everyday living and business. Accounting provides users with financial information to guide them in making decisions concerning how to allocate money among different and competing projects. An understanding of accounting and its various roles in decision making will equip you with some important tools and
4 techniques for understanding a broad range of accounting and business issues. Some of the accounting and business issues we will be exploring throughout this book include:

- What type of financial reports do business entities prepare?
- What is meant by sustainability accounting?
- What is meant by differential reporting?
- What is the meaning of IFRS?
- What does it mean to be ethical in business?
- Why are capital budgeting techniques important to any capital expenditure decision?
- How do management accounting and financial accounting differ and what are the linkages between the two?
- What are the growth areas of accounting?
- How has accounting changed since corporate collapses such as Enron?
- What is the difference between a bookkeeper and an accountant?

‹ Introduction to Accounting

The accounting process ›

1 Introduction to Accounting

The accounting process

LO 1 Explain the process of accounting and the differences between accounting and bookkeeping.

The word account derives from the Latin words ‘ad’ and ‘computend’, which mean ‘to reckon together’ or ‘to count up or calculate’. Accounting can be defined as the process of identifying, measuring and communicating economic information about an entity to a variety of users for decision-making purposes. The first component of this definition is the process of identifying business transactions. A business transaction is an event that affects the financial position of an entity and can be reliably measured and recorded. Business transactions include such events as withdrawals of cash by the owner(s), payment of wages and salaries, earning of fees revenue, purchase of an office photocopier, purchase of stationery, capital contribution by owners, incurring of interest on a bank loan and payment of quarterly GST (goods and services tax).

The second component is the measuring of information, which refers to the analysis, recording and classifying of business transactions. This component identifies how transactions will affect the entity’s position, and groups together similar items such as expenses and income. For example, the contribution of capital by the owners will have the effect of increasing the cash at bank (asset) of the entity and increasing the capital (equity) of the entity. The earning of fees revenue will have the effect of increasing the income of the entity and increasing the entity’s assets. Depending on whether the fees earned were cash fees or on credit, the cash at bank or debtors of the entity respectively will increase. Throughout the accounting period, individual assets, expenses, income, equity and liabilities will be grouped (classified) together to summarise the information. For example, land, buildings, machinery, equipment and vehicles will be grouped together under the subheading ‘property, plant and equipment’. The final component is the communication of relevant information through accounting reports, such as the income statement and the balance sheet, for decision-making purposes for the various users. For example, the total of the property, plant and equipment account will be reported on the balance sheet. The information reported in the entity’s financial statements should be relevant and reliable for users of accounting information. Relevant information is defined as information that makes a difference in decision making. The different users require accounting information for making important decisions such as whether to invest in a business, whether the entity should continue to manufacture a product or outsource this process to another entity, and whether the entity has the resources to pay debts on time. All these decisions involve making the most of the scarce resource — money. The process of accounting assists users in the allocation of this scarce resource.

The practices of accounting and bookkeeping date back to ancient civilisations in China, Egypt, Greece and Rome, where families had to keep personal records of their receipts and payments. The title 'Father of accounting' belongs to the Italian mathematician Fra Luca Pacioli who, in 1494, produced *Summa de Arithmetica, Geometrica, Proportioni et Proportionalita*, which included chapters based entirely on how to record business transactions using a double-entry system. Table 1.1 summarises the process of accounting.

TABLE 1.1 The process of accounting

Identifying	Measuring	Communicating	Decision making
Transactions that affect the entity's financial position are taken into consideration. They must be able to be reliably measured and recorded.	This stage includes the analysis, recording and classifying of business transactions.	Accounting information is communicated through various reports such as income statements, balance sheets and statements of cash flows.	Accounting information is used for a range of decisions by external and internal users.

So, now that we have introduced the accounting process, just how does accounting differ from bookkeeping, or is it the same thing? Bookkeeping is simply the recording and summarising of financial transactions and the preparation of basic financial statements. Therefore, it may be useful to think of bookkeeping as being part of the accounting process. Bookkeeping represents the first two stages in Table 1.1 compared with accounting, which represents the four stages of identifying, measuring, communicating and decision making.

value to business

- Accounting can be defined as the process of identifying, measuring and communicating economic information about an entity for decision making by a variety of users.
- Bookkeeping is the recording and summarising of financial transactions and preparation of basic financial statements. The bookkeeping process is part of the accounting process. In some entities, an accountant may perform both bookkeeping and accounting roles.

