UNIT ONE: ACCOUNTING THEORY AND REGULATORY FRAMEWORK

The scope of Accounting:

Accounting as a profession has evolved overtime and keeps changing from time to time depending on the demands put on it by users of accounting information. It is not what it was ten years ago and it will not be what it is now ten years from now.

Traditionally, accounting involved the following functions;

Record keeping; this involved recording transaction about an entity in monetary terms as they arose.

Preparation of budgets; expected operating results and financial positions of business entities

Financial statement preparation and presentation; to be used by interested groups in determining the financial operations and results of a business entity. These statements include; the balance sheet, income statement, cashflow statement, statement of changes in equity and explanatory notes and accounting policies.

The present scope of accounting is, however, wider. It is taking on social importance, social welfare and the environment. In particular, public interest in protecting the natural environment has grown significantly during the last ten years. The other areas which are important for decision making include the following;

- ✓ Human resource accounting
- ✓ Forecast reporting
- ✓ Social reporting
- ✓ Environmental accounting

Difficulties facing an accountant

- ✓ Traditional accounting areas are being invaded by different skills for example systems analysis, computerized accounting systems etc.

- ✓ Different accountants may produce different statements from the same set of data. This confuses readers of financial statements who expect accountants to produce correct data.

Objectives of Financial Statements is to provide information about :

- The financial position (Provided in the Balance sheet)
- Financial performance (provided in an Income Statement and the Statement of changes in Equity
- and changes in financial position (This is the Cash flow of the enterprise.

Underlying assumptions of FSS

- The Framework states that in order to meet their objectives and to be presented fairly, financial statements must be prepared on the assumption that the entity is a going concern, the accruals basis of accounting, and on the consistency assumption.
- There are two more assumptions of secondary importance, which should also be followed: Materiality and offsetting

Elements of the Financial Statements

The framework identifies five elements:

- assets,
- liabilities,
- Equity interest,
- Income, and
- expenses

ASSET: Is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

- **Controlled by the enterprise:** Control is ability to obtain the economic benefits and to restrict the access of others. Ownership is usually synonymous with control. (But note IAS 17, rules for leased assets)

FROM "IAS" TO "IFRS"

After taking office on 1st April 2001, the new IASB announced that the IASC Foundation Trustees had agreed that the accounting standards issued by the IASB would be designated '***International Financial Reporting Standards- IFRS'*** while existing standards would continue to be designated ***'International Accounting Standards – IAS.***

The change was made to enable the board distinguish between the new standards issued by them, and those that they had inherited from the former IASC Board.

Procedure for development of an IFRS

- IASB identifies a subject and appoints an advisory committee to advise on the issues
- The IASB publishes an exposure draft for public comment, being a draft version of the intended standard
- Following the consideration of comments received on the draft the IASB publishes the final text of the standard.

IFRS

- IFRS 1 – First Time Adoption of IFRS
- IFRS 2 – Share Based Payment
- IFRS 3 – Business Combinations
- IFRS 4 – Insurance Contracts
- IFRS 5 – Non-current assets held for sale and discontinued operations
- IFRS 6 – Exploration for and evaluation of mineral resources
- IFRS 7 – Financial Instruments: Disclosures
- IFRS 8 – Operating Segments

International Accounting Standards Board (IASB)

The IASC became known as the IASB under the required restructuring in 2000. It is governed by a group of 19 individual trustees, known as the IASC Foundation, with diverse geographical and functional backgrounds. The current Chair of the trustees is Paul A. Volcker, the former chair of the US Federal Reserve Board. The trustees are responsible for the governance, fundraising and