<u>**Principles of financial accounting**</u>

Definition: Accounting is identifying, measuring and recording, processing and communicating economic information to the users.
(Defined by AAA 1966 – American accounting associate)

Examples of users of accounting information, owner's customers, competitors, government, investment analysts, suppliers, lenders and managers.

Qualities of accounting

- Relevance – influencing users decisions
  (Materiality – an item of information which is significant)
- Faithful representation – free from error, the way of estimation so it shows a true portrait.
- Comparability – taking into account last years profit
- Verifiability – the quality provides assurance / supported evidence.
- An understanding – should be set out clearly and concisely as possible.

Key financial statements

1) Balance sheet – captures the position AT that moment of time, it lists all the assets on one side and capital on the other with liabilities.

2) Profit and loss statement – profit and loss captures the transactions "FOR THE YEAR"

3) Cash flow statement – capturing a cashflow for a certain amount of period, "FOR THE YEAR", it shows where money went and where did it come from.

4) Notes to the financial statement – disclosure of accounting policies, break up of summary figures in financial statements, where analysts invest there time to go through the detail of business/ firm.

Forms of business organisations

1) Sole proprietorship – the only owner / has unlimited liability
2) Partnership – two or more / no formal procedures / usually have a unlimited liability.
3) Companies – need to be regulated –have all 3 key financial statements by law and send it to shareholders, its publically available.
4) Non – profit making organisations – don't have to prepare profit or loss statements – instead income and expenditure account.
5) Public Sector – example/ universities / city councils.