Introduction

Accounting information and its role in decision making

1 Introduction to Accounting

Accounting information and its role in decision making

LO 2 Outline the role of accounting in decision making by various users.

Accounting information is an important part of our everyday decision-making process, as summarised by this excerpt from the Jenkins Report.

> People in every walk of life are affected by business reporting, the cornerstone on which our process of capital allocation is built. An effective allocation process is critical to a healthy economy that promotes productivity, encourages innovation, and provides an efficient and liquid market for buying and selling securities and obtaining and granting credit (AICPA, ch. 1).

Prospective and current investors, employees, consumers, regulatory bodies, government
6 authorities and financial institutions are just some of the many individuals and groups who are interested in accounting information and require accounting to help them make decisions relating to the allocation of scarce resources.

Individuals and entities need accounting information to assist in making decisions about the risks and returns of investment opportunities. Accounting information is designed to meet the needs of both internal users and external users of accounting information. Accounting information is extremely valuable to an entity's management (i.e. internal users). It is used to help managers achieve the following:

- Make decisions concerning the operations of the business entity. The information managers require is usually detailed enough to assist them in management planning processes such as determining the appropriate sales mix and price of goods, forecasting profits, and determining the capacity of assets such as plant.
- Evaluate the success of the business entity in achieving its objectives. This is done by comparing the performance of the business entity against budgets, and assessing how well employees have achieved their set targets.

> Accounting provides a range of information that will meet the needs of both internal and external users.

- Weigh up various alternatives when investing the resources of the business entity. External users (the stakeholders) include such parties as employees, investors, suppliers, banks, consumers, taxation authorities, regulatory bodies and lobby groups, all of whom have their own information needs. They have a 'stake' or interest in the performance of the entity.
- Current investors of the entity will seek accounting information to help them evaluate whether the entity's managers have been appropriate stewards or custodians of the entity's assets. They will examine entity reports to glean how effectively management has invested the assets of the business entity, and whether it has made appropriate business decisions on behalf of the investors. This is known as the stewardship function of management. The information in an entity's annual report can explain to the investors what areas of business the entity has expanded into and what the entity's strategic plan is for the next 12 months, 5 years, 10 years.
- Prospective investors will seek information from entity reports to determine whether or not a particular entity is a sound investment. Information such as the financial structure of the entity (level of debts versus level of equity), current financial performance and its future growth prospects can help such external users to determine whether capital growth is expected for the entity.
- Suppliers and banks are interested in gauging the entity's ability to repay debt, and the level of risk associated with lending funds to it. Statements such as the statement of cash flows and the balance sheet enable them to evaluate whether the entity has sufficient funds to meet debt repayments and to cover interest expense.
- Employees are most concerned about the future prospects of the entity. Is there a likelihood that the entity will expand, consequently creating additional job opportunities? Is there a possibility of promotion? Or, if the entity is performing poorly, are jobs at risk? What is the remuneration of the highest paid executives and what are the financial details of the employee share ownership plan? Particular sections in the annual report such as the chief executive officer's (CEO's) report, directors' report, statement of comprehensive income and statement of cash flows will provide useful information to the employees of the entity.
- Government authorities such as the Australian Taxation Office (ATO) will be interested in the reported profit for the year, and the associated goods and services tax (GST) paid, in order to calculate the amount of tax payable or to be refunded in a particular financial year. Regulatory
7 bodies such as the Australian Securities and Investments Commission (ASIC) will seek to identify whether the business has complied with requirements of the *Corporations Act 2001* (Cwlth); for example, whether a disclosing entity has complied with Australian Accounting Standards.

Table 1.2 summarises the accounting information required by different stakeholders for their decision making.

value to business

- Internal users are the management of the entity, who use the information to assist with various management functions.
- External users (also known as stakeholders) are groups outside the entity, who use accounting information to make decisions about the entity.

