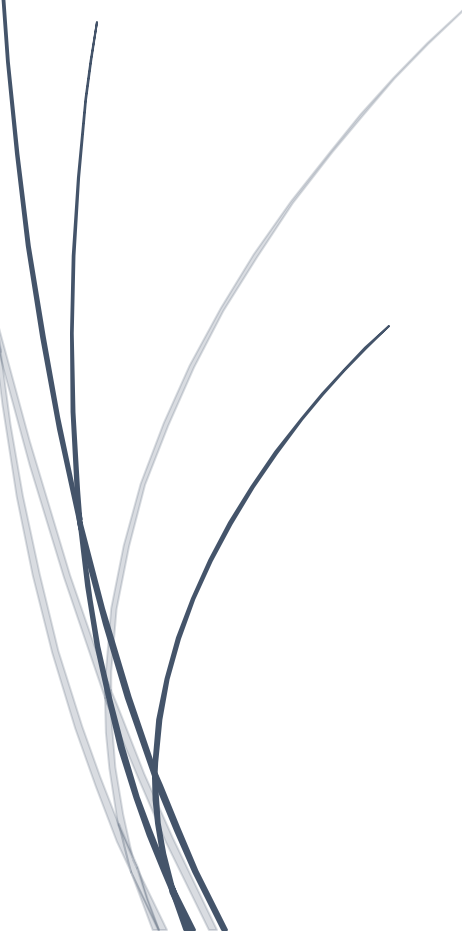




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# STUDY PACK

FAC1503



1st Semester 2016  
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# ACCOUNTING PRINCIPLES FOR LAW PRACTITIONERS

## FAC1503

### **STUDY UNIT 1: THE NATURE AND FUNCTION OF ACCOUNTING**

#### **1.1 Accounting defined**

is the orderly & systematic identification & recording of the monetary values of economic events of an individual, enterprise etc, the reporting on the results of those transactions & the provision of financial statements, which is used as a basis for decision making. Accounting includes bookkeeping

Bookkeeping is the systematic recording of business transactions in the books of accounts so that the business can be fully revealed

Accounting process consist of three activities

- 1) **Identification** of activities that are evidence of economic activity(transactions) relevant to particular business or entity
- 2) **Recording** the monetary value of these transactions so as to provide a permanent history of the financial activities of the business
- 3) **The communication** of the recorded information to interested users. This Communication is done through the preparation of financial statements.

Financial Statements-are structured representation of the financial position & financial performance of an entity.

### **1.2 Nature of Accounting**

Accounting is a specialised means of communication which is used to convey a special message about the finances of an enterprise. It is essential that the recipient of these specialised message( user of financial statements) should understand it.

Accounting uses words and figures to convey financial information to users of such information.

### **1.3 Universal accounting denominator**

The common unit of measurement in accounting is money and in the RSA the currency is known as the Rand. All the transactions of an enterprise are converted into monetary values before being processed. Using money as the common denominator however, gives rise to two important limitations:

- . Not all events can be expressed in monetary terms.
- . The value of money is unstable and is influenced by many economic factors, such as inflation.

### **1.4 Forms of ownership**

The form of a business ownership refers to the way in which a business is owned and managed; how the original funds for starting the business were raised; and how the profits, losses and risks in the business are divided.

In the RSA there are four main forms of ownership, namely:

- . sole traders
- . partnerships
- . close corporations
- . companies

**The entity concept-** an entity is an economic unit whose financial results are determined on its own. The accounting process treats an accounting entity as a unit independent of its owners.

### **1.5 Users of financial Statements**

Financial Statements are used by a whole range of users

**1) Investors-** these are suppliers of risk capital, they need to know information on the inherent risk and return on their investment. They are normally concerned about the firm ability to generate cash inflows.

**2) Employees-**require information about the stability, profitability and growth of their employer. They want to be satisfied that the employer will be able to afford the remuneration payable to its employees and the agreed retirement benefits.

**3) Lenders-** require information to assess the likelihood that capital & interest payments will be met as scheduled

**4) Suppliers-** require information to assess whether amounts owing to them will be paid on time

**5) Government & its agencies-** which require information for the levying of taxes and statistical purposes

### **1.6.1 Financial accounting**

This field of accounting is concerned with the recording of transactions and the preparation of the financial statements regarding the entity as a whole. Financial accounting is governed by Generally Accepted Accounting Practice (GAAP), which consists of external standards which must be adhered to. These standards assure the comparability of financial statements between enterprises.

### **1.6.2 Management accounting**

Management accounting provides financial information for specific purposes.

Managers use

this information in their decision making, which leads to the attainment of the objectives of the enterprise. Without this financial information, it would be difficult for management to manage