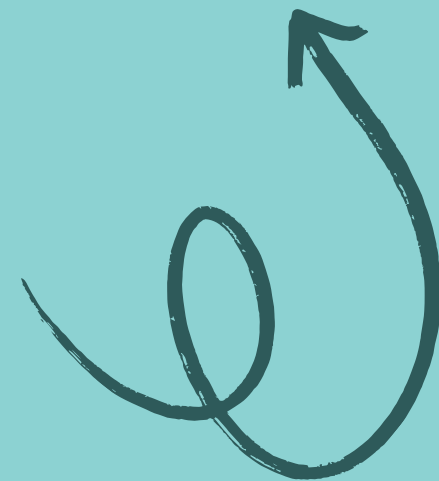


Chapter 1: Accounting and business models



Objectives of Accounting

Accounting serves multiple objectives, including **decision making** for stakeholders, performance measurement for businesses, control over resources, compliance with laws, and effective communication of financial information to all users.



Users of Accounting Information

Various stakeholders rely on accounting information for informed decision-making. **Managers** assess performance, **investors** evaluate profitability, **creditors** analyze credit risk, **government** checks compliance, and **employees** monitor job security.



Benefits of Accounting Information

Accounting information aids organizations in **effective planning**, budgeting, and cost control. It enables profit analysis and risk assessment, ensuring that businesses can make informed decisions and drive success.



Forms of Business Organization

There are three main forms of business organization: sole proprietorships, partnerships, and corporations. Each has distinct **ownership structures** and liability implications, affecting decision-making and financial responsibilities.



Sole-Proprietorship

It is for one person who owns and operates the business. The owner is responsible for all aspects of the business, including the debts and liabilities.



Partnership

Two or more people share ownership of the business. Each partner is responsible for the business's debts and liabilities.



Corporation

A separate legal entity that can own property, sue, and be sued. It is owned by shareholders, and each shareholder is responsible for their own share of the business's debts and liabilities.

Understanding Sole Proprietorships

A sole proprietorship is a **simple business structure** with one owner. This form offers full control and decision-making power, but the owner also faces unlimited liability for business debts and obligations.



Understanding Partnerships in Business

A partnership involves **two or more owners** sharing capital and profits. Each partner bears joint liability, making it essential for clear agreements. Law firms often exemplify successful partnerships in practice.



Understanding Corporations and Their Structure

A corporation operates as a separate legal entity, offering **limited liability** to its shareholders, governed by a board of directors, exemplified by public companies that raise capital through stock sales.



The Diverse Roles of Accountants

Accountants play essential roles in financial reporting, auditing, taxation, management accounting, and advisory services, providing valuable insights that drive business decisions and ensure compliance with regulations.



Principles of Professional Ethics

Professional ethics in accounting encompass **integrity, objectivity, confidentiality, competence, and due care**. These principles ensure trust and credibility, guiding accountants in their responsibilities towards clients and the public.



Regulatory Bodies in Accounting

Various organizations, including IFAC and IASB, set standards for accounting practices and ethics, ensuring transparency and trust in financial reporting across different regions and industries.



Case Study: Small Retail Shop

The owner diligently records daily sales to track profits, helping make informed **bank loan decisions**.

Accurate records are vital for managing cash flow and ensuring the business remains financially healthy.



Case Study: Public Company Dynamics

This case study highlights how public companies leverage **financial statements** to attract investors, emphasizing the role of audits in ensuring credibility and the importance of ethical reporting to maintain regulatory compliance.



Exercise

1. Explain the meaning and objectives of accounting. How does accounting information help different users in making decisions?
2. Compare the three main forms of business organization (sole proprietorship, partnership, and corporation) and discuss the role of professional ethics in the accounting profession.