TABLE 1.2 Stakeholders and the accounting information they need for their decision making

Stakeholder	Accounting information and decision making
Investor	Information to determine the future profitability of the entity, to assess the future cash flows for dividends and the possibility of capital growth of investment.
Banks	Information to determine whether the entity has the ability to repay a loan.
Suppliers	Information to determine an entity’s ability to repay debt associated with purchases.
Employees	Information concerning job security, the potential to pay awards and bonuses, and promotional opportunities.
Consumers	Information regarding the continuity of the entity and the ability to provide the appropriate goods and services.
Government authorities	Information to determine the amount of tax that should be paid and any future taxation liabilities or taxation assets.
Regulatory bodies	Information to determine whether the entity is abiding by regulations such as the Corporations Act and Australian taxation law.
Community	Information to determine whether the entity is contributing positively to the general welfare and economic growth of the local community.
Special interest groups	Information to determine whether the entity has considered environmental, social or industrial aspects during its operations.

‹ The accounting process

Financial accounting and management accounting ›

1 Introduction to Accounting

Financial accounting and management accounting

LO 3 Explain the differences between financial accounting and management accounting.

In a typical accounting degree, you will undertake studies in both financial accounting and management accounting. Financial accounting is the preparation and presentation of financial information for all types of users to enable them to make economic decisions regarding the entity. General purpose financial statements (reports) are prepared to meet the information needs common to users who are unable to command reports to suit their own needs, while special purpose financial statements (reports) are prepared to suit a specific purpose and do not cater for the generalised needs common to most users. This information is governed by generally accepted
8 accounting principles (GAAP), which provide accounting standards for preparing financial statements. Financial accounting is also guided by rules set out in the Corporations Act and the Listing Rules of the Australian Securities Exchange (ASX). Financial accounting is traditionally based on historical figures that stem from the original transaction; for example, the purchase of office furniture for $100 000 would be shown in the financial statement (the balance sheet) as an asset for $100 000. Even though the $100 000 may not reflect the current market value of the office furniture, the office furniture is still shown at its historical cost, which is the original amount paid for an asset.

The financial statements consist of the entity's statement of cash flows, balance sheet and income statement (for companies, the statement of profit or loss and other comprehensive income and the statement of changes in equity). The statement of cash flows reports on an entity's cash inflows and cash outflows, which are classified into operating, investing and financing activities. The income statement reflects the profit for the entity for a specified time period. (Profit is the excess of income over expenses for a period.) An entity's assets, and its liabilities at a point in time, are reported in the balance sheet (also called the statement of financial position).

Financial statements will suit a variety of different users, such as the management of the entity, investors, suppliers, consumers, banks, employees, government bodies and regulatory authorities.

Management accounting is a field of accounting that provides economic information for internal users. The core activities of management accounting include formulating plans and budgets and providing information to be used in the monitoring and control of different parts of the entity. Management accounting reports are bound by few rules and are therefore less formal. Because management accounting reports are prepared for and tailored to suit the needs of management, they can provide any level of detail. For example, if the human resources manager requires information on the number of employees who have opted to make additional superannuation contributions, then a report can be produced. Management accounting reports must be up to date, and can be prepared at any time for any period. For example, a sales manager in the entity may demand information on the current day's sales by the end of that day.

Ultimately, there will be an interaction between financial accounting and management accounting, because management accounting will provide economic information for internal users that is then reflected in the financial accounting statements for external users. One such example of the interaction between financial and management accounting is illustrated in the area of segment reporting by large and diversified companies. Large and diversified companies must disclose segment information as part of their accompanying notes to the financial statements. Reporting on segments assists users in helping to understand an entity's relative risks and returns of individual segments of the entity. The operating segments are reported according to how an entity is organised and managed and is hence known as the management approach. Therefore, management accounting determines the operating segments and financial accounting reports these operating segments to the various users of financial statements. Illustrative example 1.1 shows the reportable operating segments for the Qantas Group. As you can see, the revenue and result for the Qantas Group have been disaggregated into the operating segments of Qantas, Jetstar, Qantas Frequent Flyer, Qantas Freight etc. There are also additional breakdowns for depreciation and amortisation, operating leases, and so on.

9

illustrative example 1.1

Reportable operating segments for the Qantas Group

(c) Analysis by operating segment

2012 $M	Qantas	Jetstar	Qantas Frequent Flyer	Qantas Freight	Corporate/ Unallocated	Eliminations	Consolidated Underlying
Revenue and other income							
External segment revenue	10 682	2 915	1 058	1 004	61	4	15 724
Intersegment revenue	1 151	161	99	9	(55)	(1 365)	—
Total segment revenue and other income	**11 833**	**3076**	**1157**	**1013**	**6**	**(1 361)**	**15 724**
Share of net profit/(loss) of associates and jointly controlled entities	6	(19)	—	16	—	—	3
EBITDAR[1]	**1 503**	**574**	**234**	**67**	**(178)**	**(2)**	**2 198**
Non-cancellable operating lease rentals	(262)	(283)	—	(4)	—	—	(549)
Depreciation and amortisation	(1 262)	(88)	(3)	(18)	(13)	—	(1 384)
Underlying EBIT	**(21)**	**203**	**231**	**45**	**(191)**	**(2)**	**265**
Underlying net finance costs					(170)		(170)
Underlying PBT[2]					**(361)**		**95**

Source: Qantas Airways Ltd 2012, annual report, p. 81.

