



Subject : Business Finance II

Introduction to Accounts

Introduction

Translating normal language into record keeping by way of certain prescribed accounting principles.

Any business transaction, which has a value assigned to it, needs to be recorded as per the principles of accounting

Future State: FINANCIAL WELLBEING

Tax Purposes

Current State: FINANCIAL POSITION

Comparison With Past (Track Record)

Investor (Owners) Interest

Ease Of Loans

Types of Accounting Statements

Statement of Profit and Loss – Incomes and Expenses for the year particular period for which P&L is created = Whether the company is Profitable or Loss Making

Balance Sheet – Track of Long term financial standing of the company – Assets (something that we own) and Liabilities (something that we owe); Working Capital

Cash Flow Statement – Record any money transactions that happen – Incoming or Outgoing

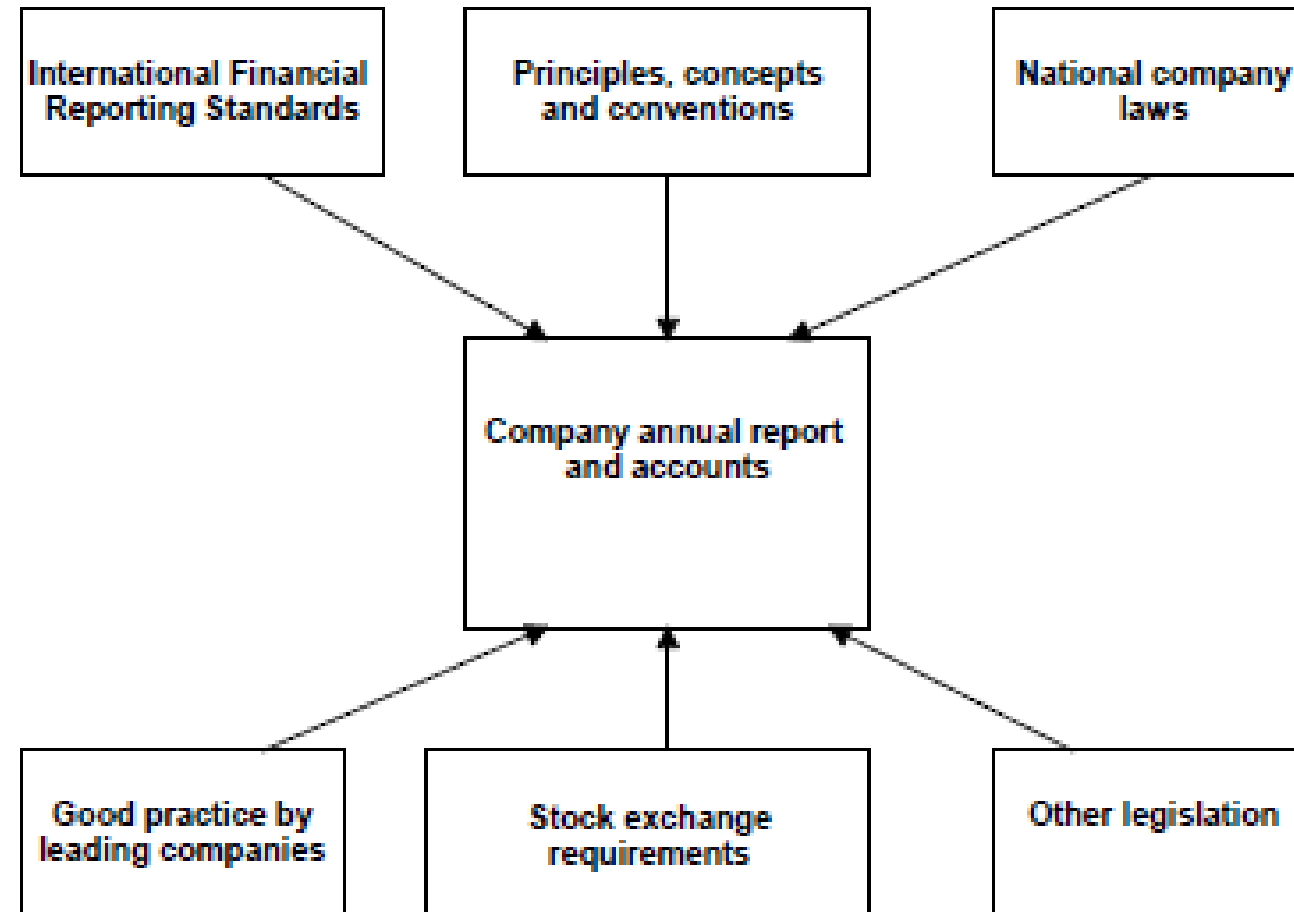
Statement of changes in Equity (Owners Capital) – Should be a Liability (Amount owed to outsiders) – Forms part of the Balance Sheet and shown with other Liabilities but shown as Owners Capital

Users of Financial Statements

- Equity Investors
- Creditors
- Employees
- Customers, Suppliers and Other Business Contacts
- Stock Exchange
- Management of the Company
- Tax Authorities
- **Stock Analysts**
- Credit Rating Agencies

Publish an Annual Report

Sources of Regulation



Reporting Requirements

- Statutory Reporting
 - Financial Statements
 - Director's Report - **Constituents**
 - Audit Report – **Constituents / Structure**

True and Fair View in an Audit Report

- Running a business involves a large human element, which cannot be mathematically or scientifically prescribed. The director must make his own assessment of the likelihood of default and take all possible steps to ensure that his decision is based on all the available information.

International Accounting Standards Board (IASB)

- The International Accounting Standards Board (IASB) is a body that develops, issues and withdraws accounting standards. The standards that are issued by the IASB are called International Financial Reporting Standards (IFRSs)
- IASB has no authority to require compliance with its accounting standards
- **Case for and against International Standards:**

Arguments For	Arguments Against
They eliminate, or at least reduce variations between companies in the way they prepare accounts.	The sets of rules contained in the standards may not be appropriate to all companies in all circumstances.
They oblige companies to disclose more information than that required by national laws.	Some standards are so general as to be meaningless, while others are far too detailed
They allow some degree of flexibility in a way that legislation often does not.	Standards often allow more than one alternative treatment, which negates the attempt to ensure conformity between companies.

Annual Report Constituents

- Directors Profile
- Financial Statement Highlights
- Comparative of Financial Numbers
- Review of Operations
- Material Disclosures
- Director's Report
- Auditors Report
- Statement of Accounting Policies
- Financial Statements
- Notes to Accounts

Audit Report

- Auditors must comment on whether, in their opinion, the statement of financial position and statement of profit or loss have been **properly prepared** in accordance with the Companies Acts and relevant accounting standards, and whether, in their opinion, the accounts give a **true and fair view**
- Audit Report includes:
 - Responsibility matrix between the Management and the Auditor
 - Compliance to regulations, accounting standards, etc.
 - Basis of Audit Opinion

Nature of Opinion by Auditor

- **Unqualified Opinion**
- **Emphasis of matter** – Significant uncertainty, doesn't warrant a qualified opinion but worth reporting to highlight to shareholders
- **Qualified Opinion** - financial statements give a true and fair view 'except for' the problem that has been described in the body of the audit report
- **Disclaimer of opinion** - extreme uncertainty about the financial statements that it is impossible to express an opinion then the auditor would issue a disclaimer instead
- **Adverse Opinion** - disagreement where the financial statements have been rendered so misleading that it must be stated that they do not give a true and fair view

Thank You