[1] EBITDAR (Underlying earnings before income tax expense, depreciation, amortisation, non-cancellable operating lease rentals and net finance costs) includes the impact of the change in accounting estimates for discount rates of $30 million (Qantas $30 million), and Frequent Flyer accounting (Eliminations $5 million) as described in Note 1(c).

[2] The Corporate segment is the only operating segment with Underlying PBT as the primary reporting measure. The primary reporting measure of other segments is Underlying EBIT.

Qantas is widely regarded as the world's leading long-distance airline and one of the strongest brands in Australia.

10 The main differences between financial accounting and management accounting are summarised in Table 1.3.

TABLE 1.3 Differences between financial accounting and management accounting

	Financial accounting	Management accounting
1. Regulations	Bound by GAAP. GAAP are represented by accounting standards (including those issued by both the AASB and the IASB), the Corporations Act, and relevant rules of the accounting association and other organisations such as the ASX.	Much less formal and without any prescribed rules. The reports are constructed to be of use to the managers.
2. Timeliness	Information is often outdated by the time the statements are distributed to the users. The financial statements present a historical picture of the past operations of the entity.	Management reports can be both a historical record and a projection, e.g. a budget.
3. Level of detail	Most financial statements are of a quantitative nature. The statements represent the entity as a whole, consolidating income and expenses from different segments of the business.	Much more detailed and can be tailored to suit the needs of management. Of both a quantitative and qualitative nature.
4. Main users	Prepared to suit a variety of users including management, suppliers, consumers, employees, banks, taxation authorities, interested groups, investors, and prospective investors.	Main users are the managers in the entity, hence the term management accounting.

This book will look at different topics involving the use of accounting information in decision making. Some of these topics are orientated more towards financial accounting and others are orientated towards management accounting. The financial accounting topics include chapter 4, Business transactions; chapter 5, Balance sheet; chapter 6, Income statement and statement of changes in equity; chapter 7, Statement of cash flows; and chapter 8, Analysis and interpretation of financial statements. The use of accounting for management purposes will be covered in chapter 9, Budgeting; chapter 10, Cost–volume–profit analysis; chapter 11, Costing and pricing in an entity; chapter 12, Capital investment; chapter 13, Financing the business; and chapter 14, Performance management.

value to business

- Financial accounting provides information for external parties to make economic decisions regarding the entity and can be used by management for internal decision making.
- Management accounting is the creation of reports for use by management in internal planning and decision making.
- Differences between financial and management accounting include accounting rules, timeliness, level of detail and range of users.

❮ Accounting information and its role in decision making

Globalisation of accounting ❯

1 Introduction to Accounting

11 Globalisation of accounting

LO 4 Discuss the globalisation of financial reporting.

In recent years, entities have become larger, more diversified and multinational. Consider the National Australia Bank (NAB), which reports its operating segments as Personal Banking (commercial), Personal Banking (retail), Wholesale Banking, UK Banking, NZ Banking, MLC & NAB Wealth, Great Western Bank (GWB), Specialised Group Assets, and Corporate Functions & Other. In 2012, NAB reported a profit of $4 billion and total assets were $763 billion. In 1996, its reported profit was $2.1 billion and total assets were $174 billion (approximately a quarter of the size of the assets 16 years later!). As entities become more diversified and multinational, they require more complicated accountancy and auditing services. Accountants must ensure that they remain up to date with the local GAAP and global accounting standards. Currently, more than 120 countries worldwide prepare their financial statements following global accounting standards. These accounting standards are known as International Financial Reporting Standards (IFRS). The United States, however, has not yet fully converged with IFRS. The reality check 'New mechanisms eyed by FASB, IASB in long march toward global comparability' comments on the issues associated with the adoption by the United States of IFRS.